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

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**FORM 20-F**

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

OR

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

For the fiscal year ended December 31, 2022

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: 001-38269

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**FinVolution Group**

(Exact name of Registrant as specified in its charter)

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N/A

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**Building G1, No. 999 Dangui Road  
Pudong New District, Shanghai 201203  
The People's Republic of China  
(Address of principal executive offices)**

**Jiayuan Xu, Chief Financial Officer  
Phone: +86 21 8030 3200**

**Email: xujiayuan@xinye.com**

**Building G1, No. 999 Dangui Road  
Pudong New District, Shanghai 201203  
The People's Republic of China**

(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	Trading Symbol	Name of each exchange on which registered
American depositary shares (one American depositary share representing five Class A ordinary shares, par value US\$0.00001 per share)	FINV	New York Stock Exchange
Class A ordinary shares, par value US\$0.00001 per share*		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.**

**Not Applicable**  
(Title of Class)

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

**Not Applicable**  
(Title of Class)

As of December 31, 2022, there were 1,413,196,769 ordinary shares outstanding, consisting of 843,996,769 Class A ordinary shares and 569,200,000 Class B ordinary shares, both with a par value of US\$0.00001 per share.

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

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

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

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

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

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

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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

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

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

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

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

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

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## INTRODUCTION

Unless otherwise indicated or the context otherwise requires in this annual report on Form 20-F:

- “ADSs” refers to our American depositary shares, each of which represents five Class A ordinary shares;
- “average rate of transaction service fees” for a given period is computed by dividing the total amount of transaction service fees we received during the period by the total volume of loans originated on our platform during the same period. The transaction service fee is collected from third party guarantee companies and, if applicable, the institutional funding partners for our services in borrower introduction and preliminary credit assessment, as well as other services we provide over the loans’ lifecycle;
- “China” or the “PRC” refers to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “delinquency rate” refers to the balance of the outstanding principal for loans that were 15 to 29, 30 to 59, 60 to 89, 90 to 119, 120 to 149 and 150 to 179 calendar days past due as of a date as a percentage of the total outstanding balance of principal for the loans on our platform as of such date. Loans that are delinquent for 180 days or more are typically considered charged-off and are not included in the delinquency rate calculation;
- number of “unique borrowers” at a certain point in time refers to the cumulative number of borrowers whose loans on our platform had been funded before such point in time;
- number of “unique borrowers” in a given period refers to the total number of borrowers whose loans on our platform were funded during such period;
- “outstanding loan balance” in the China market as of a given date refers to the balance of outstanding loans delinquent within 180 days from such date;
- “outstanding loan balance of the overseas markets” as of a given date refers to the balance of outstanding loans delinquent within 30 days from such date;
- “ordinary shares” refers to our Class A and Class B ordinary shares, par value US\$0.00001 per share;
- “overseas markets” refers to our overseas markets outside China;
- “RMB” and “Renminbi” refer to the legal currency of China;
- “SEC” refers to the U.S. Securities and Exchange Commission;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” refer to the legal currency of the United States;
- “vintage delinquency rate” refers to (i) the total amount of principal for all the loans in a vintage that become delinquent, less (ii) the total amount of recovered past due principal for all loans in the same vintage, and then divided by (iii) the total amount of initial principal for all loans in such vintage. For purpose of this annual report, loans facilitated during a specified time period are referred to as a vintage. Loans that are delinquent for 180 days or more are included in the calculation of vintage delinquency rate; and
- “we,” “us,” “our company,” “our” and “FinVolution” refer to FinVolution Group, our Cayman Islands holding company, its direct and indirect subsidiaries. We conduct operations in China through (i) our PRC subsidiaries, (ii) the consolidated variable interest entities with which we have maintained contractual arrangements, including Beijing Paipairongxin Investment Consulting Co., Ltd., Shanghai Zihe Information Technology Group Co., Ltd., and Shanghai Ledao Technology Co., Ltd., and (iii) the subsidiaries of the consolidated variable interest entities. The consolidated variable interest entities are PRC companies conducting operations in China, and their financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP for accounting purposes. Investors are purchasing an interest in FinVolution Group, a Cayman Islands holding company with no operations of its own. FinVolution Group does not have any equity ownership in the consolidated variable interest entities.

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Our reporting currency is the Renminbi because our business is mainly conducted in China and substantially all of our revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the rate certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at RMB6.8972 to US\$1.00, the noon buying rate on December 30, 2022 set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 21, 2023, the noon buying rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.8920 to US\$1.00.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. Known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act of 1995.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our mission and strategies;
- our future business development, financial condition and results of operations;
- the expected growth of the online consumer finance platform market;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with institutional funding partners and borrowers;
- competition in our industry;
- general economic and business condition in China and elsewhere; and
- relevant government policies and regulations relating to our industry.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. You should thoroughly read this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. In addition, the rapidly changing nature of the online consumer finance industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements. We qualify all of our forward-looking statements by these cautionary 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 or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

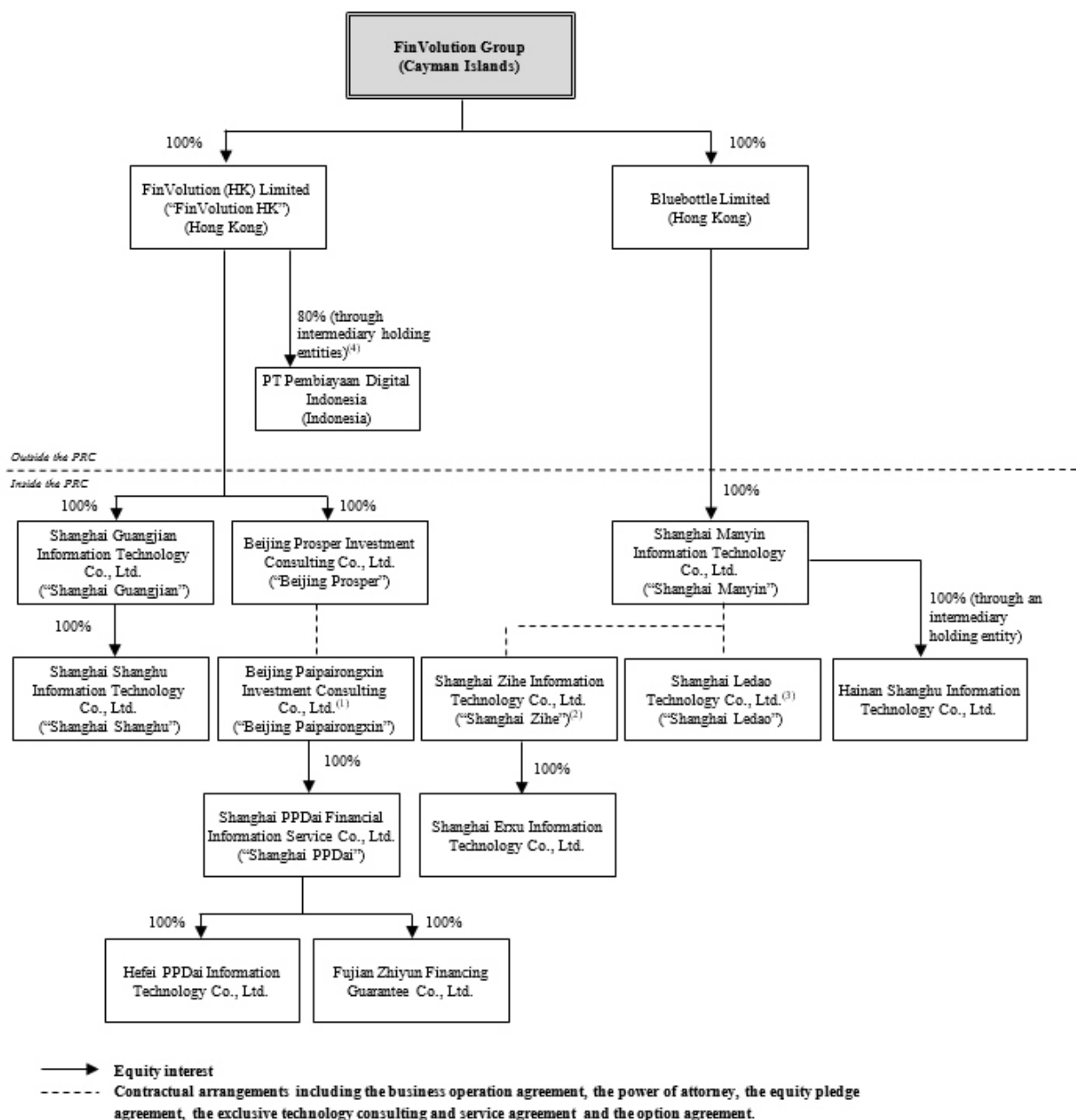
Not applicable.

**ITEM 3. KEY INFORMATION**

**Our Holding Company Structure and Contractual Arrangements with the Consolidated Variable Interest Entities**

The following diagram illustrates our corporate structure as of the date of this annual report, including our principal subsidiaries and our principal consolidated variable interest entities and their principal subsidiaries.

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Notes:

- (1) Beijing Paipairongxin currently has four shareholders: Jun Zhang, our co-founder and director, Tiezheng Li, our co-founder, vice chairman, president and chief executive officer, Honghui Hu, our co-founder and director, and Shaofeng Gu, our co-founder, chairman and chief innovation officer, each holding 13.22%, 4.81%, 12.85%, and 69.12% of Beijing Paipairongxin's equity interests, respectively.



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- (2) Shanghai Zihe currently has four shareholders: Jun Zhang our co-founder and director, Tiezheng Li, our co-founder, vice chairman, president and chief executive officer, Honghui Hu, our co-founder and director, Shaofeng Gu, our co-founder, chairman and chief innovation officer, each holding 25% of Shanghai Zihe's equity interests, respectively.
- (3) Shanghai Ledao currently has two shareholders: Lizhong Chen, a family relative of Tiezheng Li, and Yejun Jiang, a family relative of Honghui Hu, each holding 50% of Shanghai Ledao's equity interests, respectively.
- (4) The rest of the 20% equity interests are held by an independent third party.

FinVolution Group is not an operating company in China but a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities. We conduct operations in China through (i) our PRC subsidiaries, (ii) the consolidated variable interest entities with which we have maintained contractual arrangements, and (iii) the subsidiaries of the consolidated variable interest entities. PRC laws and regulations restrict and impose conditions on foreign investment in value-added telecommunications services business, such as the internet content provision services and online data processing and transaction processing services. Accordingly, we operate these businesses in China through the consolidated variable interest entities and their respective subsidiaries, and rely on contractual arrangements among our PRC subsidiaries, the consolidated variable interest entities and their respective shareholders to direct the activities of operation of the consolidated variable interest entities and their respective subsidiaries. This structure provides investors with exposure to foreign investment in China-based companies where PRC laws and regulations prohibit or restrict direct foreign investment in operating companies in certain sectors. Revenues contributed by the consolidated variable interest entities and their respective subsidiaries accounted for 92.5%, 88.0% and 83.9% of our total revenues for 2020, 2021 and 2022, respectively. As used in this annual report, "we," "us," "our company" and "our" refer to FinVolution Group, its subsidiaries, and, in the context of describing our operations in China and consolidated financial information, the consolidated variable interest entities and their respective subsidiaries in China, including but not limited to (i) Beijing Paipairongxin Investment Consulting Co., Ltd., or Beijing Paipairongxin, which was established in June 2012; (ii) Shanghai PPDai Financial Information Service Co., Ltd., or Shanghai PPDai, a subsidiary of Beijing Paipairongxin, which was established in January 2011 and operates our ppdai.com website and PPDai mobile application and used to engage in our historical business of online lending information intermediary; (iii) Hefei PPDai Information Technology Co., Ltd., or Hefei PPDai, a subsidiary of Shanghai PPDai, which was established in December 2016 and holds the value-added telecommunication business operation license, or the VATS License, for operation of call center services; (iv) Shanghai Erxu Information Technology Co., Ltd., or Shanghai Erxu, a subsidiary of Shanghai Zihe, which was established in April 2018 and primarily engages in the business of introducing borrowers to institutional funding partners to match transactions; and (v) Shanghai Ledao Technology Co., Ltd., or Shanghai Ledao, which was established in January 2019 and currently does not engage in any business operations. The consolidated variable interest entities are PRC companies conducting operations in China, and their financial results have been consolidated into our consolidated financial statements under U.S. GAAP for accounting purposes. Holders of our ADSs hold equity interest in FinVolution Group, our Cayman Islands holding company, and do not and may never have direct or indirect equity interest in the consolidated variable interest entities and their subsidiaries.

A series of contractual agreements, including loan agreements, business operation agreement, power of attorney, equity pledge agreement, exclusive technology consulting and service agreement and call option agreement, have been entered into by and among our subsidiaries, the consolidated variable interest entities and their respective shareholders. Terms contained in each set of contractual arrangements with the consolidated variable interest entities and their respective shareholders are substantially similar. The contractual arrangements enable us to direct the activities of operation that most significantly impact the economic performance of the consolidated variable interest entities and provide us with economic benefits of the consolidated variable interest entities and as such we are the primary beneficiary of these companies, and we have consolidated the financial results of these companies in our consolidated financial statements. For more details of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements."

However, the contractual arrangements may not be as effective as equity ownership in providing us with control over the consolidated variable interest entities and we may incur substantial costs to enforce the terms of the arrangements. In addition, these agreements have not been tested in China courts. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with the consolidated variable interest entities for a significant portion of our business operations, and such contractual arrangements may not be as effective as equity ownership in providing operational control" and "—The shareholders of the consolidated variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition."

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There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with the consolidated variable interest entities and their shareholders. It is uncertain whether any new PRC laws or regulations relating to consolidated variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the consolidated variable interest entities is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

Our corporate structure is subject to risks associated with our contractual arrangements with the consolidated variable interest entities. If the PRC government deems that our contractual arrangements with the consolidated variable interest entities 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 or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiaries, the consolidated variable interest entities and their respective subsidiaries, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a whole. The PRC regulatory authorities could disallow the contractual arrangements structure, which would likely result in a material change in our operations and cause the value of our securities to significantly decline or become worthless. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure.”

We face various legal and operational risks and uncertainties related to doing business in China. Our business operations are primarily conducted in China, and we are subject to complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offshore offerings and oversight on cybersecurity and data privacy, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a United States or other foreign exchange. These risks could result in a material adverse change in our operations and the value of our ADSs, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline or become worthless. For a detailed description of risks related to doing business in China, please refer to risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China.”

PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations, including data security related regulations, in this nature may cause the value of such securities to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us” and “—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.”

## **The Holding Foreign Companies Accountable Act**

Pursuant to the Holding Foreign Companies Accountable Act, or the HFCA Act, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the Public Company Accounting Oversight Board, or the PCAOB, for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor.

In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCA Act following the filing of this annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCA Act after we file this annual report on Form 20-F. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCA Act. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections” and “—Our ADSs may be prohibited from trading in the United States under the HFCA Act in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

## **Permissions Required from the PRC Authorities for Our Operations**

Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries and consolidated variable interest entities and their respective subsidiaries have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company and the consolidated variable interest entities in China, except that Shanghai PPDai has not obtained any VATS License. Due to the lack of regulatory authorities’ final interpretation of the applicable laws, there still exists uncertainties on which category of VATS License that may be applicable to Shanghai PPDai as the operator of our ppdai.com website and PPDai mobile application, and therefore Shanghai PPDai has not obtained any VATS License. We cannot rule out the possibility that Shanghai PPDai may be deemed by certain regulatory authorities as operating our ppdai.com website and PPDai mobile application without an appropriate VATS License and we may be subject to regulatory penalties, including, but not limited to, rectification orders and warnings, fines, confiscation of illegal gains, and suspension or termination of operating of our website and mobile application. In addition, given the rapid evolving of the online consumer finance industry and the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future. For example, when Shanghai Erxu provides the service of introducing borrowers to our institutional funding partners to match transactions, it also provides the preliminary credit assessment services to our institutional funding partners for the borrowers referred by it, and if the preliminary credit assessment services provided by Shanghai Erxu to our institutional funding partners are deemed by the regulatory authorities as the credit reference business or information provision activities, Shanghai Erxu may be required to obtain a license for individual credit reference business, or alternatively, pursue cooperation with licensed credit reference agencies and submit the relevant cooperation agreement with the People’s Bank of China, or the PBOC or its provincial branches. If we cannot obtain the regulatory approval or complete the filing in a timely manner, we may be deemed as violating the applicable laws and regulations of credit reference services and subject to regulatory penalties, including cessation of business operations, confiscation of illegal gains, fines from RMB50,000 to RMB500,000, and even criminal liability. If we, our subsidiaries, the consolidated variable interest entities or their subsidiaries do not receive or maintain any necessary permissions or approvals from PRC authorities to operate business or offer securities, or inadvertently conclude that such permissions or approvals are not required, or if applicable laws, regulations, or interpretations change and we are required to obtain such permissions or approvals in the future, we cannot assure you that we will be able to obtain the necessary permissions or approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could subject us to penalties, including fines, suspension of business and revocation of required licenses, significantly limit or completely hinder our ability to continue to offer securities to investors, and cause the value of such securities to significantly decline or become worthless. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—The laws and regulations governing online consumer finance industry in China are developing and evolving and subject to changes. If our business practices are deemed to violate any existing and future applicable laws, regulations or requirements of local regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected.”

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Furthermore, as advised by Hui Ye Law Firm, our PRC counsel, in connection with our historical issuance of securities to foreign investors, under current PRC laws, regulations and regulatory rules, as of the date of this annual report, we, our PRC subsidiaries and the consolidated variable interest entities, (i) are not required to obtain permissions from the China Securities Regulatory Commission, or the CSRC, (ii) are not required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC, and (iii) have not received or were denied such requisite permissions by any PRC authority. However, if the relevant PRC governmental authorities determine that our business may affect national security, they may initiate cybersecurity review against us. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Any failure to comply with existing or future laws and regulations related to data protection, data security, cybersecurity or personal information protection could lead to liabilities, administrative penalties or other regulatory actions, which could negatively affect our operating results and business.”

However, the PRC government has recently promulgated certain regulations and rules to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. On February 17, 2023, the CSRC published the Trial Administrative Measures on the Overseas Issuance and Listing of Securities by Domestic Companies, or the Trial Measures, and five supporting guidelines, effective on March 31, 2023. Pursuant to the Trial Measures, domestic companies in the PRC that directly or indirectly offer or list their securities in an overseas market are required to file with the CSRC. In addition, an overseas listed company must also submit the filing with respect to its follow-on offerings, issuance of convertible corporate bonds and exchangeable bonds, and other equivalent offering activities, within a specific time frame requested under the Trial Measures. Therefore, we will be required to file with the CSRC for our overseas offering of equity and equity linked securities in the future within the applicable scope of the Trial Measures. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.”

### **Enforceability of Civil Liabilities**

We are incorporated in the Cayman Islands to take advantage of certain benefits associated with being a Cayman Islands exempted company, such as:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include, but are not limited to:

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- the Cayman Islands has a less developed body of securities laws as compared to the United States and these securities laws provide significantly less protection to investors as compared to the United States; and
- Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be arbitrated.

Substantially all of our operations are conducted in China, and substantially all of our assets are located in China. A majority of our directors and executive officers are nationals or residents of jurisdictions other than the United States and a significant portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these individuals, or to bring an action against us or against these individuals in the United States, in the event that you believe that your rights have been infringed under the securities laws of the United States or any state in the United States.

Maples and Calder (Hong Kong) LLP, our legal counsel as to Cayman Islands law, and Hui Ye Law Firm, our legal counsel as to PRC law, have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands and China, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

We have been advised by our Cayman Islands legal counsel, Maples and Calder (Hong Kong) LLP, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any State; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the United States or any State, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For such a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, and or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands Court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Hui Ye Law Firm has further advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other form of reciprocity with the United States or the Cayman Islands that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or the Cayman Islands. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law against us in the PRC, if they can establish sufficient nexus to the PRC for a PRC court to have jurisdiction, and meet other procedural requirements, including, among others, the plaintiff must have a direct interest in the case, and there must be a concrete claim, a factual basis and a cause for the suit. However, it would be difficult for foreign shareholders to establish sufficient nexus to the PRC by virtue only of holding our ADSs or ordinary shares.

## Cash and Asset Flows through Our Organization

FinVolution Group is a holding company with no operations of its own. We conduct operations in China primarily through our subsidiaries and the consolidated variable interest entities and their respective subsidiaries in China. As a result, although other means are available for us to obtain financing at the holding company level, FinVolution Group's ability to pay dividends to the shareholders and investors of the ADSs and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and service fees paid by the consolidated variable interest entities in China. If any of our PRC subsidiaries or the consolidated variable interest entities incurs debt on its own behalf in the future, the instruments governing such debt may restrict our PRC subsidiaries' ability to pay dividends to FinVolution Group or the consolidated variable interest entities' ability to pay service fees. In addition, our PRC subsidiaries are permitted to pay dividends to FinVolution Group only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries and the consolidated variable interest entities are required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. For more details, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Holding Company Structure."

Under PRC laws and regulations, our PRC subsidiaries and the consolidated variable interest entities are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by SAFE. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of the consolidated variable interest entities in which we have no legal ownership, totaling RMB6.3 billion, RMB7.8 billion and RMB8.0 billion (US\$1.2 billion) as of December 31, 2020, 2021 and 2022, respectively. Furthermore, cash transfers from our PRC subsidiaries and the consolidated variable interest entities to entities outside of China are subject to PRC government controls on currency conversion. To the extent cash in our business is in the PRC or a PRC entity, such cash may not be available to fund operations or for other use outside of the PRC due to restrictions and limitations imposed by the governmental authorities on the ability of us, our subsidiaries, or the consolidated variable interest entities to transfer cash outside of the PRC. Shortages in the availability of foreign currency may temporarily delay the ability of our PRC subsidiaries and the consolidated variable interest entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. In view of the foregoing, to the extent cash in our business is held in China or by a PRC entity, such cash may not be available to fund operations or for other use outside of the PRC. For risks relating to the fund flows of our operations in China, see "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business" and "—Governmental control of currency conversion may limit our ability to utilize our net revenues effectively and affect the price of our ADSs."

For the years ended December 31, 2020, 2021 and 2022, no dividends or distributions were made to FinVolution Group, the parent company, by our subsidiaries.

Under PRC law, FinVolution Group may provide funding to our PRC subsidiaries only through capital contributions or loans, and to our PRC consolidated variable interest entities only through loans, subject to satisfaction of applicable government registration and approval requirements.

As of December 31, 2022, FinVolution Group, the parent company, had made cumulative capital contribution of RMB1,291.4 million (US\$187.2 million) to our PRC subsidiaries through intermediate holding companies.

The consolidated variable interest entities may transfer cash to the relevant PRC subsidiaries by paying service fees according to the restated exclusive technology consulting and service agreement or the exclusive technology consulting and service framework agreements, as applicable. Pursuant to these agreements between each of the consolidated variable interest entities and its corresponding PRC subsidiary, each of the consolidated variable interest entities agrees to pay the relevant PRC subsidiary for technology consulting and service at an amount as determined on a case-by-case basis based on the content of technology consulting and service, level of difficulty and complexity, time spend by the relevant PRC subsidiary and its employees, the commercial value of the technology consulting and service to be provided by the relevant PRC subsidiary, and the revenue the consolidated variable interest entity generates due to the technology consulting and service provided by the relevant PRC subsidiary. For the years ended December 31, 2020, 2021 and 2022, the service fees paid by the consolidated variable interest entities to the PRC subsidiaries through technical development service arrangements and technical support service arrangements were RMB2,143.2 million, RMB2,313.2 million and RMB3,598.8 million (US\$521.8 million), respectively. If there is any amount payable to relevant PRC subsidiaries under the contractual arrangements, the consolidated variable interest entities will settle the amount accordingly.

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The following is a summary of cash transfers that have occurred between our subsidiaries and the consolidated variable interest entities:

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Cash paid by the consolidated variable interest entities to our subsidiaries under service agreements <sup>1</sup>	(2,143,205)	(2,313,224)	(3,598,761)
Cash received by the consolidated variable interest entities from our subsidiaries under service agreements <sup>2</sup>	137,624	534,988	650,751
Capital contribution by the consolidated variable interest entities to our subsidiaries for intra-group investing <sup>3</sup>	—	(22,432)	(10,020)
Collection of loans by the consolidated variable interest entities from our subsidiaries for intra-group investing <sup>4</sup>	—	389,043	72,373
Cash paid as loans by the consolidated variable interest entities to our subsidiaries for intra-group investing <sup>5</sup>	—	(2,328,235)	(304,533)
Repayment of loans by the consolidated variable interest entities to our subsidiaries for intra-group financing <sup>6</sup>	—	(164,719)	(134,307)
Cash received as loans by the consolidated variable interest entities from our subsidiaries for intra-group financing <sup>7</sup>	—	1,785,238	1,533,401

Notes:

1. Represents “Cash used in operating activities under service agreements for Intercompany” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the cash paid by the variable interest entities for intercompany services, including technical development services and technical support services.
2. Represents “Cash provided by operating activities under service agreements for Intercompany” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the cash received by the variable interest entities for intercompany services, including technical development services and technical support services.
3. Represents “Capital contribution to Group companies” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the capital contribution by the variable interest entities to group companies.
4. Represents “Collection of loans from Group companies” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the collection of loans by the variable interest entities from group companies.
5. Represents “Cash paid as loans extended to Group companies” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the cash paid as loans by the variable interest entities to group companies.
6. Represents “Repayment of loans to Group companies” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the repayment of loans by the variable interest entities to group companies.
7. Represents “Cash received as loans from Group companies” of the consolidated variable interest entities and their subsidiaries as in the condensed consolidating schedule of cash flow data which represents the cash received as loans by the variable interest entities from group companies.

For the years ended December 31, 2020, 2021 and 2022, no transfers of other assets, dividends or distributions were made between the holding company, our subsidiaries, and consolidated variable interest entities.

Our board of directors declared dividends in every March from 2019 to 2023. In addition, in March 2022, our board of directors approved an annual cash dividend policy, pursuant to which we will declare and distribute a recurring cash dividend at an amount of no less than 10% of our net income after tax in the previous fiscal year in the future. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” For PRC and United States federal income tax considerations of an investment in our ADSs, see “Item 10. Additional Information—E. Taxation.”

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For the years ended December 31, 2020, 2021 and 2022, dividends made to U.S. investors were RMB263.6 million, RMB317.6 million and RMB372.5 million (US\$54.0 million).

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within China, assuming that: (i) we have taxable earnings, and (ii) we determine to pay a dividend in the future according to our dividend policy:

	<b>Taxation Scenario (i)</b>
	<b>Statutory Tax and Standard Rates</b>
Hypothetical pre-tax earnings (ii)	100%
Tax on earnings at statutory rate of 25% (iii)	(25)%
Net earnings available for distribution	75%
Withholding tax at standard rate of 10% (iv)	(7.5)%
Net distribution to parent/shareholders	67.5%

### Notes:

- (i) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount, not considering timing differences, is assumed to equal taxable income in China.
- (ii) Under the terms of contractual arrangements, our PRC subsidiaries may charge the consolidated variable interest entities for services provided to the consolidated variable interest entities. These fees shall be recognized as expenses of the consolidated variable interest entities, with a corresponding amount as service income by our PRC subsidiaries and eliminate in consolidation. For income tax purposes, our PRC subsidiaries and the consolidated variable interest entities file income tax returns on a separate company basis. The fees paid are recognized as a tax deduction by the consolidated variable interest entities and as income by our PRC subsidiaries and are tax neutral.
- (iii) Certain of our PRC subsidiaries and the consolidated variable interest entities qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.
- (iv) The PRC Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise to its immediate holding company outside of China. A lower withholding income tax rate of 5% is applied if the foreign invested enterprise's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax would be applied.

The table above has been prepared under the assumption that all profits of the consolidated variable interest entities will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the consolidated variable interest entities exceed the fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the consolidated variable interest entities could, as a matter of last resort, make a non-deductible transfer to our PRC subsidiaries for the amounts of the stranded cash in the consolidated variable interest entities. This would result in such transfer being non-deductible expenses for the consolidated variable interest entities but still taxable income for the PRC subsidiaries. Such a transfer and the related tax burdens would reduce our after-tax income to approximately 50.6% of the pre-tax income. Our management believes that there is only a remote possibility that this scenario would happen.



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**Financial Information Related to the Consolidated Variable Interest Entities**

The following table presents the condensed consolidating schedule of financial position for the consolidated variable interest entities and other entities as of the dates presented.

**Condensed Consolidating Statements of Income Information**

	For the Year Ended December 31, 2022					
	FinVolution Group	Company Subsidiaries	Primary Beneficiary of Consolidated Variable Interest Entities	Consolidated Variable Interest Entities and Their Subsidiaries	Eliminations	Consolidated Total
	(RMB in thousands)					
Third-party revenues	—	1,790,631	3,141	9,340,431	—	11,134,203
Inter-company revenues <sup>(1)</sup>	—	3,296,525	14,431	535,053	(3,846,009)	—
Net revenues	—	5,087,156	17,572	9,875,484	(3,846,009)	11,134,203
Third-party expenses	(20,027)	(1,012,268)	(17,525)	(3,567,004)	—	(4,616,824)
Inter-company expenses <sup>(1)</sup>	—	(501,323)	(1,006)	(3,343,680)	3,846,009	—
Related party expenses	—	—	—	(37)	—	(37)
Provision for accounts receivable and contract assets	—	(106,498)	—	(284,384)	—	(390,882)
Provision for loans receivable	—	(324,351)	1,239	(92,790)	—	(415,902)
Credit losses for quality assurance commitment	—	(213,884)	—	(2,981,336)	—	(3,195,220)
Total operating expenses	(20,027)	(2,158,324)	(17,292)	(10,269,231)	3,846,009	(8,618,865)
Income (loss) from subsidiaries <sup>(2)</sup>	2,287,509	(254,159)	2,479,647	2,379	(4,515,376)	—
Loss of the consolidated variable interest entities	—	—	(255,886)	—	255,886	—
Income from operations	2,267,482	2,674,673	2,224,041	(391,368)	(4,259,490)	2,515,338
Other income, net	(1,100)	61,729	1,340	158,724	—	220,693
Profit before income tax expenses	2,266,382	2,736,402	2,225,381	(232,644)	(4,259,490)	2,736,031
Income tax expenses	—	(431,640)	107	(23,242)	—	(454,775)
Net profit	2,266,382	2,304,762	2,225,488	(255,886)	(4,259,490)	2,281,256
Net loss attributable to non-controlling interest shareholders	—	(17,253)	—	—	2,379	(14,874)
Net profit attributable to FinVolution Group's ordinary shareholders	2,266,382	2,287,509	2,225,488	(255,886)	(4,257,111)	2,266,382

*Condensed Consolidating Statements of Income Information*

	<b>For the Year Ended December 31, 2021</b>					
	<b>FinVolution Group</b>	<b>Company Subsidiaries</b>	<b>Primary Beneficiary of Consolidated Variable Interest Entities</b>	<b>Consolidated Variable Interest Entities and Their Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
	(RMB in thousands)					
Third-party revenues	—	1,132,093	4,057	8,333,978	—	9,470,128
Inter-company revenues <sup>(1)</sup>	—	2,545,816	16,400	796,071	(3,358,287)	—
Net revenues	—	3,677,909	20,457	9,130,049	(3,358,287)	9,470,128
Third-party expenses	(18,617)	(892,810)	(18,850)	(3,441,504)	—	(4,371,781)
Inter-company expenses <sup>(1)</sup>	—	(812,471)	—	(2,545,816)	3,358,287	—
Related party expenses	—	—	—	(7,503)	—	(7,503)
Provision for accounts receivable and contract assets	—	(4,288)	—	(134,938)	—	(139,226)
Provision for loans receivable	—	(406,560)	—	32,317	—	(374,243)
Credit losses for quality assurance commitment	—	—	—	(1,963,609)	—	(1,963,609)
Total operating expenses	(18,617)	(2,116,129)	(18,850)	(8,061,053)	3,358,287	(6,856,362)
Income (loss) from subsidiaries <sup>(2)</sup>	2,526,062	1,015,784	1,351,628	(448)	(4,893,026)	—
Income of the consolidated variable interest entities	—	—	1,017,759	—	(1,017,759)	—
Income from operations	2,507,445	2,577,564	2,370,994	1,068,548	(5,910,785)	2,613,766
Other income, net	1,502	26,847	345	93,674	—	122,368
Profit before income tax expenses	2,508,947	2,604,411	2,371,339	1,162,222	(5,910,785)	2,736,134
Income tax expenses	—	(92,428)	(3,927)	(144,463)	—	(240,818)
Net profit	2,508,947	2,511,983	2,367,412	1,017,759	(5,910,785)	2,495,316
Net loss attributable to non-controlling interest shareholders	—	14,079	—	—	(448)	13,631
Net profit attributable to FinVolution Group's ordinary shareholders	2,508,947	2,526,062	2,367,412	1,017,759	(5,911,233)	2,508,947

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*Condensed Consolidating Statements of Income Information*

	<b>For the Year Ended December 31, 2020</b>					
	<b>FinVolution Group</b>	<b>Company Subsidiaries</b>	<b>Primary Beneficiary of Consolidated Variable Interest Entities</b>	<b>Consolidated Variable Interest Entities and Their Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
	(RMB in thousands)					
Third-party revenues	—	533,106	36,882	6,993,099	—	7,563,087
Inter-company revenues <sup>(1)</sup>	—	1,098,946	48,303	159,319	(1,306,568)	—
Net revenues	—	1,632,052	85,185	7,152,418	(1,306,568)	7,563,087
Third-party expenses	(20,720)	(581,725)	(26,690)	(2,000,511)	—	(2,629,646)
Inter-company expenses <sup>(1)</sup>	—	(159,319)	(18,086)	(1,129,163)	1,306,568	—
Related party expenses	—	—	—	(10,104)	—	(10,104)
Provision for accounts receivable and contract assets	—	(28,274)	—	(116,387)	—	(144,661)
Provision for loans receivable	—	(160,932)	—	(302,243)	—	(463,175)
Credit losses for quality assurance commitment	—	—	—	(2,007,968)	—	(2,007,968)
Total operating expenses	(20,720)	(930,250)	(44,776)	(5,566,376)	1,306,568	(5,255,554)
Income (loss) from subsidiaries <sup>(2)</sup>	1,991,262	1,395,376	671,331	(2,372)	(4,055,597)	—
Income of the consolidated variable interest entities	—	—	1,364,800	—	(1,364,800)	—
Income from operations	1,970,542	2,097,178	2,076,540	1,583,670	(5,420,397)	2,307,533
Other income, net	2,158	13,162	319	100,830	—	116,469
Profit before income tax expenses	1,972,700	2,110,340	2,076,859	1,684,500	(5,420,397)	2,424,002
Income tax expenses	—	(125,569)	(10,152)	(319,700)	—	(455,421)
Net profit	1,972,700	1,984,771	2,066,707	1,364,800	(5,420,397)	1,968,581
Net loss attributable to non-controlling interest shareholders	—	6,491	—	—	(2,372)	4,119
Net profit attributable to FinVolution Group's ordinary shareholders	1,972,700	1,991,262	2,066,707	1,364,800	(5,422,769)	1,972,700

**Condensed Consolidating Balance Sheets Information**

	As of December 31, 2022					
	FinVolution Group	Company Subsidiaries	Primary Beneficiary of Consolidated Variable Interest Entities (RMB in thousands)	Consolidated Variable Interest Entities and Their Subsidiaries	Eliminations	Consolidated Total
Cash and cash equivalents	21,990	1,757,304	7,070	1,850,016	—	3,636,380
Restricted cash	—	169,897	—	2,672,810	—	2,842,707
Short-term investments	48,752	680,948	—	2,697,320	—	3,427,020
Accounts receivable and contract assets	—	644,100	—	1,573,345	—	2,217,445
Quality assurance receivable	—	124,894	—	1,544,961	—	1,669,855
Property, equipment and software, net	—	114,431	—	26,914	—	141,345
Intangible assets	—	63,505	—	35,187	—	98,692
Loans and receivables, net of credit loss allowance for loans receivables	—	694,219	—	1,442,213	—	2,136,432
Investments	—	138,137	—	945,947	—	1,084,084
Investment in subsidiaries <sup>(3)</sup>	13,049,302	5,930,934	7,827,297	73,853	(26,881,386)	—
Net assets of the consolidated variable interest entities	—	—	5,482,793	—	(5,482,793)	—
Deferred tax assets	—	130,496	—	788,865	—	919,361
Prepaid expenses and other assets	13,582	102,632	147,859	2,702,678	—	2,966,751
Amounts due from Group companies <sup>(4)</sup>	641,549	6,932,627	600,313	2,316,737	(10,491,226)	—
Right of use assets	—	3,212	—	189,216	—	192,428
Goodwill <sup>(9)</sup>	—	50,411	—	—	—	50,411
<b>Total assets</b>	<b>13,775,175</b>	<b>17,537,747</b>	<b>14,065,332</b>	<b>18,860,062</b>	<b>(42,855,405)</b>	<b>21,382,911</b>
Deferred guarantee income	—	81,964	—	1,723,200	—	1,805,164
Liability from quality assurance commitment	—	315,783	—	3,239,835	—	3,555,618
Payroll and welfare payable	—	113,207	3,246	157,955	—	274,408
Taxes payable	—	82,453	—	51,574	—	134,027
Funds payable to investors of consolidated trusts	—	—	—	1,845,210	—	1,845,210
Contract liability	—	—	—	5,109	—	5,109
Amounts due to Group companies <sup>(4)</sup>	1,400,183	3,638,208	303,770	5,149,065	(10,491,226)	—
Amounts due to related party	—	—	—	1,000	—	1,000
Deferred tax liabilities	—	91,976	—	140,212	—	232,188
Accrued expenses and other liabilities	3,291	15,285	85	890,047	—	908,708
Leasing liabilities	—	2,928	—	174,062	—	176,990
<b>Total liabilities</b>	<b>1,403,474</b>	<b>4,341,804</b>	<b>307,101</b>	<b>13,377,269</b>	<b>(10,491,226)</b>	<b>8,938,422</b>
<b>Total FinVolution Group shareholders' equity<sup>(3)</sup></b>	<b>12,371,701</b>	<b>13,049,302</b>	<b>13,758,231</b>	<b>5,482,793</b>	<b>(32,290,326)</b>	<b>12,371,701</b>
Non-controlling interest	—	146,641	—	—	(73,853)	72,788
<b>Total shareholders' equity</b>	<b>12,371,701</b>	<b>13,195,943</b>	<b>13,758,231</b>	<b>5,482,793</b>	<b>(32,364,179)</b>	<b>12,444,489</b>
<b>Total liabilities and shareholders' equity</b>	<b>13,775,175</b>	<b>17,537,747</b>	<b>14,065,332</b>	<b>18,860,062</b>	<b>(42,855,405)</b>	<b>21,382,911</b>

*Condensed Consolidating Balance Sheets Information*

	As of December 31, 2021					
	FinVolution Group	Company Subsidiaries	Primary Beneficiary of Consolidated Variable Interest Entities (RMB in thousands)	Consolidated Variable Interest Entities and Their Subsidiaries	Eliminations	Consolidated Total
Cash and cash equivalents	38,231	2,199,438	3,877	2,176,581	—	4,418,127
Restricted cash	—	381,582	—	3,691,832	—	4,073,414
Short-term investments	—	31,378	—	1,173,523	—	1,204,901
Accounts receivable and contract assets	—	85,767	—	1,805,079	—	1,890,846
Quality assurance receivable	—	—	—	931,798	—	931,798
Property, equipment and software, net	—	69,156	—	43,241	—	112,397
Intangible assets	—	63,760	—	35,187	—	98,947
Loans and receivables, net of credit loss allowance for loans receivables	—	285,781	—	1,696,495	—	1,982,276
Investments	—	150,510	—	820,607	—	971,117
Investment in subsidiaries <sup>(3)</sup>	10,574,557	6,108,415	4,324,128	70,578	(21,077,678)	—
Net assets of the consolidated variable interest entities	—	—	5,659,944	—	(5,659,944)	—
Deferred tax assets	—	112,247	—	343,494	—	455,741
Prepaid expenses and other assets	2,795	220,173	3,816	1,672,654	—	1,899,438
Amounts due from Group companies <sup>(4)</sup>	694,123	3,534,245	744,700	2,200,275	(7,173,343)	—
Right of use assets	—	197	—	48,941	—	49,138
Goodwill <sup>(9)</sup>	—	50,411	—	—	—	50,411
<b>Total assets</b>	<b>11,309,706</b>	<b>13,293,060</b>	<b>10,736,465</b>	<b>16,710,285</b>	<b>(33,910,965)</b>	<b>18,138,551</b>
Deferred guarantee income	—	—	—	1,089,503	—	1,089,503
Liability from quality assurance commitment	—	—	—	3,188,561	—	3,188,561
Payroll and welfare payable	—	102,032	4,189	146,697	—	252,918
Taxes payable	—	143,411	—	57,237	—	200,648
Funds payable to investors of consolidated trusts	—	—	—	1,795,640	—	1,795,640
Contract liability	1,610	—	—	6,826	—	8,436
Amounts due to Group companies <sup>(4)</sup>	647,199	2,221,430	299,662	4,005,052	(7,173,343)	—
Amounts due to related party	—	—	—	2,265	—	2,265
Deferred tax liabilities	—	91,976	—	45,656	—	137,632
Accrued expenses and other liabilities	5,647	34,544	71	679,720	—	719,982
Leasing liabilities	—	172	—	33,184	—	33,356
<b>Total liabilities</b>	<b>654,456</b>	<b>2,593,565</b>	<b>303,922</b>	<b>11,050,341</b>	<b>(7,173,343)</b>	<b>7,428,941</b>
Total FinVolution Group shareholders' equity <sup>(3)</sup>	10,655,250	10,574,557	10,432,543	5,659,944	(26,667,044)	10,655,250
Non-controlling interest	—	124,938	—	—	(70,578)	54,360
Total shareholders' equity	10,655,250	10,699,495	10,432,543	5,659,944	(26,737,622)	10,709,610
<b>Total liabilities and shareholders' equity</b>	<b>11,309,706</b>	<b>13,293,060</b>	<b>10,736,465</b>	<b>16,710,285</b>	<b>(33,910,965)</b>	<b>18,138,551</b>

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	For the Year Ended December 31, 2022					
	<u>FinVolution Group</u>	<u>Company Subsidiaries</u>	<u>Primary Beneficiary of Consolidated Variable Interest Entities</u>	<u>Consolidated Variable Interest Entities and Their Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
			(RMB in thousands)			
Cash used in operating activities under service agreements for Intercompany <sup>(5)</sup>	—	(649,653)	(1,098)	(3,598,761)	4,249,512	—
Cash provided by operating activities under service agreements for Intercompany <sup>(5)</sup>	—	3,587,081	11,680	650,751	(4,249,512)	—
Net cash provided by (used in) operating activities for Third-party	(36,357)	(834,710)	(158,727)	1,298,627	—	268,833
Net cash provided by (used in) operating activities	(36,357)	2,102,718	(148,145)	(1,649,383)	—	268,833
Capital contribution to Group companies <sup>(6)</sup>	—	—	—	(10,020)	10,020	—
Collection of loans from Group companies <sup>(7)</sup>	455,144	161,047	237,169	72,373	(925,733)	—
Cash paid as loans extended to Group companies <sup>(8)</sup>	(402,570)	(3,849,985)	(90,031)	(304,533)	4,647,119	—
Other investing activities	(48,275)	(748,571)	—	(756,382)	—	(1,553,228)
Net cash provided by (used in) investing activities	4,299	(4,437,509)	147,138	(998,562)	3,731,406	(1,553,228)
Capital contribution from Group companies <sup>(6)</sup>	—	10,020	—	—	(10,020)	—
Repayment of loans to Group companies <sup>(7)</sup>	(487,333)	(231,720)	(72,373)	(134,307)	925,733	—
Cash received as loans from Group companies <sup>(8)</sup>	1,240,317	1,796,828	76,573	1,533,401	(4,647,119)	—
Other financing activities	(702,674)	3,554	—	(96,736)	—	(795,856)
Net cash (provided by) used in financing activities	50,310	1,578,682	4,200	1,302,358	(3,731,406)	(795,856)

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	For the Year Ended December 31, 2021					
	FinVolution Group	Company Subsidiaries	Primary Beneficiary of Consolidated Variable Interest Entities	Consolidated Variable Interest Entities and Their Subsidiaries	Eliminations	Consolidated Total
			(RMB in thousands)			
Cash used in operating activities under service agreements for Intercompany <sup>(5)</sup>	—	(534,943)	(45)	(2,313,224)	2,848,212	—
Cash provided by operating activities under service agreements for Intercompany <sup>(5)</sup>	—	2,290,805	22,419	534,988	(2,848,212)	—
Net cash provided by (used in) operating activities for Third-party	(45,587)	(716,930)	(19,691)	1,412,435	—	630,227
Net cash provided by (used in) operating activities	(45,587)	1,038,932	2,683	(365,801)	—	630,227
Capital contribution to Group companies <sup>(6)</sup>	—	—	—	(22,432)	22,432	—
Collection of loans from Group companies <sup>(7)</sup>	846,737	186,283	256,537	389,043	(1,678,600)	—
Cash paid as loans extended to Group companies <sup>(8)</sup>	(238,254)	(2,296,392)	(92,801)	(2,328,235)	4,955,682	—
Other investing activities	—	326,328	—	1,668,517	—	1,994,845
Net cash provided by (used in) investing activities	608,483	(1,783,781)	163,736	(293,107)	3,299,514	1,994,845
Capital contribution from Group companies <sup>(6)</sup>	—	22,432	—	—	(22,432)	—
Repayment of loans to Group companies <sup>(7)</sup>	(839,719)	(285,119)	(389,043)	(164,719)	1,678,600	—
Cash received as loans from Group companies <sup>(8)</sup>	603,955	2,341,182	225,307	1,785,238	(4,955,682)	—
Other financing activities	(310,221)	967	—	69,454	—	(239,800)
Net cash (provided by) used in financing activities	(545,985)	2,079,462	(163,736)	1,689,973	(3,299,514)	(239,800)

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*Condensed Consolidating Cash Flows Information*

	For the Year Ended December 31, 2020					
	FinVolution Group	Company Subsidiaries	Primary Beneficiary of Consolidated Variable Interest Entities	Consolidated Variable Interest Entities and Their Subsidiaries	Eliminations	Consolidated Total
	(RMB in thousands)					
Cash used in operating activities under service agreements for Intercompany <sup>(5)</sup>	—	(101,577)	(36,047)	(2,143,205)	2,280,829	—
Cash provided by operating activities under service agreements for Intercompany <sup>(5)</sup>	—	2,088,211	54,994	137,624	(2,280,829)	—
Net cash provided by (used in) operating activities for Third-party	(6,282)	(105,519)	(96,939)	2,415,649	—	2,206,909
Net cash provided by (used in) operating activities	(6,282)	1,881,115	(77,992)	410,068	—	2,206,909
Collection of loans from Group companies <sup>(7)</sup>	557,936	—	—	—	(557,936)	—
Other investing activities	—	(263,706)	36,545	1,268,657	—	1,041,496
Net cash provided by (used in) investing activities	557,936	(263,706)	36,545	1,268,657	(557,936)	1,041,496
Repayment of loans to Group companies <sup>(7)</sup>	—	(557,936)	—	—	557,936	—
Other financing activities	(636,936)	(167,381)	—	(2,286,962)	—	(3,091,279)
Net cash provided by (used in) financing activities	(636,936)	(725,317)	—	(2,286,962)	557,936	(3,091,279)

Notes:

- (1) Represents the intercompany services eliminated at the consolidation level, including technical development services and technical support services.
- (2) Represents the elimination of the income from investment among FinVolution Group, equity subsidiaries, and primary beneficiary of consolidated variable interest entities.
- (3) Represents the elimination of the investment among FinVolution Group, equity subsidiaries, and primary beneficiary of consolidated variable interest entities.
- (4) Represents the elimination of intercompany balances among FinVolution Group, equity subsidiaries, primary beneficiary of consolidated variable interest entities, consolidated variable interest entities and consolidated variable interest entities' subsidiaries.
- (5) Represents the cash received and cash paid for intercompany services, including technical development services and technical support services.
- (6) Capital contribution at intercompany level.
- (7) Collection of loans from group companies, and repayment of loans to group companies.
- (8) Cash paid as loans extended to group companies, and cash received as loans from group companies.
- (9) In October 2017, one equity subsidiary and one consolidated variable interest entity's subsidiary of FinVolution Group entered into a series of share purchase agreements with shareholders of HB micro lending company ("HB"). After the transactions, the Group was able to control HB. Goodwill and non-controlling interest were recognized in accordance with Accounting Standards Codification ("ASC") 805 "Business Combinations." In this consolidated variable interest entity's consolidating schedule, HB's financial information was recorded in the Equity Subsidiaries. The Group applied equity method in accounting for the investment of consolidated variable interest entity's subsidiary in HB due to it can exercise significant influence but does not have control. Total assets for HB were RMB256,390 and RMB300,193 as of December 31, 2021 and 2022. Total liabilities for HB were RMB92,145 and RMB128,115 as of December 31, 2021 and 2022.



## Summary of Risk Factors

Investing in our ADSs involves significant risks. You should carefully consider all of the information in this annual report before making an investment in our ADSs. Below please find a summary of the principal risks we face, organized under relevant headings. All the operational risks associated with being based in and having operations in China also apply to our operations in Hong Kong. With respect to the legal risks associated with being based in and having operations in China, the laws, regulations and the discretion of the governmental authorities in China discussed in this annual report are expected to apply to entities and businesses in China, rather than entities or businesses in Hong Kong, which operate under a different set of laws from China.

### *Risks Related to Our Business*

- We operate in China's online consumer finance platform market, an emerging and evolving industry, which makes it difficult to evaluate our future prospects.
- We have modified our business model and practices in the past as a result of changes in laws, regulations, policies, measures and guidance. We may further change our business model or practices in the future, which may not be successful ultimately.
- The laws and regulations governing online consumer finance industry in China are developing and evolving and subject to changes. If our business practices are deemed to violate any existing and future applicable laws, regulations or requirements of local regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected.
- Our cooperation with institutional funding partners may expose us to regulatory uncertainties and we may be required to obtain additional government approval or license due to our cooperation with institutional funding partners.
- Regulatory restrictions on institutional funding partners' acceptance of credit enhancement may adversely affect our business and access to funding.
- We collaborate with third-party trust management companies to set up trusts with other investors to provide loans through these trusts to borrowers introduced by us. We may be deemed to be an illegal financial institution under such trust arrangement, which may materially and adversely affect our business and financial condition.
- If we are unable to retain existing borrowers or institutional funding partners or attract new borrowers or institutional funding partners, or if we are unable to maintain or increase the volume of loans facilitated through our platform, our business and results of operations will be adversely affected.
- Interest rates of certain of our loan products exceed the statutory interest rate limit and therefore part of the interests is not enforceable through the PRC judicial system.
- Any failure to comply with existing or future laws and regulations related to data protection, data security, cybersecurity or personal information protection could lead to liabilities, administrative penalties or other regulatory actions, which could negatively affect our operating results and business.
- If our ability to collect delinquent loans is impaired, our business and results of operations might be materially and adversely affected.
- Cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions of us or of a third party could result in disclosure or misuse of confidential information and misappropriation of funds of our borrowers and institutional funding partners, subject us to liabilities, cause reputational harm and adversely impact our results of operations and financial condition.

***Risks Related to Our Corporate Structure***

- We are a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities and we conduct operations in China primarily through (i) our subsidiaries in China, (ii) the consolidated variable interest entities with which we have maintained contractual arrangements, and (iii) the subsidiaries of the consolidated variable interest entities. Holders of our ADSs hold equity interest in FinVolution Group, our Cayman Islands holding company, and do not have direct or indirect equity interest in the consolidated variable interest entities and their subsidiaries. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiaries, the consolidated variable interest entities and their respective subsidiaries, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a whole.
- If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities 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.
- We rely on contractual arrangements with the consolidated variable interest entities for a significant portion of our business operations, and such contractual arrangements may not be as effective as equity ownership in providing operational control.
- Any failure by the consolidated variable interest entities, shareholders of the consolidated variable interest entities or other parties to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.
- The shareholders of the consolidated variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

***Risks Related to Doing Business in China***

- Most of our operations are located in China. Accordingly, our business, prospects, financial conditions and results of operations may be affected to a significant degree by political, economic and social conditions in China generally. In addition, a severe or prolonged downturn in the Chinese or global economy could reduce the demand for consumer loans and investments, which could materially and adversely affect our business and financial condition. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Changes in China’s economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations” and “—A severe or prolonged downturn in the Chinese or global economy could reduce the demand for consumer loans and investments, which could materially and adversely affect our business and financial condition.”
- We face risks arising from uncertainties with respect to the PRC legal system. Certain rules and regulations can change quickly and sometimes on short notice, and there may be risks and uncertainties regarding the interpretation and enforcement of PRC laws and regulations. These risks and uncertainties may make it difficult for us to meet or comply with requirements under the applicable laws and regulations. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.”
- The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.”
- The PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

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- Our ADSs may be prohibited from trading in the United States under the HFCA Act in the future if the PCAOB is unable to inspect or fully investigate auditors located in China. The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections” and “—Our ADSs may be prohibited from trading in the United States under the HFCA Act in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

### ***Risks Related to Our American Depositary Shares***

- The market price for our ADSs may be volatile.
- We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within the United States upon these individuals, or to bring an action against us or against these individuals in the United States in the event that you believe your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. See “Item 3. Key Information—D. Risk Factors—Risks Related to our ADSs—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” and “—Certain judgments obtained against us by our shareholders may not be enforceable.”

#### **A. [Reserved]**

#### **B. Capitalization and Indebtedness**

Not applicable.

#### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

#### **D. Risk Factors**

Investing in our ADSs involves significant risks. You should carefully consider all of the information in this annual report before making an investment in our ADSs. Below please find the principal risks we face, organized under relevant headings. In the event that PRC regulations become applicable to companies in Hong Kong, the legal and operational risks associated with operating in China, as discussed in “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry,” may also apply to our operations in Hong Kong. These risks are discussed more fully in the section titled “Item 3. Key Information—D. Risk Factors.”

### **Risks Related to Our Business**

***We operate in China’s online consumer finance platform market, an emerging and evolving industry, which makes it difficult to evaluate our future prospects.***

China’s online consumer finance industry is new and may not develop as expected. The regulatory framework for this industry is also evolving and may remain uncertain for the foreseeable future. China’s online consumer finance industry in general remains at a rather preliminary development stage and may not develop at the anticipated growth rate. It is possible that the PRC laws and regulations may change in ways that do not favor our development. If that happens, there may not be adequate loans facilitated on our platform and our current business model may be negatively affected. As a new industry, there are very few established players whose business models we can follow or build upon. Potential borrowers and institutional funding partners may not be familiar with this new industry and may have difficulty distinguishing our services from those of our competitors. Attracting and retaining borrowers and institutional funding partners is critical to increasing the volume of loans facilitated through our platform. The emerging and evolving online consumer finance market makes it difficult to effectively assess our future prospects. In addition, our business has grown substantially in recent years, but our past growth rates may not be indicative of our future growth.

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You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this developing and rapidly evolving industry. These risks and challenges include our ability to, among other things:

- navigate an evolving regulatory environment;
- expand the base of borrowers and institutional funding partners served on our platform;
- maintain our credit standards;
- enhance our risk management capabilities;
- improve our operational efficiency;
- continue to scale our technology infrastructure to support the growth of our platform and higher transaction volume;
- broaden our loan product offerings;
- operate without being adversely affected by the negative publicity about the industry in general and our company in particular;
- maintain the security of our platform and the confidentiality of the information provided and utilized across our platform;
- cultivate a vibrant consumer finance ecosystem;
- attract, retain and motivate talented employees; and
- defend ourselves in litigation, and against regulatory, intellectual property, privacy or other claims.

If the market for our platform does not develop as we expect, if we fail to educate potential borrowers and institutional funding partners about the value of our platform and services, or if we fail to address the needs of our target customers, our reputation, business and results of operations will be materially and adversely affected.

***We have modified our business model and practices in the past as a result of changes in laws, regulations, policies, measures and guidance. We may further change our business model or practices in the future, which may not be successful ultimately.***

Given the complexities, uncertainties and frequent changes in PRC laws, rules, regulations, policies and measures, including changes in their interpretation and implementation, we have historically modified our business models and practices due to shifts in regulatory requirements and our strategies. For example, we had ceased facilitating new loans with funding from individual investors on our platform since October 2019 and improved our business model through acquisition of better quality borrowers and transition of our funding sources from individual investors to institutional funding partners. On January 14, 2022, the Shanghai Financial Stability Coordinating Joint Conference Office, the Shanghai Online Lending Risk Rectification Office and other regulatory authorities jointly announced that Shanghai PPDai, among others, had declared the termination of its business operation as an online lending information intermediary and fully settled all related legacy loan products funded by individual investors. In connection with this change of business model and practices, our business operations have gone through considerable changes, such as offering new products and services, adjusting our business process and model, hiring new employees and building up new departments, and collaborating with new business partners.

We may further change our business model or practices in the future. If this happens, our business operations may have to go through considerable changes and we may experience a loss of continuity, loss of accumulated knowledge or loss of efficiency during the transitional period, which may cause our competitive position, business, financial condition and results of operations to be materially and adversely affected.

***The laws and regulations governing online consumer finance industry in China are developing and evolving and subject to changes. If our business practices are deemed to violate any existing and future applicable laws, regulations or requirements of local regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected.***

We started our business as an online lending information intermediary. In August 2016, the China Banking Regulatory Commission, or the CBRC, together with three other PRC regulatory agencies jointly issued the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries, or the Interim Measures. The Interim Measures, among other things, defined online lending information intermediaries as financial information intermediary companies that facilitate loans online between persons, including individual, companies and other organizations. The Interim Measures further introduced a record-filing and licensing regime and provided general obligations and certain prohibited activities of the online lending information intermediaries. Pursuant to the Interim Measures, local financial regulatory authorities may conduct onsite inspections or inquiries from time to time and instruct us to rectify our business operations that are deemed not to be in compliance with the Interim Measures.

Due to changes of laws and regulations governing online consumer finance, we have ceased facilitating new loans with funding from individual investors on our platform since October 2019 and improve our business model through acquisition of better quality borrowers and transition of our funding sources from individual investors to institutional funding partners. On January 14, 2022, the Shanghai Financial Stability Coordinating Joint Conference Office, the Shanghai Online Lending Risk Rectification Office and other regulatory authorities jointly announced that Shanghai PPDai, among others, had declared the termination of its business operation as an online lending information intermediary and fully settled all related legacy loan products funded by individual investors.

In addition, on January 21, 2013, the State Council promulgated the Stipulations for Regulating Credit Reference, which provides that any person or organization that conducts personal credit reference business without approval of the competent credit reference administrative department of the State Council may be subject to penalties, including cessation of business operations, confiscation of illegal gains, imposing fines from RMB50,000 to RMB500,000, and even criminal liability. On September 27, 2021, the PBOC issued the Measures for Regulating Credit Reference, which came into effect on January 1, 2022 and stipulates that, among others (i) the credit information refers to the following information that should be legally collected and used for financial activities: basic information, loan information, other relevant information and analysis and evaluation information generated from the foregoing information of enterprises and individuals for identifying their credit status; and the credit reference business refers to the activities of collecting, sorting, storing and processing the credit information of enterprises and individuals, and providing them to the information users; (ii) a license for individual credit reference business issued by the PBOC is required for engaging in the individual credit reference business, and the licensed credit reference agency shall report to the PBOC with respect to its cooperation with any information provider for collecting, sorting, storing and analyzing individual credit information; (iii) the financial institutions are not allowed to cooperate with any commercial entity that does not hold a credit reference license to obtain credit reference service; and (iv) any persons that engage in the individual credit reference business without a license for individual credit reference business will be given an 18-month grace period starting from January 1, 2022 to complete the necessary compliance rectification.

It is reported that in July 2021, the Credit Information System Bureau of PBOC notified several internet platforms to complete “disconnecting direct connection” process between personal information and financial institutions, which implied that as an online consumer finance marketplace, we may be prohibited from providing personal information directly to institutional funding partners. Currently, we provide borrower referral and preliminary credit assessment services to our institutional funding partners, and the information shared by us with such institutional funding partners with due authorization may be deemed as the credit information. As of the date of this annual report, we have not received the notice relating to “disconnecting direct connection” from the regulatory authorities. If the preliminary credit assessment services provided by us to our institutional funding partners would be deemed by the regulatory authorities as the credit reference business, or direct connection between personal information and financial institutions, we may be required make adjustment to our business operations to comply with the regulatory requirements, for instance, to obtain a license for individual credit reference business from the competent regulatory authorities or change our business model, pursue cooperation with the licensed credit reference agencies and filing of the relevant cooperation agreement with the PBOC or its provincial branches. If we cannot obtain the regulatory approval or find licensed credit reference agencies to cooperate with or complete the cooperation agreement filing in a timely manner, we may be deemed as violating the applicable laws and regulations of credit reference services, which may subject us to penalties, including cessation of business operations, confiscation of illegal gains, imposing fines from RMB50,000 to RMB500,000, and even criminal liability. As of the date of this annual report, we have completed the majority of our preparation work and we are still testing the rectification measures as we deem appropriate to ensure compliance with the regulatory requirements of “disconnecting direct connection” between personal information and our institutional funding partners. We may not be able to complete the compliance rectification within the 18-month grace period beginning on January 1, 2022. Even if we complete the rectification within such grace period, we cannot assure you that our rectifications will be deemed to be in full compliance with the applicable laws and regulations relating to “disconnecting direct connection.” If we fail to satisfy the regulatory authorities’ requirements, we may be required to further modify our business model, terminate certain practices that may be deemed as non-compliance, or even terminate our business operation, which may materially and adversely affect our business, financial condition and results of operations. As of the date of this annual report, we have not been subject to any penalties from the PBOC or any of its branches related to our cooperation with the institutional funding partners. Our origination, servicing expenses and other cost of revenue may increase or we may change our current business model if we start to cooperate with licensed credit reference agencies, which may affect our financial performance and results of operations. Furthermore, we rely on certain data partners to collect credit information of borrowers for credit scoring and fraud detections. If these data partners’ business is deemed as credit reference and they are unable to obtain the regulatory approval or complete the filing, we cannot assure you that we will be able to find an alternative in a timely and cost-efficient manner, or at all. Any of these occurrences could result in reputational damage, regulatory intervention and diminished ability to operate our business, which could adversely impact our business, financial condition and results of operations.

The laws, regulations, rules and governmental policies are expected to continue to evolve in our industry. We are unable to predict with certainty the impact, if any, that future legislation, judicial interpretations or regulations relating to the online consumer finance industry will have on our business, financial condition and results of operations. To the extent that we are not able to fully comply with any new laws or regulations when they are promulgated, our business, financial condition and results of operations may be materially and adversely affected.

***Our cooperation with institutional funding partners may expose us to regulatory uncertainties and we may be required to obtain additional government approval or license due to our cooperation with institutional funding partners.***

In 2020, 2021 and 2022, the loan origination volume funded by institutional funding partners on our platform was RMB65.1 billion, RMB137.4 billion and RMB175.4 billion (US\$25.4 billion), representing 100.0%, 100.0% and 100.0% of our total loan origination volume in the same year. Due to the lack of a comprehensive and effective regulatory framework and clear and unambiguous application and interpretation of relevant laws and regulations, our cooperation with institutional funding partners has exposed us to regulatory uncertainties. We carry out our cooperation with institutional funding partners through Shanghai Erxu, a subsidiary of one of the consolidated variable interest entities, Shanghai Zihe. Shanghai Erxu primarily provides services to our institutional funding partners, such as borrower referral and preliminary credit assessment, and facilitate their participation in our online lending business.

The online consumer finance industry in which we operate is new and evolving. The regulatory authorities' final interpretation of the applicable laws in the online consumer finance industry remains lacking. There exists uncertainties on whether the business practice of Shanghai Erxu will be deemed to be in full compliance with all applicable laws and regulations. For example, if the preliminary credit assessment services provided by Shanghai Erxu to our institutional funding partners are deemed by the regulatory authorities as the credit reference business or direct connection between personal information and financial institutions, Shanghai Erxu may be required to obtain a license for individual credit reference business, or alternatively, pursue cooperation with licensed credit reference agencies and submit the relevant cooperation agreement with the PBOC or its provincial branches. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—The laws and regulations governing online consumer finance industry in China are developing and evolving and subject to changes. If our business practices are deemed to violate any existing and future applicable laws, regulations or requirements of local regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected." Given the evolving regulatory environment of the consumer finance industry, the regulatory authorities may issue new regulatory requirements, introducing a new licensing regime to regulate the type of business activities that Shanghai Erxu has been carrying out. If such new regulatory rules are promulgated, we cannot assure you that we would be able to obtain such new license or other regulatory approval in a timely manner, or at all, which would materially and adversely affect our business and our ability to continue our operations. As of the date of this annual report, we have not been subject to any material fines or other penalties under any PRC laws or regulations, including those governing the online consumer finance industry in China. However, if the governmental authorities adopt a stringent regulatory framework on the online consumer finance industry in the future which may subject Shanghai Erxu or any of our PRC subsidiaries to additional requirements, such as paid-up capital requirements, record-filing with the relevant regulators or license requirements, our business may be materially and adversely affected. It can be costly to comply with relevant laws and regulations and if our business practice is deemed to violate any existing or future laws and regulations, we may face injunctions, including orders to cease illegal activities, and may be exposed to other penalties as determined by the relevant government authorities as well.

In addition, the institutional funding partners shall comply with the regulations relating to personal loans, which is still evolving. On February 12, 2010, the CBRC promulgated the Interim Measures on Administration of Personal Loans, or the Personal Loan Interim Measures, which provide that (i) several conditions shall be satisfied to apply for a personal loan, including but not limited to (a) the purposes of the loan shall be clear and legal, (b) the amount, term and currency of the loan as indicated in the loan application shall be reasonable, and (c) the borrower is willing and able to make repayment, and the borrower shall have a good credit standing and no record of bad credit, (ii) loan investigation shall cover, including but not limited to, the basic information of the borrower, the borrower's earnings, the purpose of the loan, and the borrower's source of funds and ability for repayment, and the method of repayment, and (iii) the lender shall perform the loan investigation on the borrower by itself and shall not delegate such matter to a third party. On January 6, 2023, the CBIRC issued the Draft Measures on Administration of Personal Loans for public comments, which will replace the Personal Loan Interim Measures once effective. This draft further stipulates that during the loan investigation process, the lender shall not delegate the core risk management matters such as the assessment of the genuine intention of the borrower, the borrower's earnings, indebtedness, source of funds, and the assessment of the entry of evaluation service provider, to a third party.

Furthermore, on July 12, 2020, the China Banking and Insurance Regulatory Commission, or the CBIRC, promulgated the Interim Measures for Commercial Banks Doing Online Lending Business, or the Interim Measures for Banks, pursuant to which the banks may collaborate with financing guarantee companies, e-commerce business companies, third-party payment companies and information technology companies in various online lending business processes and activities, including but not limited to client referral, joint loan origination, risk distribution, information technology and loan collection. However, when collaborating with third parties for online lending businesses, the banks are required to independently manage core risk control procedures, such as the credit assessment and contract conclusion, and should be responsible for post-loan managements. Each of the regional banks, which is an important category of our institutional funding partners, should (i) provide online lending services primarily to its local clients, (ii) be prudent to provide loans to borrowers who reside outside its region, and (iii) take appropriate measures to monitor the business operations when serving the clients who are located outside its region. The banks may not accept credit enhancements, in a direct or a disguised form, provided by a third-party partner without financing guarantee license or credit security insurance license. The banks shall adopt appropriate measures to monitor the use of loan proceeds. The banks should evaluate and review the online lending partners they collaborate with at least once a year and terminate the cooperation if any incompetency is identified.

On February 19, 2021, the CBIRC further issued the Notice of Further Regulating Online Loan Business of Commercial Banks, also known as Circular 24, which provides that the commercial banks shall independently carry out the risk management of online loans and are forbidden from outsourcing the material procedures of loan management. The outstanding balance of online loans extended by a bank in collaboration with third-party platforms should not exceed 50% of the bank's total outstanding balance. Where a commercial bank and its joint lending partner jointly contribute funds to issue online loans, the funding contribution percentage of its joint lending partner shall not be less than 30%. Circular 24 further strengthens the requirement that commercial banks are strictly prohibited from outsourcing the material procedures of loan management, and local commercial banks from engaging in an online loan business outside the territory of their registered place. The requirements on the limit of 30% for the joint lending loans and the cross-regional prohibition came into effect on January 1, 2022. The non-conforming legacy loans that extended before the promulgation of Circular 24 may be settled on their relative maturity dates.

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On July 15, 2022, the CBIRC issued the Notice on Strengthening the Management of Commercial Banks' Online Lending Business and Improving the Quality and Efficiency of Financial Services (the "Circular 14"), which further requires commercial banks to: (i) take necessary measures to effectively assess the compliance system, supervision mechanism, information processing guidance, and security protection measures of personal information protection of the institutes they cooperate with, (ii) strengthen loan fund management, take effective measures to monitor loan usage, ensure safety of the loan funds, and prevent institutions they cooperate with from intercepting, pooling, or misappropriating funds, (iii) standardize the online loan cooperation business with third-party institutions, and restrict or refuse to cooperate with those that are in violation of relevant regulations on online loans, and (iv) strengthen the protection of consumer rights and interests, the compliance management of the marketing and promotion activities of the institutions they cooperate with, and clearly stipulate the relevant prohibited behaviors in their cooperation agreement with the institutions. With respect to the current non-compliance business, the commercial banks will be given a grace period through June 30, 2023 to rectify the non-compliance. During the grace period, the commercial banks shall comply with the requirements under the Interim Measures for Banks, Circular 24, and Circular 14 when conducting any new online loans businesses.

With certain limited exceptions, the Interim Measures for Banks, Circular 24, and Circular 14 apply to the consumer finance companies and trust companies when they conduct online lending business. As our institutional funding partners include commercial banks, consumer finance companies and trust companies, they are required to evaluate and review us as required by the Interim Measures for Banks, Circular 24, and Circular 14. If any of our institutional funding partners identifies any incompetency of us in such evaluation and review, it may terminate the cooperation with us and our business and operation results would be adversely and materially affected. Furthermore, we act as an intermediary between institutional funding partners and borrowers, and we cannot assure you that all the institutional funding partners we cooperate with have been and will be in strict compliance with the Interim Measures for Banks, Circular 24 and Circular 14.

On December 31, 2021, the PBOC, the CBIRC and five other regulatory authorities jointly published the Administrative Measures for Online Offering of Financial Products (Draft for Comments), or the Draft Offering Measures, which stipulates that, among others, (i) except otherwise explicitly stipulated by the laws or regulations, a financial institution cannot authorize other organizations to offer its financial products; (ii) without approval from the competent financial regulatory authorities, any third-party internet platform cannot get involved, or get involved in a disguised form, in the online offering of financial products, including but not limited to, procedures of interactive consultant with the consumer, know-your-customer, sales contract conclusion, or fund transferring. The third-party internet platform cannot participate, or participate in a disguised form, in sharing the revenue generated from the financial business; (iii) the third-party internet platform cannot illegally crack, hold, nor store customer information and business data; (iv) the "online offering" is defined as commercial promotion and recommendation activities of the financial products on the internet platform, including but not limited to exhibiting the financial product information and the financial institution's brand name or logo, providing sales channel for consumers to purchase financial products. The "financial products" includes deposit products, loan products, asset management products, etc. that are designed, developed, or sold by financial institutions; and (v) a transition period of 6 months would be given to the existing non-compliance activities before the effectiveness of the draft. As uncertainties remain regarding when the Draft Offering Measures would be adopted and become effective, and to what extent we would be subject to the Draft Offering Measures, we cannot assure you that we will be able to comply with such regulations in all respects in a timely manner, or at all, and we may be ordered to rectify or terminate any actions that are deemed illegal by regulatory authorities. If we cannot rectify our business model in a timely manner, or at all, the regulatory authorities may levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.



***Regulatory restrictions on institutional funding partners' acceptance of credit enhancement may adversely affect our business and access to funding.***

Pursuant to the Notice on Regulating and Rectifying “Cash Loan” Business issued jointly by the National Internet Finance Rectification Office and the National Online Lending Rectification Office in December 2017, or the Circular 141, a bank, a trust management company, or a consumer financial company participating in loan facilitation transactions may not accept credit enhancement services and similar services, such as committing to assume default risks, provided by a third party which has not been licensed or approved to provide such services. In addition, pursuant to the Regulations on the Supervision and Administration of Financing Guarantee Companies promulgated by the State Council on August 2, 2017, or the Financing Guarantee Rules, any entity operating “financing guarantee business” is required to obtain an approval from the local regulatory authorities. If any entity operates financing guarantee business without such approval, it may be subject to penalties, including termination or suspension of business, fines ranging from 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. In October 2019, the CBIRC, together with eight other regulatory agencies jointly promulgated the Supplemental Rules to the Administration of Financing Guarantee Companies, or the Supplements to the Financing Guarantee Rules, which provides that any entity providing client referral or credit assessment services to the lending institutions may not provide financing guarantee services in a direct or a disguised form without the regulatory approval. If any entity operates financing guarantee business without appropriate approval, its business operations will be banned by the regulatory authorities and it will be required to properly settle existing business.

In our collaboration with institutional funding partners, we introduce borrowers to our institutional funding partners and provide our institutional funding partners with our preliminary credit assessment on the creditworthiness of such borrowers. Our institutional funding partners independently review such borrowers' loan requests and decide whether to provide loans to such borrowers and, if yes, the maximum amount of credit available for such borrowers.

We have engaged licensed third-party financing guarantee companies to provide financing guarantees to a majority of the loans funded by our institutional funding partners. If any borrower defaults, a third-party financing guarantee company is obligated to repay the full overdue amount to the corresponding institutional funding partner. After the financing guarantee company repays the full overdue amount, we are obligated to purchase creditor's right from the third-party guarantee companies at a price equal to the repayment it made to the institutional funding partner. Under certain circumstances, we also provide security deposits through third-party financing guarantee companies for loans funded by certain institutional funding partners as an additional quality assurance commitment. Apart from licensed third-party financing guarantee companies, we also cooperate with third-party insurance companies to provide quality assurance commitments to our institutional funding partners. Under this arrangement, if any borrower introduced by us defaults, our institutional funding partners are able to seek insurance compensations under the insurance policies from third-party insurance companies. In some cases, if the overdue amount exceeds the insurance coverage, the remaining overdue amount will be repaid by the third-party guarantee companies engaged by us.

Despite our efforts to reduce regulatory risks, we cannot assure you that relevant regulatory authorities would not interpret or view the quality assurance commitments we provided to our institutional funding partners as an operation of financing guarantee business without approval. If relevant government authorities take the view that the quality assurance commitments we provided to our institutional funding partners is a provision of financing guarantee business without approval, we would be subject to fines and/or other administrative penalties mentioned above. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Consumer Finance Services.” As a result, our liquidity, business, financial condition and results of operations will be materially and adversely affected. If we do not provide quality assurance commitments to our institutional funding partners due to regulatory restrictions, we may not be able to maintain our institutional funding partner base and our cooperation with third-party guarantee companies, and our liquidity, business, financial condition and results of operations will be materially and adversely affected.

We have incorporated three financing guarantee subsidiaries, Fujian Zhiyun Financing Guarantee Company, or Fujian Zhiyun, Zhiyun (Tianjin) Financing Guarantee Company, or Tianjin Zhiyun, and Hainan Shenxin Financing Guarantee Company, or Hainan Shenxin, in 2019 and 2020. In some cases, one of our own financing guarantee subsidiaries provides financing guarantee services directly to our institutional funding partners for the loans funded by them. Under the Financing Guarantee Regulations, the maximum amount of outstanding guarantee liabilities of a financing guarantee company may not exceed ten times of its net assets. As of March 31, 2023, the net assets of Fujian Zhiyun, Tianjin Zhiyun and Hainan Shenxin were RMB1.4 billion (US\$203.0 million), RMB778.2 million (US\$112.8 million) and RMB260.9 million (US\$37.8 million), respectively. It is obvious that the maximum amount of outstanding guarantee liabilities that can be provided by our own guarantee companies cannot meet the needs of all of our institutional funding partners. We will have to continue to engage properly licensed third-party guarantee companies to provide quality assurance commitments to our institutional funding partners. As a result, the above regulatory risks still exist.

On December 31, 2021, the PBOC published the Regulations on the Local Financial Supervision and Administration (Draft for Comments), or the Draft Local Financial Regulation, which stipulates that, among others, (i) the local financial organizations should primarily serve their local clients; (ii) the guidance for local financial organizations to carry out business outside provinces where they are registered should be made by the State Council or financial regulatory authorities designated by the State Council; (iii) six types of financial organizations, including financing guarantee companies and micro-lending companies, are deemed as local financial organizations; (iv) transition period will be given to the organizations carrying out business outside provinces before the effectiveness of the draft by the relevant financial regulatory authorities; and (v) organization carrying out business outside provinces without approval of the competent provincial regulatory authorities may be subject to penalties, including correction orders, confiscation of illegal gains or fines, cessation of business operations, and revocation of business license. Currently both the third-party guarantee companies engaged by us and our own guarantee companies provide services to the borrowers nationwide. As uncertainties remain regarding when the Draft Local Financial Regulation would be adopted and become effective, and to what extent we would be subject to the Draft Local Financial Regulation, we cannot assure you that we will be able to comply with such regulations in all respects in a timely manner, or at all, and we may be ordered to rectify or terminate any actions that are deemed illegal by regulatory authorities.

As of the date of this annual report, we have not been subject to any administrative penalties due to cooperating with our institutional funding partners.

***We collaborate with third-party trust management companies to set up trusts with other investors to provide loans through these trusts to borrowers introduced by us. We may be deemed to be an illegal financial institution under such trust arrangement, which may materially and adversely affect our business and financial condition.***

We collaborate with third-party trust management companies to set up trusts with other investors to provide loans to borrowers introduced by us. In some cases, we invest in subordinate tranches and other investors invest in senior tranches. The Measures for Banning of Illegal Financial Institutions and Illegal Financial Business Operations, or the Measures for Illegal Financial Institutions, promulgated by the State Council on July 13, 1998, provides that the establishment of financial institution and the operation of financial business should be subject to the approval of the People's Bank of China, or the PBOC. Pursuant to the Measures for Illegal Financial Institutions, providing loans without the approval of PBOC is deemed as illegal financial business operation and the entity providing loans without the approval of PBOC is deemed as an illegal financial institution. The online consumer finance industry is new and developing rapidly, and the regulatory environment has evolved since the promulgation of the Measures for Illegal Financial Institutions. There are uncertainties as to the interpretation of the Measures for Illegal Financial Institutions as well as whether such laws and regulations are applicable to us or our business. Although the trust management companies that administrate the trusts have been licensed and approved by the financial regulatory authorities to provide loans and we believe that the trust management companies are the lenders of the loans, we cannot assure you that the financial regulatory authorities will hold the same view as ours. Our investments in the trusts may be deemed to be providing loans to the borrowers and we may be deemed to be a lender under this trust arrangement. As a result of such trust arrangement, we may be deemed to be an illegal financial institution or operating illegal financial business, which may subject us to penalties, including confiscation of illegal gains together with a fine from one time to five times of the illegal gains, or a fine of RMB100,000 to RMB500,000 if there are no illegal gains, and criminal liability if the violation constitutes a criminal offense.

In addition, the Supreme People's Court, the Supreme Peoples' Procuratorate, the Ministry of Public Security, or the MPS, and the Ministry of Justice jointly issued the Guidance on Several Issues for Illegal Lending Regarding Criminal Case, or the Guidance on Illegal Lending, on July 23, 2019, which provides, among others, that (i) if any entity or individual is engaged in providing loans to the unspecified public individuals consistently for the purpose of profits and without the approval from the regulatory authorities or outside its business scope, which disturbs the stability of financial markets, such entity or individual may face a criminal charge of unfair competition and may be imposed criminal liability in accordance with the applicable laws and regulations; "providing loans to the unspecified public individuals consistently" refers to providing loans to entities and individuals no less than ten times within two years; and (ii) if the actual annual interest rate of the loans provided by such entity or individual exceeds 36%, it would be deemed as an aggravated circumstance when such entity or individual face the abovementioned criminal charge of unfair competition. There are uncertainties as to the interpretation of the Guidance on Illegal Lending, and it is still unclear how the regulatory authorities will interpret and implement it in the future. We cannot rule out the possibility that regulatory authorities may deem our operation activities under the trust arrangements as unfair competition and impose criminal liability on us. If that happens, our business, results of operations and financial condition would be materially and adversely affected.

***If we are unable to retain existing borrowers or institutional funding partners or attract new borrowers or institutional funding partners, or if we are unable to maintain or increase the volume of loans facilitated through our platform, our business and results of operations will be adversely affected.***

The loan origination volume on our platform was RMB65.1 billion in 2020, RMB137.4 billion in 2021 and RMB175.4 billion (US\$25.4 billion) in 2022. To maintain the growth momentum of our platform, we must continuously increase the volume of loans by retaining current participants and attracting more users whose financing needs can be met on our platform. If there are insufficient qualified loan requests, institutional funding partners may not be able to deploy their capital or their investors' capital in a timely or efficient manner and may seek other investment opportunities. If there are insufficient funding commitments, borrowers may not be able to obtain capital through our platform and may turn to other sources for their borrowing needs. If we are unable to attract qualified borrowers and sufficient funding commitments or if borrowers and institutional funding partners do not continue to participate in our platform at the current rates due to any change we may be required to make to the way we conduct our business to ensure compliance with existing or new PRC laws and regulations or due to other business or regulatory reasons, we might not be able to increase our loan transaction volume and revenues as we expect, and our business and results of operations may be adversely affected. Normally the borrowers find us by downloading our mobile applications from application stores or through Weixin official account. In response to the general regulatory environment, the operators of application stores or mobile application distributing channels may adjust their application exhibition policies or even remove our mobile applications from their application stores or distribution channels, which may materially and adversely affect our ability to engage new borrowers.

We had ceased facilitating new loans with funding from the individual investors on our platform since October 2019 and improved our business model through acquisition of better quality borrowers and transition of our funding sources from individual investors to institutional funding partners. Currently, our institutional funding partners primarily include commercial banks, private banks, consumer finance companies, micro-loan companies and trust management companies. Historically, a small portion of the loans on our platform were funded by some third-party online lending information intermediaries. Considering the regulatory uncertainties faced by third-party online lending information intermediaries, we have ceased facilitating new loans for third-party online lending information intermediaries since November 2019. If we are unable to retain our existing institutional funding partners or attract new institutional funding partners, or if regulatory authorities promulgated new laws and regulations to regulate, limit, or even prohibit our collaboration with the institutional funding partners, our business, results of operations and financial condition will be adversely affected. As of December 31, 2022, we had cumulatively cooperated with 75 institutional funding partners in China. The loans funded by the institutional funding partners typically have fixed terms from three to twelve months.

Our success is dependent upon our ability to maintain and expand our cooperation with institutional funding partners on reasonable commercial terms. If the governmental authorities further tighten the regulations on the online consumer finance industry, our institutional funding partners would become more selective in choosing partners for referring borrowers and facilitating loans for them. The competition we face would become even more intensely. Our cooperation with institutional funding partners is not on an exclusive basis. If we fail to continuously meet their requirements or needs, our financial institution partners may stop cooperating with us and turn to our competitors, which may also materially and adversely affect our business, financial condition and results of operations.

***If our existing and new products and services do not achieve sufficient market acceptance, our financial results and competitive position will be harmed.***

We have devoted significant resources to, and will continue to emphasize on, upgrading and marketing our existing products and services and enhancing their market awareness. We also incur expenses and expend resources upfront to develop, acquire and market new products and services that incorporate additional features, improve functionality or otherwise make our platform more desirable to borrowers and institutional funding partners. New products 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 and new products and services could fail to attain sufficient market acceptance for many reasons, including:

- borrowers may not find terms of our products, such as costs and credit limit, competitive or appealing;
- our failure to predict market demand accurately and provide products and services that meet this demand in a timely fashion;
- borrowers and institutional funding partners using our platform may not like, find useful or agree with, any changes;
- defects, errors or failures on our platform;
- negative publicity about our loan products or our platform's performance or effectiveness;
- views taken by regulatory authorities that the new products, services or platform changes do not comply with PRC laws, regulations or rules applicable to us; and
- the introduction or anticipated introduction of competing products by our competitors.

If our existing and new products and services do not achieve adequate acceptance in the market, our competitive position, results of operations and financial condition could be harmed.

***Our international expansion may expose us to additional risks.***

Our business currently primarily focuses on the PRC market. We are currently also expanding our business in the overseas market. In December 2018 and June 2019, we established two subsidiaries in the Philippines, and one of them is authorized to operate as a lending company and the other is authorized to operate as a financing company. In December 2019, we established a subsidiary in Indonesia, which has received a license for Technology and Information Based Financial Lending Institution (peer-to-peer lending license) from the Financial Services Authority of Indonesia. There can be no assurance that our international expansion will be successful, as there are inherent risks and challenges in operating overseas businesses, including:

- business licensing or certification requirements of the local markets;
- the need for increased resources to manage regulatory compliance across our overseas businesses;
- challenges of localizing our services and products to meet the local needs;
- failure to effectively or efficiently locate and cooperate with local business partners;
- failure to attract and retain capable talent with international perspectives who can effectively manage and operate local businesses;
- exchange rate fluctuations; and
- geopolitical tensions.

Our overseas business operations are also subject to increasing regulatory scrutiny, in particular the areas of data privacy protection, interest rate cap and collection practices, which might adversely affect our business operations. While we strive to comply with all applicable laws and regulations and work closely with the regulatory authorities in the regions that we operate, we have limited experience in these markets and differences in interpretation of relevant laws, regulations, and/or policies. As a result, we may incur substantial compliance costs attributed to compliance costs, such as investigation, cessation of operation and administrative measures and penalties.

Our outstanding loan balance in the overseas markets increased from RMB187 million as of December 31, 2020 to RMB330.0 million as of December 31, 2021 and further to RMB800.4 million (US\$116.0 million) as of December 31, 2022. In 2020, 2021 and 2022, revenue generated from the overseas market were RMB269.9 million, RMB826.4 million and RMB1,149.7 million (US\$166.7 million), representing 3.6%, 8.7% and 10.3% of net revenues for the respective years. Our current or future international expansion may expose us to additional risks, including general economic and political conditions internationally and the changes of global macroeconomic environment. In addition, we will face complex local regulatory environment that we are not familiar with. As a result, we may incur substantial compliance costs to carry out our business operations in the overseas market and still be subject to potential litigations, regulatory proceedings, penalties or incur other costs. As we have very limited experience in operating our business in the overseas market, our products may not be accepted by users in the overseas market, we may be unable to attract a sufficient number of users, fail to anticipate competitive conditions or face difficulties in operating effectively in the overseas market. In addition, trade barriers, such as import and export restrictions, customs duties and other taxes, competition law regimes and other trade restrictions, as well as other risks such as political instability may also expose us to additional risks and uncertainties if we expand our business in the overseas market.

***Interest rates of certain of our loan products exceed the statutory interest rate limit and therefore part of the interests is not enforceable through the PRC judicial system.***

The all-in borrowing cost, including the interest rate and the total expense paid by the borrower for the borrowing, is highly regulated by the Supreme People's Court and different regulatory authorities. According to the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court on August 6, 2015, or the Private Lending Judicial Interpretations, in the context of lending activities between individuals, entities or other organizations that are not licensed financial institutions, (i) if the interest rate of a loan exceeds 36% per annum, the exceeding part of the interest rate is invalid and void, and (ii) if the interest rate of a loan exceeds 24% per annum but is no more than 36% per annum, the exceeding part will be treated as natural obligation—valid but not enforceable in the PRC judicial system, while the enforceability of the 24% per annum part will not be affected.

On August 4, 2017, the Supreme People's Court promulgated the Circular of Several Suggestions on Further Strengthening the Judicial Practice Regarding Financial Cases, which provides, among others, that the claim of a borrower under a financial loan agreement to adjust or cut down the part of interest exceeding 24% per annum on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees collectively claimed by the lender is overly high should be supported by the PRC courts. For loans facilitated at annual rate between 24% and 36% historically or in the future, if any of such loans become delinquent, we will not be able to enforce part of the interest that exceed 24% through PRC judicial system. As a result, our institutional funding partners may suffer losses, which would damage our reputation and harm our business. Were these to happen, our reputation, results of operations and financial condition would be adversely affected.

According to the Notice on Regulating and Rectifying “Cash Loan” Business, or Circular 141, promulgated by the Internet Finance Rectification Office and the Online Lending Rectification Office in December 2017, in the context of “cash loan” business operated by various types of institutions, the aggregated borrowing costs of borrower charged in forms of interests and all kinds of fees should be annualized and subject to the upper limit on interest rate of private lending set forth in the judicial interpretations issued by the Supreme People's Court. When Circular 141 was promulgated, the then effective upper limit on interest rate of private lending was 24% per annum as judicially protected by the court, while the range of 24% to 36% per annum was deemed as natural obligation and the exceeding part of 36% per annum was deemed as illegal.

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On August 20, 2020, the Supreme People's Court issued the Decision on Amending the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases, which is further amended by the Supreme People's Court on December 29, 2020, or the Private Lending Judicial Interpretation Amendment, which amended the upper limit of private lending interest rates under judicial protection. According to the Private Lending Judicial Interpretation Amendment, the upper limit of interest rate for one-year private loan would be capped at four times that of the loan prime rate at the time of the establishment of the agreement, or the Quadruple LPR Limit. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Consumer Finance Services—Regulations on lending activities" for more details. The aforementioned one-year loan prime rate refers to the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center on the 20<sup>th</sup> of each month starting from August 20, 2019, and as of the date of this annual report, the most recent one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center was 3.65%. We cannot assure you that the one-year loan market quoted interest rate and the Quadruple LPR Limit will not decrease further in the future.

According to the Private Lending Judicial Interpretation Amendment, (i) in terms of lending activities between individuals, entities or other organizations that are not licensed financial institutions, if the interest rate of a loan exceeds the Quadruple LPR Limit, the exceeding part will not be supported and enforceable in the PRC judicial system; and (ii) the Quadruple LPR Limit does not apply to the disputes arising out of loans funded by financial institutions or its branches which are licensed by financial regulatory authorities.

On January 21, 2021, the Response Letter to the Guangdong High People's Court Relating to the Inquiry on the Scope of Application of the Private Lending Judicial Interpretation Amendment issued by the Supreme People's Court, or the Supreme Court's Response Letter, further clarifies that seven types of financial organizations, including micro-loan lending companies and financing guarantee companies, are deemed as financial institutions licensed by the financial administrative authorities, and any disputes arising out of their financial business activities should not apply to the Private Lending Judicial Interpretation Amendment. However, as the regulatory authorities have wide discretion in administration, interpretation and enforcement of the laws and regulations, we cannot rule out the possibility that the regulatory authorities may hold different opinions on whether Quadruple LPR Limit applies to the loans funded by financial institutions on our platform. In that case, for loans facilitated at or above the Quadruple LPR limit become delinquent, we may not be able to collect parts of the interest that exceed the Quadruple LPR limit through the PRC judicial enforcement. As a result, our institutional funding partners may suffer losses, which would damage our reputation, results of operations and financial condition. According to the Supreme Court's Response Letter, we believe that the Quadruple LPR Limit stipulated in the Private Lending Judicial Interpretation Amendment does not apply to the financial institutions. However, we cannot assure you that the regulatory authorities share the same view as ours. Currently, substantially all of our institutional funding partners that we cooperate with for funding new loans origination on our platform are financial institutions licensed by financial regulatory authorities.

On March 31, 2021, the PBOC released its No. 3 announcement in 2021, or the PBOC No. 3 Announcement, which stipulates, among others, that the annual interest rate of a loan should be the annualized form of ratio calculated based on the percentage of all expenses charged from the borrower for the borrowing to the principal actually borrowed by this borrower. The expenses charged from the borrower include the interests and the various expenses directly related to the borrowing. If the loan is repaid in installments, the remaining principal after the deduction of the total repaid principal should be deemed as the actual borrowed principal when calculating the annual interest rate. Compound interest rate and simple interest rate are both allowed to be used to calculate the annual interest rate, provided that if simple interest rate is used, it should be explicitly disclosed to the borrower. The PBOC No. 3 Announcement applies to deposit-taking financial institutions, consumer finance companies, micro-loan lending company, and internet platforms providing loan application services like us. It is our view that the implementation of PBOC No. 3 Announcement is not retrospective.

We have certain loans facilitated on our platform with an interest rate over 24% per annum. Before the promulgation of PBOC No. 3 Announcement, no rules or regulations explicitly defined the calculation method for the maximum interest rates permitted by the relevant laws. Upon the promulgation of No. 3 Announcement, we have changed our calculation method for the interest rate to the annual all-in borrowing cost as a percentage of the outstanding principal after deducting all installments that have been repaid. We have also explicitly disclosed the calculation method for the interest rate of the loans on our platform to our borrowers. As of December 31, 2022, the outstanding balance of loans facilitated on our platform in China with an interest rate over 24% was RMB8.9 billion (US\$1.3 billion), representing 13.9% of the outstanding loan balance as of the same date. These loans had the terms ranging from one month to 24 months. In the event that any of such loans become delinquent, we may not be able to collect the portion of interests that exceed 24% per annum through PRC judicial enforcement. Furthermore, the portion of interest rate that exceeds 24% per annum may be determined to be invalid by the regulatory authorities, and we may have to adjust the interest rate accordingly, which may adversely and materially affect our results of operations and financial condition. Were these to happen, our reputation, results of operations and financial condition would be adversely affected. It is our belief that our calculation for the interest rate is in line with the requirements in the PBOC No. 3 Announcement. However, we cannot assure you that our historical or current calculation method for the interest rate would be deemed to be in full compliance with the PBOC No. 3 Announcement. As the PBOC No. 3 Announcement is relatively new, there still exists great uncertainties with respect to its interpretation and application. We will maintain communication with the relevant authorities and closely monitor its enforcement.

***Our introduction of new products and services may expose us to new challenges and more risks.***

We have invested, and intend to continue to invest, significantly in product development. We require our third-party business partners, including but not limited to, institutional funding partners, payment companies, and data partners, to fully comply with all applicable laws and regulations, and the third-party online consumer finance partners should be fully responsible for any of their misconducts. However, as we have very limited control over those third-party business partners, we cannot ensure their operations will be in full compliance with all applicable laws and regulations. If those third-party business partners do not comply with any applicable laws and regulations and the borrowers are dissatisfied with their products displayed on our platform, our reputation and operation results could be adversely affected.

***We operate in a market where the credit infrastructure is still at an early stage of development.***

China's credit infrastructure is still at an early stage of development. The Credit Reference Center established by 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, foreclosure and bankruptcy. Currently, this credit database is accessible to banks and market players authorized by the Credit Reference Center. 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. Although some of our licensed subsidiaries, such as our micro-loan company and financial guarantee companies, have been approved by the Credit Reference Center to check or report the borrower's credit status, the cooperation is still at an early stage. The volume of loans for which we check or report borrower financial status from or to the Credit Reference Center through our licensed subsidiaries is relatively small compared with the loan origination volume on our platform. In most cases, our institutional funding partners decide at their own discretion if to check any borrower's credit status at the Credit Reference Center as they conduct credit assessment independently. In general, the borrowers on our platform give general authorization to the institutional funding partners to check the borrowers' credit status from and report the borrowers' defaults to the Credit Reference Center. We have started data sharing with a credit reference agency licensed by the PBOC to provide individual credit reference service. However, the licensed credit reference agencies in China are newly established companies. Whether it can efficiently aggregate data from all different types of online databases with accuracy remains to be proven.

***We are subject to credit cycle and the risk of deterioration of credit profiles of borrowers.***

Our business is subject to credit cycle associated with the volatility of general economy. If economic conditions deteriorate, we may face increased risk of default or delinquency of borrowers, which will result in lower returns or losses. In the event that the creditworthiness of our borrowers deteriorates or we cannot track the deterioration of their creditworthiness, the criteria we use for the analysis of borrower credit profiles may be rendered inaccurate, and our risk management system may be subsequently rendered ineffective. This in turn may lead to higher default rates and adverse impacts on our reputation, business, results of operations and financial positions. We cooperate with institutional funding partners through both capital heavy model and capital light model. Under the capital heavy model, we provide credit enhancement services to institutional funding partners through third-party guarantee companies or our financing guarantee subsidiaries. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Regulatory restrictions on institutional funding partners' acceptance of credit enhancement may adversely affect our business and access to funding." As our financing guarantee subsidiaries provide guarantee for certain amount of loans funded by institutional funding partners and the amount of payments payable by us to third-party guarantee companies depends on the amount of default loans, we are subject to credit risks for those loans funded by our institutional funding partners to our borrowers. If we are unable to accurately assess the creditworthiness of the borrowers on our platform or if we fail to accurately anticipate and manage the delinquency rates of the loans funded by our institutional funding partners, we will not be able to maintain our credit risk exposure within acceptable parameters. If we are unable to effectively collect these delinquent loans, our liquidity, business operations, financial condition and results of operations would be materially and adversely affected.

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

Our ability to attract borrowers and institutional funding partners to, and build trust in, our platform is significantly dependent on our ability to effectively evaluate borrowers' credit profiles and likelihood of default. To conduct this evaluation, we utilize our proprietary credit assessment model, or the Magic Mirror Model, which is built based on data from multiple sources, including credit reference agency, and strengthened by our sophisticated artificial intelligence and advanced machine learning techniques. The Magic Mirror Model categorizes borrowers into different credit ratings according to their risk profiles, based on which our risk pricing system assigns them appropriate interest rates, credit limits and loan durations. However, the Magic Mirror Model may not effectively predict future loan losses. Subject to credit assessment result for each loan application, a borrower is allowed to take out multiple loans at a time on our platform if his or her existing loans are not in default and the total outstanding balance is within the approved credit limit for the type of loan the borrower applies for. Credit limits are set by loan products, and thus a borrower may have a credit limit for each type of loans on our platform. A borrower's credit limit for a particular type of loan is determined considering a range of factors, including (i) the borrower's credit level based on his or her Magic Mirror score—borrowers with better Magic Mirror credit scores are generally given higher credit limits, (ii) the borrower's credit needs, such as the type of loans being applied for, (iii) the borrower's credit limits and credit performance for other types of loans on our platform, and (iv) overall investment demand from investors. A new Magic Mirror credit score is generated each time a borrower applies for a loan, which may change the borrower's credit limit for that type of loan. As such, it is possible that borrowers may take out new loans on our platform to pay off their other existing loans facilitated by us or for other purposes. Given the practical difficulty in tracking and controlling the usage of borrowed funds, we are not able to effectively prevent borrowers from "rolling over" their loans on our platform. Although the Magic Mirror Model looks less favorably upon borrowers who have high credit line utilization ratios, it may not be able to timely and accurately adjust down the credit rating assigned to a borrower if such borrower masks his or her deteriorating creditworthiness by refinancing existing loans with new loans on our platform. If we are unable to effectively classify borrowers into the relative risk categories, we may be unable to offer attractive interest rates for borrowers and returns for investors and effectively manage the default risks of loans facilitated through our platform. We continuously refine the algorithms, data processing and machine learning used by the Magic Mirror Model, but if any of these decision-making and scoring systems contain programming or other errors, are ineffective or the data provided by borrowers or third parties are incorrect or stale, our loan pricing and approval process could be negatively affected, resulting in mispriced or misclassified loans or incorrect approvals or denials of loans.

For loans funded by our institutional funding partners, the institutional funding partners will review borrowers' applications and may rely on our preliminary credit assessment we provide to them and then decide if to provide loans to such borrower as well as the credit limit after their independent credit review. If any data provided by borrowers or third parties are incorrect or stale or our preliminary credit assessment service is not effective, our cooperation with institutional funding partners could be negatively affected. In addition, we bear credit risks for a substantial majority of the loans funded by institutional funding partners to borrowers introduced by us. If our ability to provide preliminary credit assessment is not as effective or efficient as expected, our liquidity, financial conditions and results of operations may be materially and adversely affected.

In addition, if a borrower's financial condition deteriorates after his or her loan application is approved, we may not be able to take measures to prevent such borrower's default and thereby maintain a reasonably low default rate for loans facilitated through our platform.



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

For the purpose of credit assessment, we obtain from prospective borrowers and third parties certain information of the prospective borrowers, which may not be complete, accurate or reliable. A credit score assigned to a borrower may not reflect that particular borrower’s actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate borrower information. Additionally, once we have obtained a borrower’s information, the borrower may subsequently (i) become delinquent in the payment of an outstanding obligation; (ii) default on a pre-existing debt obligation; (iii) take on additional debt; or (iv) sustain other adverse financial events, making the information we have previously obtained inaccurate. To better assess borrowers creditworthiness, we joined the credit and information sharing system set up by the National Internet Finance Association of China. A participant of this sharing system can obtain a borrower’s credit information shared by other participants. However, this sharing system is still at the primary stage of development and there are a limited number of participants and limited amount information in this sharing system. We have started data sharing with a credit reference agency licensed by the PBOC to provide individual credit reference service. However, the licensed credit reference agencies in China are newly established companies. It remains unclear as to whether the credit reference agency we cooperate with can efficiently and accurately aggregate data from all different types of online databases. As a result, we cannot determine whether borrowers have outstanding loans through other consumer finance marketplaces not participating in this sharing system at the time they obtain a loan from us. This creates the risk that a borrower may borrow money through our platform in order to pay off loans on other consumer finance marketplaces and vice versa. If a borrower incurs additional debt before fully repaying any loan such borrower takes out on our platform, the additional debt may impair the ability of that borrower to make payments on his or her loan and the investor’s ability to receive investment returns associated with such loan. In addition, the additional debt may adversely affect the borrower’s creditworthiness generally, and could result in the financial distress or insolvency of the borrower. To the extent that a borrower has or incurs other indebtedness and cannot repay all of his or her indebtedness, the obligations under the loans will rank *pari passu* to each other and the borrower may choose to make payments to other creditors rather than to investors on our platform. Furthermore, the Circular 141 provided, among others, that funds from banks cannot be used for “campus loan” business. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Consumer Finance Services—Regulations on lending activities.” We have adopted several measures to identify college students and try to prevent them borrowing money from our platform. However, we cannot assure that those measures are able to identify all college students on our platform.

Such inaccurate or incomplete borrower information could compromise the accuracy of our credit assessment and adversely affect the effectiveness of our risk management, which could in turn harm our reputation, and as a result our business and results of operations could be materially and adversely affected.

***Loss of or failure to maintain relationship with our strategic partners may materially and adversely affect our business and results of operations.***

We currently rely on a number of strategic partners in various aspects of our business. For example, in terms of user acquisition, we acquire a significant portion of our borrowers through a limited number of online channels from a limited number of our strategic partners. We rely on certain data partners to collect credit information of borrowers for credit scoring and fraud detections. We anticipate that we will continue to leverage strategic relationships with existing strategic partners to grow our business while pursuing new relationships with additional strategic partners.

Pursuing, establishing and maintaining relationships with strategic partners require significant time and resources as does integrating third-party data and services with our system. Our current agreements with partners generally do not prohibit them from working with our competitors or from offering competing services. Our competitors may be more effective in providing incentives to our partners to favor their products or services, which may in turn reduce the volume of loans facilitated through our platform. Certain types of partners may devote more resources to support their own competing businesses. In addition, these partners may not perform as expected under our agreements with them, and we may have disagreements or disputes with them, which could adversely affect our brand and reputation. If we cannot successfully enter into and maintain effective strategic relationships with strategic partners, our business will be harmed.

In addition, if any of our partners fails to perform properly, we cannot assure you that we will be able to find an alternative in a timely and cost-efficient manner or at all. Any of these occurrences could result in our diminished ability to operate our business, potential liability to borrowers and institutional funding partners, inability to attract borrowers and institutional funding partners, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

***We have obligations to verify information relating to borrowers and detecting fraud. If we fail to perform such obligations to meet the requirements of relevant laws and regulations, we may be subject to liabilities.***

Our business of connecting institutional funding partners and borrowers constitutes an intermediary service, and our contracts with institutional funding partners and borrowers are intermediation contracts under the Civil Code of the PRC, an intermediary that intentionally conceals any material information or provides false information in connection with the conclusion of an intermediation contract, which results in harm to the client's interests may not claim for any service fee for its intermediary services, and is liable for any damage incurred by the client.

We refer borrowers to our institutional funding partners. The institutional funding partners will review the borrower's application and our preliminary credit assessment, and then decide if to provide loans to such borrower as well as the credit limit after their independent credit review. Our agreements with these institutional funding partners and borrowers may be deemed as intermediary contracts under the Civil Code of the PRC. Therefore, if we fail to provide material information to institutional funding partners and are found to be at fault, for failure or deemed failure to exercise proper care, to conduct adequate information verification or supervision, we could be subject to liabilities as an intermediary under the Civil Code of the PRC. We leverage a large database of past fraud accounts information and sophisticated rule-based detection technology in detecting fraudulent behaviors. Based on new data collected and fraudulent behaviors detected during our daily business operations, we update our database on an as-needed basis. As the laws, regulations, rules and governmental policies governing the online consumer finance industry are relatively new, it is still unclear to what extent online consumer finance platform should exercise care in detecting fraud. Although we believe that as an information intermediary, we should not bear the credit risk for institutional funding partners as long as we take reasonable measures to detect fraudulent behaviors, we cannot assure you that we would not be subject to any liabilities under the current laws, regulations, rules and governmental policies governing the online consumer finance industry if we fail to detect any fraudulent behavior. If that were to occur, our results of operations and financial condition could be materially and adversely affected.

***We may be deemed to use our own fund to finance certain loans and therefore subject us to regulatory risks.***

The Interim Measures prohibits online finance information intermediaries from investing in loans using their own funds unless otherwise stipulated by laws and regulations. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Consumer Finance Services—Regulations on online lending information intermediaries."

In addition, pursuant to the Measures for Illegal Financial Institutions, providing loans without the PBOC's permission is deemed to be an illegal operation of financial business and the entity providing loans without the PBOC's permission is deemed to be an illegal financial institution. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Consumer Finance Services—Regulations on illegal financial institutions and intermediaries." In connection with our quality assurance commitments provided through third-party financing guarantee companies, we purchase creditors' rights from third-party financing guarantee companies after these financing guarantee company repay the full overdue amounts to our institutional funding partners. After such purchase of creditors' rights, the borrowers will continue to repay the remaining installments of principal and interest to us. We cannot rule out the possibility that relevant regulatory authorities may take the view that our such business practice constitutes an illegal operation of financial business without the PBOC's permission and we may be deemed to be an illegal financial institution. If we were to find to violate the Measures for Illegal Financial Institutions, we would be subject to fines, penalties or other liabilities, which could materially and adversely affect our business, financial condition and prospects.

***Our failure to compete effectively could adversely affect our results of operations and market share.***

The online consumer finance industry in China is competitive and evolving. We compete with financial products and companies that attract borrowers, investors, and institutional funding partners. We primarily compete with leading online consumer finance companies in China. In addition, with respect to borrowers, we also compete with traditional financial institutions, such as consumer finance business units in commercial banks, credit card issuers and other consumer finance companies; with respect to institutional funding partners, our product offerings also compete with other products and asset classes, such as equities, bonds, investment trust products, bank savings accounts, real estate and alternative asset classes.

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Our competitors operate with different business models, have different cost structures or participate selectively in different market segments. They may ultimately prove more successful or more adaptable to new regulatory, technological and other developments. Some of our current and potential competitors have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their platforms. Our competitors may also have more extensive borrower or funding sources, greater brand recognition and brand loyalty and broader partner relationships than us. Additionally, a current or potential competitor may acquire one or more of our existing competitors or form a strategic alliance with one or more of our competitors. Any of the foregoing could adversely affect our business, results of operations, financial condition and future growth.

In addition, our competitors may be better at developing new products, responding faster to new technologies and undertaking more extensive marketing campaigns. When new competitors seek to enter our target market, or when existing market participants seek to increase their market share, they sometimes undercut the pricing and/or terms prevalent in that market, which could adversely affect our market share or ability to exploit new market opportunities. Also, since the online consumer finance industry in China is relatively new and fast evolving, potential institutional funding partners and borrowers may not fully understand how our platform works and may not be able to fully appreciate the additional customer protections and features that we have invested in and adopted on our platform as compared to others. Our pricing and terms could deteriorate if we fail to act to meet these competitive challenges. Furthermore, to the extent that our competitors are able to offer more attractive terms to our cooperation partners, such cooperation partners may choose to terminate their relationships with us. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our platform could stagnate or substantially decline, we could experience reduced revenues or our platform could fail to achieve or maintain more widespread market acceptance, any of which could harm our business and results of operations.

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

We believe that developing and maintaining awareness of our brand effectively is critical to attracting new and retaining existing borrowers and institutional funding partners to our platform. This depends largely on the effectiveness of our marketing efforts and the success of the channels we use to promote our platform. If any of our current marketing channels become less effective, if we are unable to continue to use any of these channels, if the cost of using these channels were to significantly increase or if we are not successful in generating new channels, we may not be able to attract new borrowers and institutional funding partners in a cost-effective manner or convert potential borrowers and institutional funding partners into active borrowers and institutional funding partners on our platform.

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

***Any negative publicity with respect to us, the online consumer finance industry in general and our third party partners may materially and adversely affect our business and results of operations.***

Reputation of our brand is critical to our business and competitiveness. Factors that are vital to our reputation include but are not limited to our ability to:

- maintain the quality and reliability of our platform;
- provide borrowers and institutional funding partners with a superior experience on our platform;

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- enhance and improve our credit assessment and risk-pricing models;
- effectively manage and resolve borrower and institutional funding partner complaints; and
- effectively protect personal information and privacy of borrowers and institutional funding partners.

Any malicious or negative allegation 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 compromise our reputation and harm our business and operating results.

As the online consumer finance industry is a new industry in China and the regulatory framework for this industry is also evolving, negative publicity about this industry may arise from time to time. Negative publicity about China's online consumer finance industry in general may also have a negative impact on our reputation, regardless of whether we have engaged in any inappropriate activities. The PRC government has instituted specific rules, including the Interim Measures, Circular 141, the Interim Measures for Banks and its supplement, to develop a more transparent regulatory environment for the online consumer finance industry. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Consumer Finance Services." Any players in China's online consumer finance industry who are not in compliance with these regulations may adversely impact the reputation of the industry as a whole. Furthermore, any negative development in, or negative perception of, the online consumer finance industry as a whole, 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 borrowers and institutional funding partners. Negative developments in the online consumer finance industry, such as widespread borrower defaults, aggressive practices or misconduct in loan collection, fraudulent behavior and/or the closure of other online consumer finance platforms, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business activities that may be conducted by online consumer finance platforms like us.

In addition, negative publicity about our partners, outsourced service providers or other counterparties, such as negative publicity about their loan collection practices and any failure by them to adequately protect the information of our borrowers, to comply with applicable laws and regulations or to otherwise meet required quality and service standards could harm our reputation. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

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

We are subject to the risk of fraudulent activity both on our platform and associated with borrowers, institutional funding partners and other third parties handling borrower information. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. Significant increases in fraudulent activity could negatively impact our brand and reputation, result in losses suffered by the investors, reduce the volume of loans facilitated through our platform and lead us to take additional steps to reduce fraud risk, which could increase our costs and expenses. 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. If any of the foregoing were to occur, our results of operations and financial condition could be materially and adversely affected.

***Our current level of fee rates may decline in the future. Any material reduction in our fee rates could reduce our profitability.***

We earn a substantial majority of our revenues from the service fees that we collect from the third-party guarantee companies or our institutional funding partners on the loans facilitated through our online marketplace and the fees that we charge from the borrowers as the guarantee fees. The fee rates may vary from different business models and third-party guarantee companies or institutional funding partners. Any material reduction in our fee rates could have a material adverse effect on our business, results of operations and financial condition.

***Fluctuations in interest rates could negatively affect transaction volume facilitated through our platform.***

All loans facilitated through our platform are issued with fixed interest rates. We determine the interest rates of the loans on our platform primarily based on the market conditions and the general interest rate environment rather than by referencing to a specific benchmark rate. The fluctuation of interest rates may affect the demand for loan services on our platform. For example, a decrease in interest rates may cause potential borrowers to seek lower-priced loans from other channels. A high interest rate environment will likely increase the funding costs for our institutional funding partners, which may lead to a higher rate of return required by such institutional funding partners and thereby dampen their desire to fund borrowers on our platform. If we fail to respond to the fluctuations in interest rates in a timely manner and adjust our loan products offering, the potential and existing investors may lose potential interest returns in our platform and products and delay or reduce future loan investments, and the potential and existing borrowers may show less interest in our loan products and marketplace. As a result, fluctuations in the interest rate environment may discourage institutional funding partners and borrowers from participating in our platform, which may adversely affect our business.

***We may not be able to obtain additional capital on favorable terms or at all.***

We need to make continued investments in facilities, hardware, software, technology systems and to retain talents to remain competitive. Due to the unpredictable nature of the capital markets and our industry, we cannot assure you that we will be able to raise additional capital on terms favorable to us, or at all, if and when required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited, which would adversely affect our business, financial condition and results of operations. If we do raise additional funds through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing shareholders.

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

We are exposed to many types of operational risks, including the risk of misconduct and errors by our employees and third-party service providers. Our business depends on our employees and third-party service providers to interact with potential borrowers and institutional funding partners, process large numbers of transactions and support the loan collection process, all of which involve the use and disclosure of personal information. We could be materially adversely affected if transactions were redirected, misappropriated or otherwise improperly executed, if personal information was disclosed to unintended recipients or if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human error, purposeful sabotage or fraudulent manipulation of our operations or systems. In addition, the manner in which we store and use certain personal information and interact with borrowers and institutional funding partners through our platform is governed by various PRC laws. It is not always possible to identify and deter misconduct or errors by employees or third-party service providers, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. If any of our employees or third-party service providers take, convert or misuse funds, documents or data or fail to follow protocol when interacting with borrowers and institutional funding partners, 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 protocol, and therefore be subject to civil or criminal liability. In addition to our own collecting team, we also use certain third-party service providers for loan collection services. Aggressive practices or misconduct by any of our third-party service providers in the course of collecting loans could damage our reputation.

***Any failure to comply with existing or future laws and regulations related to data protection, data security, cybersecurity or personal information protection could lead to liabilities, administrative penalties or other regulatory actions, which could negatively affect our operating results and business.***

The regulatory framework on data collection, using, storage, and processing is relatively new and rapidly evolving, and some of them are ambiguous. In recent years, the PRC governmental authorities have strengthened the regulation of data collection, using, storage, and processing, especially for the personal data from internet websites and mobile applications. As the regulations regarding data protection, data security, cybersecurity and personal information protection are quickly evolving in China and globally, we may become subject to new laws and regulations applying to the solicitation, collection, processing or use of personal information that could affect how we store, process and share data with our borrowers.

For example, in December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision also requires internet operators to take measures to ensure confidentiality of information of users. In July 2013, the Ministry of Industry and Information Technology, or the MIIT, promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users' personal information in the provision of telecommunication service and internet information service in China. In August 2015, the Standing Committee of the National People's Congress promulgated the Ninth Amendment to the Criminal Law, which became effective in November 2015 and amended the standards of crime of infringing citizens' personal information and reinforced the criminal culpability of unlawful collection, transaction, and provision of personal information. It further provides that any internet content provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders will be subject to criminal liability. In November 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law, which requires, among others, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. On September 12, 2022, the CAC issued a draft to amend the Cyber Security Law and proposed to, among others, increase the maximum fines for entities from RMB1 million to RMB50 million or five percent of an entity's previous year's turnover, and from RMB100,000 to RMB1 million for directly responsible individuals for the following violations: (i) severe violations of cybersecurity protection obligations or severe harm to the security of network operation; (ii) failure to protect cyber information security, to take measures to suspend transfer of or delete information that is prohibited from distribution, or to take measures against relatively major security risks or security incidents; and (iii) distribution of transfer of prohibited information. In respect of the use by a critical information infrastructure operator of network products or services that have not been assessed or have failed a security assessment, the critical information infrastructure operator may be subject to a fine of up to ten times the procurement amount or five percent of its previous year's turnover, with a penalty of up to RMB100,000 being imposed on directly responsible individuals. Such draft amendment was released for soliciting public comments only and their final form, interpretation and implementation remain substantially uncertain.

On January 23, 2019, the CAC, the MIIT, the MPS, and the State Administration for Market Regulation, or the SAMR, jointly promulgated the Notice on Rectification of Illegal Collection of Personal Information on Application, or the Notice on Illegal Collection, which requires application operators to strictly comply with the Cyber Security Law of the PRC and strengthens the personal information protection. Application operators should, among others, (i) clearly state the authorized purpose, methods and scope of the collection and usage of personal information, and obtain the consent of users for collecting and processing such users' personal information, and (ii) establish appropriate user information protection systems with remedial measures. To further implement and interpret the Notice on Illegal Collection, the Measures on Identifying Illegality of Personal Information Collection Conducts on Application was promulgated on November 28, 2019.

On May 1, 2021, the Regulations on the Scope of Necessary Personal Information Collected by the Frequently Used Mobile Applications, or the Scope of Necessary Personal Information, jointly promulgated by the CAC, the MIIT, the MPS and the SAMR came into effect, which provides, among others, that: (i) the application operators may not refuse to provide fundamental function services to the users for reason that such users refuse to provide the personal information out of the scope of necessity; (ii) the fundamental function service of online lending applications is to facilitate loans provided to the users online for use of personal consumption and business operation; and (iii) the necessary personal information includes the borrower's mobile phone number, name, bank account, as well as type, number and valid period of its identity card. The different governmental authorities, including the MIIT, have been inspecting various mobile applications on the market on the enforcement of data protection and may continue to do so in the future, even with more stringent scrutiny. In 2021, the MIIT and its local branch decided that our PPDai mobile application, which is operated by Shanghai PPDai, was collecting users' personal information in a non-compliance way. We had taken remedial measures in a timely manner and reported our rectification measures to the relevant governmental authorities. The authorities did not take any further follow-up inquiries or investigations into the identified issues after our adoption of remedial measures. If the authorities identify any new non-compliance issues related to data protection in the future, they may further order us to make additional rectifications, and if our then remedial measures are not satisfactory to them, our PPDai mobile application may be removed from the relevant mobile application store, which may materially and adversely affect our business and operating results.

On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the Data Security Law, which took effect in September 2021. The Data Security Law, among others, provides for a security review procedure for the data activities that may affect national security. Furthermore, the Measures for Cybersecurity Review, which became effective on June 1, 2020, set forth the cybersecurity review mechanism for critical information infrastructure operators, and provided that critical information infrastructure operators who intend to purchase internet products and services that affect or may affect national security shall be subject to a cybersecurity review. On July 30, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people’s livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. On December 14, 2022, the PBOC issued the Regulations on the Supervision and Administration of Financial Infrastructure (Draft for Comment), or the Draft Regulations on Financial Infrastructure, which provides that (i) financial infrastructure refers to registration and custody system, clearing and settlement system, trading facilities, trading report database, critical payment system, and credit reference system of the financial assets, and (ii) financial infrastructure operator refers to the enterprises that are approved according to the laws and regulations to construct, operate, and maintain the financial infrastructure. The Draft Regulations on Financial Infrastructure has been released for public comment only, and its provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. As of the date of this annual report, we have not been informed as a critical information infrastructure operator, nor as a network platform operator processing data that may affect national security by any government authorities. Furthermore, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Therefore, it is uncertain whether we would be deemed as a critical information infrastructure operator under PRC law. If we are deemed as a critical information infrastructure operator under the PRC cybersecurity laws and regulations, we must fulfill certain obligations as required under the PRC cybersecurity laws and regulations, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we have fulfilled in our business, and we may be subject to review when purchasing internet products and services. We also cannot rule out the possibility that some of our customers could be classified as critical information infrastructure operator, in which case our products or services, if deemed related to national security, will be submitted for cybersecurity review before we can enter into agreements with such customers. If the relevant authorities deem that the use of our products and services by our customers that are critical information infrastructure operator involves risks of disruption, is vulnerable to external attacks, or may negatively affect, compromise, or weaken the protection of national security, we may not be able to provide our products or services to such customers. This could have a material adverse effect on our business operation and financial results. On August 20, 2021, the Standing Committee of the National People’s Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. Our mobile apps and websites only collect user personal information that we believe is necessary to provide the corresponding services. We update our privacy policies from time to time to meet the latest regulatory requirements of the CAC and other authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law raises the protection requirements for processing personal information, and many specific requirements of the Personal Information Protection Law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. If the CAC or the relevant governmental authorities deem us as collecting excessive personal information, including the sensitive personal information, that beyond the necessity to provide the corresponding services, we may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations. See “Item 4. Information on the Company—B. Business Overview—Regulations.”

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Data Security Regulations. The Draft Data Security Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Data Security Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) the listing of data processors in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. However, there have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that "affects or may affect national security." See "Item 4. Information on the Company—B. Business Overview—Regulations." As of the date of this annual report, the Draft Data Security Regulations were released for public comment only, and their respective provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. The Draft Data Security Regulations remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States, such as us. We cannot predict the impact of the Draft Data Security Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted versions of the Draft Data Security Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. On January 4, 2022, the CAC, the NDRC, the MIIT, and several other administrations jointly published the amended Measures for Cybersecurity Review, or the Amended Measures for Cybersecurity Review, which became effective on February 15, 2022. The Amended Measures for Cybersecurity Review further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Amended Measures for Cybersecurity Review, (i) when the purchase of network products and services by a critical information infrastructures operator or the data processing activities conducted by a network platform operator affect or may affect national security, a cybersecurity review shall be conducted pursuant to the Review Measures. The operators shall file for a cybersecurity review with Cybersecurity Review Office under the CAC if their behavior affects or may affect national security; (ii) an application for cybersecurity review shall be made by an issuer who is a network platform operator holding personal information of more than one million users before such issuer applies to list its securities on a foreign stock exchange; and (iii) the relevant PRC governmental authorities may initiate cybersecurity review if such governmental authorities determine that the issuer's network products or services, or data processing activities affect or may affect national security. The Amended Measures for Cybersecurity Review was promulgated recently, and there are substantial uncertainties on the interpretation and application of the Amended Measures for Cybersecurity Review. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis. In anticipation of the strengthened implementation of cybersecurity laws and regulations and the continued expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator, or if our data processing activities raise "national security" concern under the Amended Measures for Cybersecurity Review. In such case, if we are not able to comply with the cybersecurity and network data security requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, among other sanctions, which could materially and adversely affect our business and results of operations. In addition to the cybersecurity review, the Draft Data Security Regulations requires that data processors processing "important data" or listed overseas shall conduct an annual data security assessment by itself or commission a data security service provider to do so and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. If a final version of the Draft Data Security Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing.



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On July 7, 2022, the CAC published the Measures for Security Assessment of Cross-border Data Transfer, or the Cross-border Data Security Regulations, which came into effect on September 1, 2022. The Cross-border Data Security Regulations stipulates that if the cross-border data transfer to be conducted by a “data processor” has any of the following circumstances, the “data processor” shall apply to the national cyberspace administration authority for security assessment via the provincial cyberspace administration authority in the place where the said “data processor” is located: (i) any data processor transfers important data to overseas recipients; (ii) any “critical information infrastructure operator,” or any “data processor” processing the personal information of more than one million individuals transfers personal information to overseas recipients; (iii) the personal information of more than 100,000 individuals or the sensitive personal information of more than 10,000 individuals has been provided overseas since January 1 of the previous year on a cumulative basis; and (iv) other circumstances where the security assessment is required as prescribed by the national cyberspace administration authority. For cross-border data transfer activities conducted before September 1, 2022, the Cross-border Data Security Regulations provides data processors a six-month grace period to remedy any non-compliance by March 1, 2023. Since there might be newly issued explanations or implementation rules, uncertainties with respect to applications to the CAC under the Cross-border Data Security Regulations still exist. We have been expanding our business in the overseas markets, including the Philippines and Indonesia, which has exposed us to and may continue to expose us to additional data security regulatory uncertainties. We will continue to monitor and review our compliance status in accordance with the latest changes in applicable regulatory requirements. On February 24, 2023 the CSRC, Ministry of Finance of the PRC, National Administration of State Secrets Protection, and National Archives Administration of China published the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Confidentiality and Archives Administration Provisions. Pursuant to Confidentiality and Archives Administration Provisions, domestic joint-stock enterprises listed in overseas markets via direct offering and domestic operational entities of enterprises listed in overseas markets via indirect offering must obtain approval and complete filing or other requirements before they publicly disclose any documents and materials that contain state secrets or government work secrets or that, if divulged, will jeopardize China’s national security or public interest, or before they provide such documents or materials to entities or individuals such as securities companies, securities service providers and overseas regulators. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Overseas Listing and M&A.”

The Cyber Security Law, the Data Security Law, and the Amended Measures for Cybersecurity Review are relatively new and subject to interpretation by the regulators. Although we believe that we only gain access to user information that is necessary for, and relevant to, the services provided, the data we obtain and use may include information that is deemed as “personal information”, “network data” or “important data” under the relevant laws and regulations. As such, we have adopted a series of measures to ensure that we comply with relevant laws and regulations in the collection, use, disclosure, sharing, storage, and security of user information and other data. The Data Security Law also stipulates that the relevant authorities will formulate the catalogs for important data and strengthen the protection of important data, and state core data, i.e. data having a bearing on national security, the lifelines of national economy, people’s key livelihood and major public interests, shall be subject to stricter management system. “Item 4. Information on the Company—B. Business Overview—Regulations.” The exact scopes of important data and state core data remain unclear and may be subject to further interpretation. If any data that we are in possession of constitutes important data or state core data, we may be required to adopt stricter measures for protection and management of such data.

We also face indirect technology, cybersecurity and operational risks relating to the third parties upon whom we rely to facilitate or enable our business activities, including, among others, third-party online payment service providers who manage accounts for certain borrower and institutional funding partner funds. As a result of increasing consolidation and interdependence of technology systems, a technology failure, cyber-attack or other information or security breach that significantly compromises the systems of one entity could have a material impact on its counterparties. Although our agreements with third-party payment service providers provide that each party is responsible for the cybersecurity of its own systems, any cyber-attack, computer viruses, physical or electronic break-ins or similar disruptions of such third-party payment service providers could, among other things, adversely affect our ability to serve our users, and could even result in misappropriation of funds of our borrowers and institutional funding partners. If that were to occur, both we and third-party payment service providers could be held liable to borrowers and institutional funding partners who suffer losses from the misappropriation.

Our business depends on our employees and third-party service providers to interact with potential borrowers and institutional funding partners, process large numbers of transactions and support the loan collection process, all of which involve the use and disclosure of personal information. Compliance with applicable data protection laws and regulations is a rigorous and time-intensive process. We have established a comprehensive administrative mechanism and standardized employee training system for stringent information security management, and we have received ISO 27001 Information Security Management System Certification and ISO 9001 Quality Management System Certification. We have also been deploying innovative technologies to promote user data protection. For example, we launched a Smart Finance Institute in 2018 for research and development in the field of artificial intelligence that can be applied in various aspects of financial services. In addition, we are also a member of the National Information Security Standardization Technical Committee, maintaining up to date knowledge and compliant regarding the latest cyber-security regulatory requirements. For the purpose of credit assessment, we also collaborate with third-party data providers to obtain the borrowers' credit and behavior data, with general consents from the borrowers. Although we require the third-party data providers guarantee that the data provided to us is lawfully collected and legally authorized and their collaboration with us will not violate any applicable laws and regulations, we cannot assure you that the third-party data providers would strictly comply with the applicable laws and regulation during their process of data collection, using, storage, and processing. If any of our third-party data providers fails to comply with applicable data protection laws and regulations, our reputation could suffer and we could become subject to regulatory intervention. Furthermore, our collaboration with third-party data providers may subject us to significant civil or criminal penalties and negative publicity or result in the delayed or halted processing of personal data that we need to undertake to carry on our business, which could have a material adverse effect on our business, financial condition and results of operations. See “—Cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions of us or of a third party could result in disclosure or misuse of confidential information and misappropriation of funds of our borrowers and institutional funding partners, subject us to liabilities, cause reputational harm and adversely impact our results of operations and financial condition.”

***If our ability to collect delinquent loans is impaired, our business and results of operations might be materially and adversely affected.***

We primarily rely on our in-house collection team to handle the collection of delinquent loans. We also engage certain third-party collection service providers to assist us with loan collection. If our or third party agencies' primary collection methods, such as phone calls, text messages, legal letters and legal proceedings, are not as effective as they were and we fail to respond quickly and improve our collection methods, our delinquent loan collection rate may decrease and our investors may suffer loss. In addition, we bear credit risks for a substantial majority of the loans funded by our institutional funding partners to borrowers introduced by us. If our ability to collect delinquent loans is not as effective or efficient as expected, our liquidity, financial conditions and results of operations could be materially and adversely affected.

Moreover, according to the Circular 141, delinquent loans shall not be collected by means of violence, intimidation, insult, defamation, or harassment. Any violation of the Circular 141 may result in penalties, including but not limited to suspension of operation, orders to make rectification, condemnation, revocation of license, be ordered to cease business operations, and even criminal liabilities. If the collection methods we use in collecting delinquent loans are viewed by the borrowers or regulatory authorities as harassments, threats or other illegal conducts, we may be subject to lawsuits initiated by the borrowers or prohibited by the regulatory authorities from using certain collection methods. If this were to happen and we fail to adopt alternative collection methods in a timely manner or the alternative collection methods are proven not effective, we might not be able to maintain our delinquent loan collection rate and the investors' confidence in our platform may be negatively affected. Furthermore, the MPS promulgated the Guidance on Several Issues for Soft Violence Regarding Criminal Case, or the Guidance on Soft Violence, on April 9, 2019, which provides that, among others, harassments by means of internet or telecommunication to disturb people's normal life, work, production, business, and social order may be deemed as soft violence, which may be subject to criminal liabilities. In 2019, several public security authorities in different provinces took actions against some loan collection outsourcing companies, and even criminal cases were reported to be charged against some of them. We have established strict implementation policies to ensure that our collection personnel and third-party collection service providers do not engage in aggressive practices. However, our in-house collection team is large and we cannot assure each of them would strictly comply with our policies. Furthermore, we have no direct control over the management of third-party collection service providers. If any practices by our in-house collection team members or our third-party collection service providers were deemed by the governmental authorities as aggressive collection or soft violence, our reputation and business would be materially and adversely affected. If any of the foregoing takes place and impairs our ability to collect delinquent loans, the transaction volumes on our platform will decrease and our business and results of operations could be materially and adversely affected.

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***Cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions of us or of a third party could result in disclosure or misuse of confidential information and misappropriation of funds of our borrowers and institutional funding partners, subject us to liabilities, cause reputational harm and adversely impact our results of operations and financial condition.***

Our computer system and data storage facilities, the networks we use, the networks of other third parties with whom we interact, are potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems or security breaches. A party that is able to circumvent our security measures could misappropriate proprietary information or customer information, jeopardize the confidential nature of the information we transmit over the internet and mobile network or cause interruptions in our operations. We or our service providers may be required to invest significant resources to protect against the threat of security breaches or to alleviate problems caused by any breaches.

In addition, our platform collects, stores, and processes certain personal and other sensitive data from our borrowers. The data that we have processed and stored makes us or third-party service providers who host our servers a 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 and put in place internal reporting procedures relating to cybersecurity incidents, our security measures could be breached. As of the date of this annual report, we have not experienced any material cyber security incidents. However, we cannot assure you that our security measures will not be breached in the future. 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 platform could cause confidential borrower and institutional funding partner information to be stolen and used for criminal purposes.

We also face indirect technology, cybersecurity and operational risks relating to the third parties upon whom we rely to facilitate or enable our business activities, including, among others, third-party online payment service providers who manage accounts for certain borrower and institutional funding partner funds. As a result of increasing consolidation and interdependence of technology systems, a technology failure, cyber-attack or other information or security breach that significantly compromises the systems of one entity could have a material impact on its counterparties. Although our agreements with third-party payment service providers provide that each party is responsible for the cybersecurity of its own systems, any cyber-attack, computer viruses, physical or electronic break-ins or similar disruptions of such third-party payment service providers could, among other things, adversely affect our ability to serve our users, and could even result in misappropriation of funds of our borrowers and institutional funding partners. If that were to occur, both we and third-party payment service providers could be held liable to borrowers and institutional funding partners who suffer losses from the misappropriation.

Security breaches or unauthorized access to or sharing of confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. In addition, leakages of confidential information may be caused by third-party service providers or business partners. If security measures are breached because of third-party action, employee misconduct or error, failure in information security management, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with borrowers, institutional funding partners and business partners could be severely damaged, we may become susceptible to future claims if our borrowers, institutional funding partners or business partners suffer damages, and could incur significant liability, and our business and operations could be adversely affected.

We are subject to governmental regulation and other legal obligations related to the protection of personal data, privacy and information security in the regions where we do business, and there has been and may continue to be a significant increase in such laws that restrict or control the use of personal data. See “—Any failure to comply with existing or future laws and regulations related to data protection, data security, cybersecurity or personal information protection could lead to liabilities, administrative penalties or other regulatory actions, which could negatively affect our operating results and business.”

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### ***Any failure by our institutional funding partners or third-party service providers to comply with applicable anti-money laundering and anti-terrorism financing laws and regulations could damage our reputation.***

If any of our institutional funding partners fails to comply with applicable anti-money laundering laws and regulations, it could become subject to regulatory intervention or sanction and its business may be adversely effected, which could further have a material adverse effect on our reputation, business financial condition and results of operations.

Currently, we rely on our third-party service providers, in particular payment companies, that handle the transfer of funds between borrowers and institutional funding partners, to have their own appropriate anti-money laundering policies and procedures. The payment companies are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. If any of our third-party service providers fails to comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could become subject to regulatory intervention, which could have a material adverse effect on our business, financial condition and results of operations.

In October 2018, the PBOC, the CBIRC, and the CSRC, jointly issued the Anti-money Laundering and Anti-terrorism Financing Administrative Measures for Internet Finance Institution, or Anti-money Laundering and Anti-terrorism Measures, providing that internet finance institutions are obliged to accept the anti-money laundering and anti-terrorism financing inspection conducted by the PBOC and its branches. The Anti-money Laundering and Anti-terrorism Measures also authorized the establishment of the internet finance anti-money laundering and anti-terrorism financing monitor platform, or the Monitor Platform, by the National Internet Finance Association, or NIFA under the instruction of PBOC and other financial governmental authorities to improve the online monitoring mechanism and information sharing between the institutions. To comply with the Anti-money Laundering and Anti-terrorism Measures, we are formulating policies, including internal controls and “know-your-customer” procedures and accessing the Monitor Platform. We cannot assure you that we will be able to establish and maintain effective anti-money laundering and anti-terrorism financing policies and procedures to protect our platform from being exploited for money laundering or terrorism financing purposes or that such policies and procedures, if adopted, will be deemed to be in compliance with applicable anti-money laundering and anti-terrorism financing laws and regulations, including the Interim Measures.

### ***If we fail to maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.***

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company’s internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of our internal control over financial reporting. As we are no longer an emerging growth company, we are subject to the requirement that an independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting.

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15I under the Exchange Act) and internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of the end of the period covered by this annual report, as required by Rule 13a-15(b) through (c) under the Exchange Act. Based upon that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2022. Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, also attested and reported our internal control over financial reporting. See the attestation report on page F-2 issued by our independent registered public accounting firm for further details. However, if we fail to maintain effective internal control over financial reporting in the future, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

***Our operations depend on the performance of the internet infrastructure and 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 MIIT. We primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We 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 traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be adversely affected. Furthermore, if internet access fees or other charges to internet users increase, our user traffic may decline and our business may be harmed.

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

In the event of a platform outage and physical data loss, our ability to perform our servicing obligations, process loan applications or make funds available on our platform would be materially and adversely affected. The satisfactory performance, reliability and availability of our platform and our underlying network infrastructure are critical to our operations, customer service, reputation and our ability to retain existing and attract new borrowers and institutional funding partners. Much of our system hardware is hosted in a leased facility located in Shanghai that is operated by our IT staff. We also maintain a real-time backup system in the same facility and a remote backup system at a separate facility also located in Shanghai. Our operations depend on our ability to protect our systems against damage or interruption from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or attempts to harm our systems, criminal acts and similar events. If there is a lapse in service or damage to our leased facilities in Shanghai, we could experience interruptions and delays in our service and may incur additional expense in arranging new facilities.

Any interruptions or delays in our service, whether as a result of third-party or our error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with our borrowers and institutional funding partners and our reputation. Additionally, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. Our disaster recovery plan has not been tested under actual disaster conditions, and we may not have sufficient capacity to recover all data and services in the event of an outage. These factors could prevent us from processing or posting payments on loans, damage our brand and reputation, divert our employees' attention, subject us to liability and cause borrowers and institutional funding partners to abandon our platform, any of which could adversely affect our business, financial condition and results of operations.

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

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

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

We regard our trademarks, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. See also “Item 4. Information on the Company—B. Business Overview—Intellectual Property.” Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms, or at all.

It is often difficult to 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. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third 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 third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products, 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 United States or other jurisdictions. If any third-party 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.

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

***We may be held liable for information or content displayed on, retrieved from or linked to our mobile applications, which may materially and adversely affect our business and operating results.***

We offer consumer finance products mainly through our mobile applications, which are regulated by the Administrative Provisions on Mobile Internet Applications Information Services, or the APP Provisions, promulgated by the CAC on June 28, 2016 and effective on August 1, 2016, and amended on June 14, 2022. According to the APP Provisions, the providers of mobile applications shall not create, copy, publish or distribute information and content that is prohibited by laws and regulations. We have implemented internal control procedures screening the information and content on our mobile applications to ensure their compliance with the APP Provisions. However, we cannot assure that all the information or content displayed on, retrieved from or linked to our mobile applications complies with the requirements of the APP Provisions at all times. If our mobile applications were found to be violating the APP Provisions, we may be subject to administrative penalties, including warning, service suspension or removal of our mobile applications from the relevant mobile application store, which may materially and adversely affect our business and operating results.

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***We may from time to time be subject to claims, controversies, lawsuits and legal proceedings, which could have a material adverse effect on our financial condition, results of operations, cash flows and reputation.***

We may from time to time become subject to or involved in various claims, controversies, lawsuits, and legal proceedings. See “Item 8. Financial Information—Legal Proceedings” for more details. Claims, lawsuits, and litigations are subject to inherent uncertainties, and we are uncertain whether the foregoing claim would develop into a lawsuit. Lawsuits and litigations may cause us to incur defense costs, utilize a significant portion of our resources and divert management’s attention from our day-to-day operations, any of which could harm our business. Any settlements or judgments against us could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, negative publicity regarding claims or judgments made against us may damage our reputation and may result in material adverse impact on us.

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

We may evaluate and consider strategic investments, combinations, acquisitions or alliances to further increase the value of our platform and better serve borrowers and institutional funding partners. 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.

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

- difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, rights, platforms, products and services of the acquired business;
- inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits;
- difficulties in retaining, training, motivating and integrating key personnel;
- diversion of management’s time and resources from our daily operations;
- difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;
- difficulties in retaining relationships with customers, employees and suppliers of the acquired business;
- risks of entering markets in which we have limited or no prior experience;
- regulatory risks, including remaining in good standing with existing regulatory bodies or receiving any necessary pre-closing or post-closing approvals, as well as being subject to new regulators with oversight over an acquired business;
- 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;
- failure to successfully further develop the acquired technology;

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

We may not make any investments or acquisitions, or 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. In addition, we cannot assure you that any future investment in or acquisition of new businesses or technology will lead to the successful development of new or enhanced loan products and services or that any new or enhanced loan products and services, if developed, will achieve market acceptance or prove to be profitable.

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

Our business operations depend on the continued services of our senior management, particularly the executive officers named in this annual report. While we have provided different incentives to our management, we cannot assure you that we can continue to retain their services. For example, our former chief executive officer resigned in March 2023 due to personal reasons, and our board of directors appointed Mr. Tiezheng Li, the then vice chairman of our board and president, to assume the position of chief executive officer. If any additional key executives were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel. In addition, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that 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.

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

We believe our success depends on the efforts and talent of our employees, including risk management, software engineering, financial and marketing personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled technical, risk management and financial personnel is extremely intense. We may not be able to hire and retain 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 we have and may be able to offer more attractive terms of employment.

In addition, we invest significant time and expenses in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training new employees, and the quality of our services and our ability to serve borrowers and institutional funding partners could diminish, resulting in a material adverse effect to our business.

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

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC are expected to continue to increase. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to control our labor costs or pass on these increased labor costs to our users by increasing the fees of our services, our financial condition and results of operations may be adversely affected.



***We are subject to changing law and regulations regarding regulatory matters, corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.***

We are subject to rules and regulations by various governing bodies, including, for example, the SEC, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

***If we cannot maintain our corporate culture as we grow, we could lose the innovation, collaboration and focus that contribute to our business.***

We believe that a critical component of our success is our corporate culture, which we believe fosters innovation, encourages teamwork and cultivates creativity. As we develop the infrastructure of a public company and continue to grow, we may find it difficult to maintain these valuable aspects of our corporate culture. Any failure to preserve our culture could negatively impact our future success, including our ability to attract and retain employees, encourage innovation and teamwork and effectively focus on and pursue our corporate objectives.

***We do not have any business insurance coverage.***

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

***We face risks related to COVID-19 outbreaks, other health epidemics and outbreaks and natural disasters, 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, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide products and services on our platform.

Our business had been adversely affected by the effects of COVID-19 outbreaks. Since the beginning of 2020, outbreaks of COVID-19 have resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. Normal economic life throughout China has been sharply curtailed. We have taken a series of measures in response to the outbreak to protect our employees, including facilitating remote working arrangements for our employees and canceling business meetings and travels. All of the above measures reduced our business operation capacity, impaired our ability to collect delinquent loans, and negatively affected our operating results.

As COVID-19 has negatively affected the global economy, the countries where we operate may continue to experience lower domestic consumption, higher unemployment, severe disruptions to exporting of goods to other countries and greater economic uncertainty, which may impact our business in a materially negative way as people in general may be less inclined to borrow. Borrowers may also have less propensity or ability to repay their loans as a result of the economic problems caused by COVID-19, which may then impact credit quality. The operations of some of our business partners and service providers have also been constrained and impacted, which may have a negative impact on our business.

China began to modify its zero-COVID policy at the end of 2022, which seems to have prompted a considerable degree of uncertainties about the economic and market outlook. Thus, we have to be prepared for the possibility for a wide range of possible outcomes, some of which could be highly unfavorable to our business. There is still uncertainty as to the future impact of the virus, especially in light of this change in policy. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the success or failure of efforts to contain or treat cases, and future actions we or the authorities may take in response to these developments. Consequently, the COVID-19 pandemic may continue to materially and adversely affect our business, financial condition and results of operations in the current and future years.

In addition, our business could also be adversely affected by the effects of Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome or other epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected or even temporarily closed.

Our headquarters are located in Shanghai, where most of our directors and management and a large majority of our employees currently reside. In addition, most of our system hardware and back-up systems are hosted in leased facilities located in Shanghai. Consequently, we are highly susceptible to factors adversely affecting Shanghai. If any of the abovementioned natural disasters, health epidemics or other outbreaks were to occur in Shanghai, our operation may experience material disruptions, such as temporary closure of our offices and suspension of services, disruption of communications between our headquarters and overseas operations, which may materially and adversely affect our business, financial condition and results of operations.

### **Risks Related to Our Corporate Structure**

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

Foreign ownership of internet-based businesses, such as distribution of online information, is subject to restrictions under current PRC laws and regulations. For example, except otherwise provided, foreign investors are generally not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (except for e-commerce, domestic multi-party communication, storage and forwarding and call center) in accordance with the Special Administrative Measures for Foreign Investment Access, the Negative List (2021), which was promulgated by the MOFCOM and the NDRC on December 27, 2021 and became effective on January 1, 2022. Foreign direct investment in telecommunications companies in China is governed by the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises, which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008, February 6, 2016, and April 7, 2022. These regulations require that the foreign investors may acquire up to 50% equity interests the foreign-invested value-added telecommunications enterprises in China. PRC regulations impose sanctions for engaging in commercial internet information services, which is a sub-set of value-added telecommunication business, without a value-added telecommunication service license for internet content provider, or the ICP License, and sanctions for engaging in the operation of online data processing and transaction processing, which is another sub-set of value-added telecommunication business, without a value-added telecommunication service license for online data processing and transaction processing, or the ODPTP License. These sanctions include rectification orders and warnings from the PRC communication administrations, fines, confiscation of illegal gains, and suspension or termination of operating of the websites and mobile applications in question.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign invested enterprises. Before the Interim Measures was published in August 2016, there was no clear official guidance or interpretation from the PRC government as to whether online consumer finance service was a type of value-added telecommunication services and whether its provider should be subject to value-added telecommunication regulations. However, we believe the online consumer finance services offered through our online platform constitute a type of value-added telecommunication services that foreign ownership and investment is restricted and therefore we should operate our online platform through a consolidated variable interest entity to ensure compliance with the relevant PRC laws and regulations. We have entered into the following four separate sets of contractual arrangements: (i) among Shanghai Guangjian, Shanghai Shanghu (with respect to the business operation agreement and the exclusive technology consulting and service agreement only), Beijing Paipairongxin, Shanghai PPDai (with respect to the exclusive technology consulting and service agreement only), a subsidiary of Beijing Paipairongxin, and the shareholders of Beijing Paipairongxin to conduct our online lending information intermediary business in the past; (ii) among Shanghai Manyin, Shanghai Zihe and the shareholders of Shanghai Zihe to provide services to our institutional funding partners; and (iii) among Shanghai Manyin, Shanghai Ledao and the shareholders of Shanghai Ledao for new business we plan to operate in the future. For a detailed description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” As a result of these contractual arrangements, we have obtained control over Beijing Paipairongxin, Shanghai Zihe, Shanghai Ledao and their subsidiaries and consolidate their operating results in our financial statements under U.S. GAAP. Shanghai PPDai has been operating our online lending information intermediary business, including, among others, operations of our www.ppdai.com website and PPDai mobile application. Shanghai PPDai had made applications for value-added telecommunication business license with the relevant local telecommunication regulatory authority before the Interim Measures was promulgated. Due to the lack of detailed rules regulating the online consumer finance service and clarification of the nature of this innovative business model, the local telecommunication regulatory authority had tentatively put our applications on hold.

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We had ceased facilitating new loans with funding from individual investors on our platform since October 2019 and improved the business model through the acquisition of better quality borrowers and transition of our funding sources from individual investors to institutional funding partners. However, the interpretation of laws and regulations in the context of online consumer finance industry still remains uncertain, and it is unclear whether the online consumer finance service providers like Shanghai PPDai and Shanghai Erxu, are required to obtain the ICP License or the ODPTP License, or any other kind of VATS License. The regulatory regime of online consumer finance industry evolves rapidly. The regulatory authorities in the future may explicitly require any of our consolidated variable interest entities or their subsidiaries to obtain additional ICP Licenses, ODPTP Licenses, or issue new laws to institute a new kind of VATS License. We cannot assure you that we would be able to obtain the additional ICP License, the ODPTP License, or any new VATS License on a timely manner, or at all, which would subject us to the sanctions and materially and adversely affect our business, financial condition, results of operation and prospects.

In the opinion of our PRC counsel, Hui Ye Law Firm, our current ownership structure, the ownership structure of Shanghai Guangjian, Shanghai Shanghu, Beijing Paipairongxin and its subsidiaries, the ownership structure of Shanghai Manyin and Shanghai Zihe, the ownership structure of Shanghai Manyin and Shanghai Ledao, the contractual arrangements among Shanghai Guangjian, Shanghai Shanghu (with respect to the business operation agreement and the exclusive technology consulting and service agreement only), Beijing Paipairongxin, Shanghai PPDai (with respect to the exclusive technology consulting and service agreement only) and the shareholders of Beijing Paipairongxin, the contractual arrangements among Shanghai Manyin, Shanghai Zihe and the shareholders of Shanghai Zihe, and the contractual arrangements among Shanghai Manyin, Shanghai Ledao and the shareholders of Shanghai Ledao, are not in violation of existing PRC laws, regulations and rules; and these contractual arrangements are valid, binding and enforceable in accordance with their terms and applicable PRC laws and regulations currently in effect.

However, we are a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities and we conduct operations in China primarily through the consolidated variable interest entities with which we have maintained contractual arrangements. Holders of our ADSs hold equity interest in FinVolution Group, our Cayman Islands holding company, and do not have direct or indirect equity interest in the consolidated variable interest entities and their subsidiaries. If the PRC government deems that our contractual arrangements with the consolidated variable interest entities 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 or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. We may not be able to repay the notes and other indebtedness, and our shares may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of our PRC subsidiaries, which contribute to 83.9% of our revenues in 2022. Our holding company in the Cayman Islands, the consolidated variable interest entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a group.

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However, our PRC counsel, Hui Ye Law Firm, has also advised us that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC counsel. For example, on March 15, 2019, the National People's Congress enacted the Foreign Investment Law of the PRC, or the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, which came into effect on January 1, 2020. However, the Implementation Regulations on the Foreign Investment Law still does not explicitly define whether contractual arrangement would be deemed as a form of foreign investment. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions promulgated by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

Although we believe we, our PRC subsidiaries and the consolidated variable interest entities comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our 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. The PRC government has broad discretion in determining rectifiable or punitive measures for non-compliance with or violations of PRC laws and regulations. If the PRC government determines that we or the consolidated variable interest entities do not comply with applicable law, it could revoke the consolidated variable interest entities' business and operating licenses, require the consolidated variable interest entities to discontinue or restrict the consolidated variable interest entities' operations, restrict the consolidated variable interest entities' right to collect revenues, block the consolidated variable interest entities' websites, require the consolidated variable interest entities to restructure our operations, impose additional conditions or requirements with which the consolidated variable interest entities may not be able to comply, impose restrictions on the consolidated variable interest entities' business operations or on their customers, or take other regulatory or enforcement actions against the consolidated variable interest entities that could be harmful to their business. Any of these or similar occurrences could significantly disrupt our or the consolidated variable interest entities' business operations or restrict the consolidated variable interest entities from conducting a substantial portion of their business operations, which could materially and adversely affect the consolidated variable interest entities' business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of operation of any of the consolidated variable interest entities that most significantly impact its economic performance, or our failure to receive the economic benefits from any of the consolidated variable interest entities, we may not be able to consolidate these entities in our consolidated financial statements in accordance with U.S. GAAP.

***We rely on contractual arrangements with the consolidated variable interest entities for a significant portion of our business operations, and such contractual arrangements may not be as effective as equity ownership in providing operational control.***

We have relied and expect to continue to rely on contractual arrangements with the consolidated variable interest entities, namely, Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao and, to operate our online consumer finance platform business, including the operation of [www.ppdai.com](http://www.ppdai.com) website and *PPDai* mobile application and the provision of services to institutional funding partners, as well as certain other complementary businesses. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” These contractual arrangements may not be as effective as equity ownership in providing us with control over the consolidated variable interest entities. For example, consolidated variable interest entities and shareholders of consolidated variable interest entities as well as other parties to the contractual arrangements may fail to fulfill their contractual obligations to us, such as failure to maintain our website and use the domain names and trademarks in a manner as stipulated in the contractual arrangements, or taking other actions that are detrimental to our interests.

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

***Any failure by the consolidated variable interest entities, shareholders of the consolidated variable interest entities or other parties to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.***

We have entered into a series of contractual arrangements with the consolidated variable interest entities and shareholders of the consolidated variable interest entities as well as other parties. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” If the consolidated variable interest entities fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective under PRC laws. For example, if the shareholders of the consolidated variable interest entities were to refuse to transfer their equity interests in the consolidated variable interest entities 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 United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to direct the activities of operation of the consolidated variable interest entities and their respective subsidiaries, and our ability to conduct our business may be negatively affected. See “—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.”

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

The equity interests of the consolidated variable interest entities are held by Mr. Jun Zhang, Mr. Tiezheng Li, Mr. Honghui Hu and Mr. Shaofeng Gu, our co-founders and shareholders, as well as a few of their family relatives. Their interests in the consolidated variable interest entities may differ from the interests of our company as a whole. These shareholders may breach, or cause the consolidated variable interest entities to breach, the existing contractual arrangements we have with them and our consolidated variable interest entity, which would have a material adverse effect on our ability to direct the activities of operation of the consolidated variable interest entities and their subsidiaries and receive economic benefits from them. For example, the shareholders of Beijing Paipairongxin, one of the consolidated variable interest entities, may be able to cause our agreements with Beijing Paipairongxin and Shanghai PPDai, a major subsidiary of Beijing Paipairongxin, to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

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

***Contractual arrangements in relation to the consolidated variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or the consolidated variable interest entities owe additional taxes, which could negatively affect our financial condition and the price of our ADSs.***

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 the consolidated variable interest entities, shareholders of the consolidated variable interest entities and us as well as other parties 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 the consolidated variable interest entities' 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 the consolidated variable interest entities for PRC tax purposes, which could in turn increase their tax liabilities without reducing our tax expenses. In addition, if we request the shareholders of the consolidated variable interest entities to transfer their equity interests in the consolidated variable interest entities at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject us to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on the consolidated variable interest entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the consolidated variable interest entities' tax liabilities increase or if they are required to pay late payment fees and other penalties.

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

The consolidated variable interest entities hold certain assets that are material to the operation of our business, including, among others, intellectual properties, hardware and software. Under the contractual arrangements, the consolidated variable interest entities may not, and the shareholders of the consolidated variable interest entities may not cause them to, in any manner, sell, transfer, mortgage or dispose of their assets or their legal or beneficial interests in the business without our prior consent. However, in the event that the shareholders of the consolidated variable interest entities breach these contractual arrangements and voluntarily liquidate the consolidated variable interest entities, or the consolidated variable interest entities declare bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If the consolidated variable interest entities undergo a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

#### **Risks Related to Doing Business in China**

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

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

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. The growth rate of the Chinese economy has gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 was severe. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

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

The COVID-19 had a severe and negative impact on the Chinese and the global economy since 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2021. The conflict in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may reduce the demand for consumer loans and investments, and materially and adversely affect our business, results of operations and financial condition.

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

The PRC legal system is based on written statutes and prior court decisions have limited value as precedents. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

In particular, PRC laws and regulations concerning the online consumer finance industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations, including the regulatory principles raised by the CBIRC, and avoid conducting any non-compliant activities under the applicable laws and regulations, such as illegal fund-raising, forming capital pool or providing guarantee to investors, the PRC government authority may promulgate new laws and regulations regulating the online consumer finance industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to online consumer finance. Moreover, developments in the online consumer finance industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may limit or restrict online consumer finance platforms like us, which could materially and adversely affect our business and operations.

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

PRC government has significant oversight over the conduct of our business and it has recently indicated an intent to exert more oversight over offerings that are conducted overseas and/or foreign investment in China-based issuers. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

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

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

We only have contractual control over our website and mobile applications. We do not directly own the website nor mobile applications due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet information provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.



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

Our ppdai.com website and PPDai mobile application, operated by Shanghai PPDai, a subsidiary of Beijing Paipairongxin, one of the consolidated variable interest entities, may be deemed to be providing internet content provision service or online data processing or transaction processing services, which would require Shanghai PPDai to obtain certain value-added telecommunications business license. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Internet Companies—Regulations on value-added telecommunication services.” Furthermore, it is uncertain if Beijing Paipairongxin, Shanghai Zihe and their subsidiaries will be required to obtain a separate operating license with respect to our mobile applications in addition to the value-added telecommunications business license.

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

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

We conduct our business primarily in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and may influence our operations as the government deems appropriate to advance regulatory and societal goals and policy positions. For example, interest rates of certain of our loan products are subject to the restrictions on maximum interest rates on private lending permitted by the relevant laws, regulations, policies or guidance. It is reported that in July 2021, the Credit Information System Bureau of PBOC notified several internet platforms to complete “disconnected direct connection” process between personal information and financial institutions, which implied that as an online consumer finance marketplace, we may be prohibited from providing personal information directly to the institutional funding partners. We cannot rule out the possibility that the PRC government will release additional regulations or policies in the future that directly or indirectly affect our industry or require us to seek additional permission to continue our operations, which could result in a material adverse change in our operation and/or the value of our ADSs. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

***We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.***

We are a holding company, and we rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require our PRC subsidiaries to adjust its taxable income under the contractual arrangements it currently has in place with Beijing Paipairongxin and its shareholders and Shanghai PPDai (with respect to the exclusive technology consulting and service agreement only), Shanghai Zihe, Shanghai Ledao and their respective shareholders in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Contractual arrangements in relation to the consolidated variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or the consolidated variable interest entities owe additional taxes, which could negatively affect our financial condition and the price of our ADSs.” Under PRC laws and regulations, our PRC subsidiaries, as wholly foreign-owned enterprises in China, may pay dividends only out of their respective accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

In response to the persistent capital outflow and RMB's depreciation against U.S. dollar in the fourth quarter of 2016, the PBOC and the State Administration of Foreign Exchange, or SAFE, have implemented a series of capital control measures over recent months, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. For instance, the PBOC issued the Circular on Further Clarification of Relevant Matters Relating to Offshore RMB Loans Provided by Domestic Enterprises, or the PBOC Circular 306, on November 22, 2016, which provides that offshore RMB loans provided by a domestic enterprise to offshore enterprises that it holds equity interests in shall not exceed 30% of such equity interests. The PBOC Circular 306 may constrain our PRC subsidiaries' ability to provide offshore loans to us. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries' dividends and other distributions may be subjected to tighter scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also "—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our initial public offering and the concurrent private placement to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

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

In 2008, SAFE promulgated 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, which used to regulate the conversion by foreign-invested enterprises of foreign currency into Renminbi by restricting the usage of converted Renminbi. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015 and superseded SAFE Circular 142 on the same date. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the Renminbi fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for security investment or guarantee products issued by bank), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

On October 23, 2019, SAFE promulgated the Notice of the Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment, or SAFE Circular 28. SAFE Circular 28 provides that non-investment foreign-invested entities may use foreign exchange capital or Renminbi funds converted from the foreign exchange capital to make equity investments, provided that such investments should comply with the Negative List and other relevant PRC laws and regulations. On April 10, 2020, SAFE issued the Notice on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business, or SAFE Circular 8. SAFE Circular 8 provides that on the premise of ensuring the true and compliant use of funds and compliance with the existing regulations on use of income under the capital account, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing for domestic payment, without prior provision of proof materials for veracity to the bank for each transaction. However, there are substantial uncertainties of the further implementation of SAFE Circular 28 and SAFE Circular 8. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the proceeds we receive from our offshore financing activities, which may adversely affect our business, financial condition and results of operations.

***Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.***

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

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

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. In 2022, we did not enter into hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Risk" for more details. While we may decide to enter into more hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

In addition, our operations in the overseas markets expose us to the effects of fluctuations in currency exchange rates as we report our financials and key operational metrics in RMB. With respect to our operations in the overseas markets, we earn revenue denominated in local currencies of the overseas markets, while some of our costs and expenses are paid in the U.S. dollar. Fluctuations in the exchange rates of local currencies of the overseas markets against RMB and the U.S. dollar could cause fluctuations in our operational and financial results.

***Governmental control of currency conversion may limit our ability to utilize our net revenues effectively and affect the price of our ADSs.***

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

In light of the flood of capital outflows of China in 2016 due to the weakening RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

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

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Companies operating in China are also required to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment. We have not made adequate employee benefit payments for some employees. With respect to the underpaid employee benefits, we may be required to make supplemental contributions for these plans as well as pay late fees and fines. With respect to the underwithheld individual income tax, we may be required to make up sufficient withholding and pay late fees and fines. If we are subject to late fees or fines in relation to the underpaid employee benefits and underwithheld individual income tax, our financial condition and results of operations may be adversely affected.

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

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress, or the SCNPC, was amended on June 24, 2022 and became effective on August 1, 2022. Under the Anti-Monopoly Law, the parties shall apply for M&A review with the relevant anti-monopoly authorities if the underlying transaction is deemed as concentration and involves parties with specified turnover thresholds. For transaction that falls below the thresholds but is likely to eliminate or restrict competition, the relevant parties are required to submit the M&A review application to the anti-monopoly authorities. The parties shall not close the transaction prior to obtaining clearance from the anti-monopoly authorities. In addition, the security review rules issued by the MOC 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 MOC, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOC or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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

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

SAFE Circular 37 is issued to replace the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments through Overseas Special Purpose Vehicles, or SAFE Circular 75.

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

Mr. Jun Zhang, Mr. Tiezheng Li, Mr. Honghui Hu, and Mr. Shaofeng Gu who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents have completed the foreign exchange registrations in accordance with SAFE Circular 75 then in effect and have updated their registrations in accordance with SAFE Circular 37. They are now in the process of updating their registration required in connection with corporate restructuring. Ms. Wei Luo, who indirectly hold shares in our Cayman Islands holding company and previously known to us to be a mainland China resident, has changed her citizenship to Hong Kong. Ms. Wei Luo registered in accordance with SAFE Circular 75 previously and now is seeking to update the registration in accordance with SAFE Circular 37.

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

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

Pursuant to SAFE Circular 37, PRC residents who participate in stock incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose vehicles. In the meantime, our directors, executive officers and other employees who are PRC citizens, subject to limited exceptions, and who have been granted stock options by us, may follow the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, promulgated by SAFE in 2012, or 2012 SAFE Notices. Pursuant to 2012 SAFE Notices, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted stock options are subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange—Regulations on employee stock incentive plans of overseas publicly-listed company." The State Administration of Taxation, or SAT, has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, our employees working in China who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee stock options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange—Regulations on employee stock incentive plans of overseas publicly-listed company."

***If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.***

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

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

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

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the PRC Enterprise Income Tax Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise investor, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement, and Circular 81 issued by the SAT, such withholding tax rate may be lowered to 5% if the PRC enterprise is at least 25% held by a Hong Kong enterprise for at least 12 consecutive months prior to distribution of the dividends and is determined by the relevant PRC tax authority to have satisfied other conditions and requirements under the Double Tax Avoidance Arrangement and other applicable PRC laws. Furthermore, under the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties, which became effective in August 2015, the non-resident enterprises shall determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report and materials with the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” We cannot assure you that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant PRC tax authority or we will be able to complete the necessary filings with the relevant PRC tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Arrangement with respect to dividends to be paid by our PRC subsidiaries to FinVolution HK and Bluebottle Limited, our Hong Kong subsidiaries.

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

Pursuant to the Circular on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the SAT in 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the non-resident enterprise, being the transferor, shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer.

On February 3, 2015, the SAT issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698, but does not touch upon the other provisions of SAT Circular 698, which remain in force. SAT Public Notice 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698 (Article V and Article VI). SAT Public Notice 7 extends its tax jurisdiction to not only the indirect transfers set forth under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferor should be subject to withholding of applicable taxes, currently at a rate of 10%. Both the transferor and the PRC entity that directly owns the taxable assets, or the Withholding Agent, may be subject to penalties under PRC tax laws if the Withholding Agent fails to withhold the taxes and the transferor fails to pay the taxes.

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 or subject to withholding obligations in such transactions, under SAT Circular 698 and SAT Public Notice 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Circular 698 and SAT Public Notice 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 698 and SAT Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

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

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

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. On February 17, 2023, the CSRC published the Trial Administrative Measures on the Overseas Issuance and Listing of Securities by Domestic Companies, or the Trial Measures, and five supporting guidelines, effective on March 31, 2023. Pursuant to the Trial Measures, PRC domestic companies that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after submitting their listing application documents to the relevant regulator in the place of intended listing.

The Trial Measures proposes to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Trial Measures, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Trial Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to complete the record-filing under the Trial Measures may subject a PRC domestic company to a warning or a fine ranging from RMB1 million to RMB10 million, and its controlling shareholders, actual controllers, the persons directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines. According to the Notification to the Administrative Arrangement of the Overseas Issuance and Listing of Securities by Domestic Companies, the CSRC expressed that the record-filing requirement would not be imposed on the existing public companies, like us, until they refinance their securities in an overseas market based on its onshore equities, assets or similar interests. As of the date of this annual report, we have not received any formal inquiry, notice, warning, sanction, or any regulatory objection from the CSRC. However, if we refinance our securities in an overseas market in the future, we cannot assure you that we could complete such filing or meet other requirements pursuant to applicable laws in a timely manner or at all. Under such circumstance, we, our personnel directly in charge, and other personnel with direct responsibility may be warned, fined or subject to other disciplinary measures as set forth in the Trial Measures. Furthermore, given that the Trial Measures were recently promulgated, there remains substantial uncertainties as to their interpretation, application and enforcement and how they will affect our future financing. The Trial Measure also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises. For more details of the Draft Provisions and the Draft Administration Measures, please refer to "Regulation—Regulations Relating to Overseas Listing and M&A."



If we refinance in the oversea market in the future, approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Amended Measures for Cybersecurity Review, are required for our offshore offerings. It is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

***The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.***

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. The auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the ADSs were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past has made it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we and investors in the ADSs would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

***Our ADSs may be prohibited from trading in the United States under the HFCA Act in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.***

Pursuant to the HFCA Act, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCA Act following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCA Act after we file this annual report on Form 20-F for the fiscal year ended December 31, 2022.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCA Act, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

### **Risks Related to Our American Depositary Shares**

***The market price for our ADSs may be volatile.***

The trading prices of our ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed internet or other companies based in China that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in their trading prices. The trading performances of other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in the United States, 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 other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009 and the second half of 2011, which may have a material adverse effect on the market price of our 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 conditions in the online consumer finance industries;

- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;

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- changes in the economic performance or market valuations of other online consumer finance platforms;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures or capital commitments;
- additions to or departures of our senior management;
- detrimental negative publicity about us, our management or our industry;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our 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 cover us downgrade our ADSs or publish 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.

***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. All our ADSs are freely transferable without restriction or additional registration under the Securities Act. The remaining ordinary shares outstanding will be available for sale, upon the expiration of the 180-day lock-up period beginning from the date of our initial public offering, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Any or all of these shares may be released prior to the expiration of the lock-up period at the discretion of the representatives of the underwriters of our initial public offering. To the extent shares are released before the expiration of the lock-up period and sold into the market, the market price of our ADSs could decline.

Certain holders of our ordinary shares may cause us to register under the Securities Act the sale of their shares, subject to the 180-day lock-up period in connection with our initial public offering. 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.

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***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of the underlying Class A ordinary shares which are represented by your ADSs.***

As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the underlying Class A ordinary shares which are represented by your ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depository, as the holder of the underlying Class A ordinary shares which are represented by your ADSs. Upon receipt of your voting instructions, the depository will endeavor to vote the underlying Class A ordinary shares in accordance with your instructions in the event voting is by poll, and in accordance with instructions received from a majority of holders of ADSs who provide instructions in the event voting is by show of hands. The depository will not join in demanding a vote by poll. You will not be able to directly exercise any right to vote with respect to the underlying Class A ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our amended and restated memorandum and articles of association that is currently effective, the minimum notice period required to be given by our company to our registered shareholders for convening a general meeting is seven (7) days. When a general meeting is convened, you may not receive sufficient advance notice to enable you to withdraw the underlying shares which are represented by your ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow you to attend the general meeting or to vote directly with respect to any specific matter or resolution which is to be considered and voted upon at the general meeting. In addition, under our amended and restated memorandum and articles of association that is currently effective, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying shares which are represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depository will, if we request, and subject to the terms of the deposit agreement, endeavor to notify you of the upcoming vote and to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the underlying shares which are represented by your ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct the voting of the underlying shares which are represented by your ADSs, and you may have no legal remedy if the underlying shares are not voted as you requested.

***Except in limited circumstances, the depository for our ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not instruct the depository how to vote such shares, which could adversely affect your interests.***

Under the deposit agreement for our ADSs, the depository will give us (or our nominee) a discretionary proxy to vote our Class A ordinary shares underlying your ADSs at shareholders' meetings if you do not give voting instructions to the depository as to how to vote the Class A ordinary shares underlying your ADSs at any particular shareholders' meeting, unless:

- we have failed to timely provide the depository with our notice of meeting and related voting materials;
- we have instructed the depository that we do not wish a discretionary proxy to be given;
- we have informed the depository that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting may have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that, if you fail to give voting instructions to the depository as to how to vote the Class A ordinary shares underlying your ADSs at any particular shareholders' meeting, you cannot prevent our Class A ordinary shares underlying your ADSs from being voted at that meeting, absent the situations described above, and it may make it more difficult for shareholders to influence our management. Holders of our ordinary shares are not subject to this discretionary proxy.

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### ***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 by you in a state or federal court in the city of 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 instituted by any person. 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 such rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

### ***You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.***

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

### ***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.

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

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

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There is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands is not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment is final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, and or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands Court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our director and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

***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 (As 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 are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. 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 (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our current 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 United States.

***Our dual-class share structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.***

We have adopted a dual-class share structure. Our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to twenty votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Due to the disparate voting powers associated with our two classes of ordinary shares, the holders of our Class B ordinary shares beneficially own 93.2% of the aggregate voting power of our company as of March 31, 2023. As a result, the existing holders of our Class B ordinary shares will have considerable influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentrated control will limit your ability to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our Class A ordinary shares and our ADSs of the opportunity to sell their shares at a premium over the prevailing market price or the opportunity to receive a premium for their shares as part of a sale of our company. These shareholders may also take actions that are not in the best interest of us or our other shareholders even if they are opposed by our other shareholders, including holders of our ADSs. In addition, the significant concentration of share ownership may adversely affect the trading price of the ADSs due to investors' perception that conflicts of interest may exist or arise. For more information regarding our principal shareholders and their affiliated entities, see "Item 6. Directors, Senior Management and Employees—E. Share Ownership." Our memorandum and articles of association contain anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our ordinary shares and ADSs.

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

***We have granted, and may continue to grant, share incentive awards, which may result in increased share-based compensation expenses.***

We first adopted our stock option plan, or the 2013 Plan, in June 2013 for purposes of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. The 2013 Plan was later amended and restated several times. We account for compensation costs for all share options using a fair-value based method and recognize expenses in our consolidated statements of comprehensive income in accordance with U.S. GAAP. Under the 2013 Plan, we are authorized to grant options to purchase ordinary shares of our company. The maximum number of Class A ordinary shares which may be issued pursuant to all awards under the 2013 Plan is 221,917,800. As of March 31, 2023, options to purchase 127,415,885 Class A ordinary shares were granted (excluding those cancelled, forfeited or expired) under the 2013 Plan and 127,415,885 Class A ordinary shares underlying those options were issued and outstanding.

In October 2017, we adopted another share incentive plan, or the 2017 Plan. Under the 2017 Plan, we are authorized to grant options, restricted shares, and restricted share units to employees, officers, directors and individual consultants who render services to us. The maximum number of Class A ordinary shares which may be issued pursuant to all awards under the 2017 Plan is 1,000,000,000. As of March 31, 2023, options to purchase 6,710,045 Class A ordinary shares had been granted and were outstanding under the 2017 Plan and 3,769,345 Class A ordinary shares underlying those options were issued and outstanding. As of March 31, 2023, 109,433,625 restricted share units had been granted (excluding those cancelled, forfeited or expired) and 57,312,525 Class A ordinary shares underlying these restricted share units had been issued.

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As a result, we incurred RMB88.2 million (US\$12.8 million) share-based compensation expenses relating to options granted under the 2013 Plan and the 2017 Plan in 2022. We believe the granting of share incentive awards is of significant importance to our ability to attract and retain employees, and we will continue to grant share incentive awards to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

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

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

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

We will be 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. 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.

***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.***

As a Cayman Islands company listed on the NYSE, we are subject to the NYSE corporate governance listing standards. However, NYSE 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 example, we are not required to (i) have a majority of independent directors in our board of directors, (ii) have a compensation committee composed entirely of independent directors, (iii) have a minimum of three members in our audit committee, and (iv) hold annual shareholders meetings. See “Item 16G. Corporate Governance.” Since we have chosen to follow certain home country practice, our shareholders may be afforded less protection than they otherwise would enjoy under the NYSE corporate governance listing standards applicable to U.S. domestic issuers.

***We believe that we were likely a passive foreign investment company, or PFIC, for United States federal income tax purposes for the taxable year ended December 31, 2022, which could subject United States investors in our ADSs or ordinary shares to significant adverse United States federal income tax consequences.***

We will be a “passive foreign investment company,” or “PFIC,” if, in any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our consolidated variable interest entities (including their respective subsidiaries, if any) as being owned by us for United States federal income tax purposes, not only because we are able to direct the activities of operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Based upon the nature and composition of our income and assets, and the market price of our ADSs, we believe that we were likely a PFIC for United States federal income tax purposes for the taxable year ended December 31, 2022, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.



If we are a PFIC in any taxable year, a U.S. holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) will generally be subject to reporting requirements and may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares, unless we were to cease to be a PFIC and the U.S. holders were to make a “deemed sale” election with respect to the ADSs or ordinary shares. For more information see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations” and “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

***We have incurred increased costs as a result of being a public company.***

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and Nasdaq, have detailed requirements concerning corporate governance practices of public companies, including Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. We expect these rules and regulations applicable to public companies to increase our accounting, legal and financial compliance costs and to make certain corporate activities more time-consuming and costly. Our management will be required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Our reporting and other compliance obligations as a public company may place a strain on our management, operational and financial resources and systems for the foreseeable future.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s 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 and adverse effect on our financial condition and results of operations.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

We commenced our online consumer finance platform business in June 2007 through Shanghai Daifeng. In January 2011, we relocated to Zhangjiang Hi-Tech Park in Pudong, Shanghai and starting then, our business operations gradually migrated from Shanghai Daifeng to another operating entity located in Zhangjiang Hi-Tech Park, Shanghai Xiazhong Information Technology Co., Ltd., which later changed its name to Shanghai PPDai Financial Information Service Co., Ltd.

During the period between June and August 2012, we formed our offshore corporate structure to facilitate offshore financing. In June 2012, we incorporated PPDai Group Inc. under the laws of the Cayman Islands as our holding company and incorporated PPDai (HK) LIMITED as its wholly-owned subsidiary, which was renamed as FinVolution (HK) Limited, or FinVolution HK, in November 2019. In August 2012, Beijing Prosper Investment Consulting Co., Ltd., or Beijing Prosper, was incorporated as a wholly-owned PRC subsidiary of FinVolution HK, through which we obtained control over Shanghai PPDai and Beijing Paipairongxin Investment Consulting Co., Ltd., or Beijing Paipairongxin, a company incorporated in June 2012, based on two separate sets of contractual arrangements, including the equity pledge agreements, the business operation agreements, the power of attorneys, the call option agreements, and the exclusive technology consulting and service agreements. In July 2014, following a restructuring, Shanghai PPDai became a wholly-owned subsidiary of Beijing Paipairongxin. We then subsequently terminated our contractual arrangements with Shanghai PPDai and its shareholders, and entered into an amended and restated exclusive technology consulting and service agreement with Shanghai PPDai and Beijing Paipairongxin.

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In August 2015, we established Wuxi Boxi Information Technology Co., Ltd. (formerly known as Wuxi PPDai Financial Information Service Co., Ltd.), or Wuxi Boxi, to provide customer services. In January 2016, we established Shanghai Paifenle Internet Technology Co., Ltd. to operate business related to our consumption loan products. The business operated by Shanghai Paifenle Internet Technology Co., Ltd. was discontinued in early 2018. In December 2016, we established Hefei PPDai Information Technology Co., Ltd., or Hefei PPDai, as another entity to provide customer services with a focus on loan collection. The business previously operated by Wuxi Boxi was gradually migrated to Hefei PPDai and other entities.

In June 2017, Shanghai Guangjian Information Technology Co., Ltd., or Shanghai Guangjian was incorporated as a wholly-owned PRC subsidiary of FinVolution HK. Shortly after its incorporation, Shanghai Guangjian established a wholly-owned subsidiary, Shanghai Shanghu Information Technology Co., Ltd., or Shanghai Shanghu. In June 2017, Shanghai Guangjian, Shanghai Shanghu, Beijing Prosper, Beijing Paipairongxin, Shanghai PPDai and the shareholders of Beijing Paipairongxin entered into a new set of contractual arrangements, including an equity pledge agreement, a business operation agreement, a power of attorney, a call option agreement and an exclusive technology consulting and service agreement, replacing the previous contractual arrangements among Beijing Prosper, Beijing Paipairongxin, Shanghai PPDai and the shareholders of Beijing Paipairongxin. Based on the new set of contractual arrangements, we continue to have control over Beijing Paipairongxin and Shanghai PPDai through Shanghai Guangjian. In March 2018, we restated the contractual agreements among Shanghai Guangjian, Shanghai Shanghu, Beijing Prosper, Beijing Paipairongxin, Shanghai PPDai and the shareholders of Beijing Paipairongxin. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements—Contractual Arrangements with Beijing Paipairongxin.” In July 2017, Shanghai Zihe Information Technology Group Co., Ltd., formerly known as Shanghai Zihe Information Technology Co., Ltd., or Shanghai Zihe, was incorporated by Mr. Jun Zhang, Mr. Tiezheng Li, Mr. Honghui Hu and Mr. Shaofeng Gu, our co-founders and shareholders.

On November 10, 2017, our ADSs commenced trading on the NYSE under the symbol “PPDF.” We raised from our initial public offering approximately US\$205.0 million in net proceeds after deducting underwriting discounts and the estimated offering expenses payable by us. Concurrently with our initial public offering, we also raised approximately US\$49.5 million in net proceeds through issuing 19,230,769 Class A ordinary shares to a wholly-owned subsidiary of Sun Hung Kai & Co. Limited.

In January 2018, we incorporated Bluebottle Limited in Hong Kong. Shortly after its incorporation, Bluebottle Limited established Shanghai Manyin Information Technology Co., Ltd., or Shanghai Manyin, as its wholly-owned PRC subsidiary in China. In March 2018, we entered into a series of contractual arrangements through Shanghai Manyin with Shanghai Zihe and the shareholders of Shanghai Zihe, through which we are able to direct the activities of operation of Shanghai Zihe.

In April 2018, Shanghai Erxu Information Technology Co., Ltd., or Shanghai Erxu, was incorporated as a wholly-owned PRC subsidiary of Shanghai Zihe to operate business related to loan facilitation services.

In June 2018, PT Pembiayaan Digital Indonesia was incorporated in Indonesia, in which we currently hold 80% equity interest. PT Pembiayaan Digital Indonesia obtained the business licenses for lending service providers (information technology-based borrowing) in December 2019 to engage in information technology-based lending services.

In August 2018, Hainan Shanghu Information Technology Co., Ltd. was incorporated as a subsidiary ultimately and wholly owned by Shanghai Manyin to operate technology service business.

In January 2019, Shanghai Ledao Information Technology Co., Ltd., or Shanghai Ledao, was incorporated by Mr. Yejun Jiang, a family relative of Honghui Hu, and Mr. Lizhong Chen, a family relative of Tiezheng Li. We entered into a series of contractual arrangements through Shanghai Manyin with Shanghai Ledao and the shareholders of Shanghai Ledao on January 14, 2019, through which we are able to direct the activities of operation of Shanghai Ledao.

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In November 2019, Fujian Zhiyun Financing Guarantee Co., Ltd., or Fujian Zhiyun, was incorporated as a wholly-owned PRC subsidiary of Shanghai PPDai. Fujian Zhiyun provides financing guarantees services to our institutional funding partners for loans funded by them to the borrowers introduced by us.

In November 2019, the name of the Company was changed from “PPDAI Group Inc.” to “FinVolution Group” and that “信也科技” was adopted as the dual foreign name of the Company. In addition, the Company’s ticker symbol on the New York Stock Exchange was also changed from “PPDF” to “FINV.”

### **Corporate Information**

Our principal executive offices are located at Building G1, No. 999 Dangui Road, Pudong New District, Shanghai 201203, the People’s Republic of China. Our telephone number at this address is +86 21 8030 3200. Our registered office in the Cayman Islands is located at the offices of PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 801 2<sup>nd</sup> Avenue, Suite 403, New York, NY 10017. Investors should contact us for any inquiries through the address and telephone number of our principal executive offices.

The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC on [www.sec.gov](http://www.sec.gov). You can also find information on our website <https://ir.finvgroup.com/>. The information contained on our website or other information contained on the SEC website is not a part of this annual report.

### **B. Business Overview**

We are a leading fintech platform with strong brand recognition in China and the overseas markets. Launched in 2007, we have been a pioneer in China’s online consumer finance industry. In 2018, we began our business operations in overseas markets, and currently we are serving borrowers in Indonesia and the Philippines. We strategically focus on serving borrowers of the young generation that is typically more receptive to internet financial services and whose borrowing needs are unserved or underserved by traditional financial institutions. This segment of borrowers is poised to become the major driving force of the consumer finance market. Our borrowers are primarily acquired online and stretch across a large number of cities and counties in the markets where we operate.

We have built an extensive database that contains first hand through-the-cycle credit data as well as data from various third-party sources. We have established systematic risk management procedures which have proven to be effective in various macro-economic environments. Our proprietary and big-databased credit scoring model, the Magic Mirror Model, has been continually testing and refining its credit decision-making rules as we continue to study the increasing amount of data accumulated through our loan facilitation. We have also made progress in optimizing operational efficiency as we apply big-data analytics and machine learning capabilities to other aspects of our business operations, such as sales and marketing activities and loan collection.

Since 2020, all new loans facilitated on our platform in China have been funded by institutional funding partners. Our platform appeals to institutional funding partners by offering a wide spectrum of loan products. We provide our institutional funding partners with an opportunity to locate high quality borrowers and achieve attractive returns. Institutional funding partners may provide loans to borrowers that we introduce to them, relying on the preliminary credit assessment services as well as other services we provide to them. We offer attractive risk-adjusted returns supported by a set of risk management procedures and implement protection mechanisms to control and mitigate risk exposure.

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As of December 31, 2022, we had over 143.9 million registered users in China and had cumulatively cooperated with 75 institutional funding partners in China. The number of cumulative registered users in China increased from 116.1 million as of December 31, 2020 to 131.2 million as of December 31, 2021 and further to 143.9 million as of December 31, 2022. Our loan origination volume in China increased from RMB64.1 billion in 2020 to RMB133.6 billion in 2021 and further to RMB171.1 billion (US\$24.8 billion) in 2022. We primarily offer short-term loans to our borrowers to meet their immediate credit needs while allowing them to gradually establish their credit history through activities on our platform. In 2020, 2021 and 2022, the average principal amount of loans originated on our platform in China was RMB3,983, RMB4,982 and RMB7,249 (US\$1,051), respectively, with an average term of 8.3 months, 8.4 months and 8.7 months, respectively. Borrowers come to our platform for convenient, simple and fast loan transaction process. We generally have a high level of borrower stickiness. In 2020, 2021 and 2022, 88.2%, 80.0% and 86.8% of the total loan origination volume on our platform in China was generated from repeat borrowers who had at least one drawdown before.

While our business primarily focuses on the PRC market, we have also been expanding our business in the overseas markets, including the Philippines and Indonesia. In December 2018 and June 2019, we established two subsidiaries in the Philippines, and one of them is authorized to operate as a lending company and the other is authorized to operate as a financing company. In December 2019, we established a subsidiary in Indonesia, which has received a license for Technology and Information Based Financial Lending Institution (peer-to-peer lending license) from the Financial Services Authority of Indonesia. We primarily offer short-term loans to our borrowers to meet their immediate credit needs while allowing them to gradually establish their credit history through activities on our platforms. Borrowers come to our platform for convenient, simple and fast loan transaction process.

The number of cumulative registered users in the overseas markets increased from 4.0 million as of December 31, 2020 to 9.0 million as of December 31, 2021 and further to 15.5 million as of December 31, 2022. Our loan origination volume in the overseas markets increased from RMB1.0 billion as of December 31, 2020 to RMB3.7 billion as of December 31, 2021 and further to RMB4.3 billion (US\$0.6 billion) as of December 31, 2022. Our outstanding loan balance in the overseas markets increased from RMB187 million as of December 31, 2020 to RMB330.0 million as of December 31, 2021 and further to RMB800.4 million (US\$116.0 million) as of December 31, 2022. In 2020, 2021 and 2022, revenue generated from the overseas markets were RMB269.9 million, RMB826.4 million and RMB1,149.7 million (US\$166.7 million), representing 3.6%, 8.7% and 10.3% of net revenues for the respective years.

We generate revenues primarily by collecting transaction service fees from institutional funding partners for our services provided to them such as borrower introduction and preliminary credit assessment, as well as other services we provide along the lifecycle of loans.

Our net revenues grew from RMB7.6 billion in 2020 and to RMB9.5 billion in 2021 and further to RMB11.1 billion (US\$1.6 billion) in 2022. A substantial portion of our operating revenues for these periods were attributable to fees collected from borrowers, third party guarantee companies and institutional funding partners. Our net profit was RMB2.0 billion in 2020, RMB2.5 billion in 2021 and RMB2.3 billion (US\$330.8 million) in 2022.

### **Borrowers**

Since our inception and up to December 31, 2022, we had facilitated loans for over 23.6 million borrowers in China from substantially all cities and counties across China. In 2022, over 72.8% of our borrowers in China were between 20 and 40 years of age. We strategically target the young generation in general and cultivate customer loyalty, aiming to capture the vast growth opportunities as our borrowers enter into different stages of their lives and qualify for higher credit limits. The number of our unique borrowers in China were approximately 3.5 million in 2020, 5.6 million in 2021 and 4.7 million in 2022.

Our platform features a high proportion of repeat borrowers. We have an active repeat borrower base and our borrowers tend to borrow more on our platform over time. In China, 88.2%, 80.0% and 86.8% of the total loan origination volume facilitated through our platform in 2020, 2021 and 2022 was generated from repeat borrowers who had successfully borrowed on our platform before.

## **Institutional Funding Partners**

As of December 31, 2022, we had cumulatively cooperated with 75 institutional funding partners in China. The loan origination volume on our platform increased by 111.1% from RMB65.1 billion in 2020 to RMB137.4 billion in 2021 and further by 27.7% to RMB175.4 billion (US\$25.4 billion) in 2022. Currently, we primarily cooperate with commercial banks, private banks, consumer finance companies, micro-loan companies and trust management companies to diversify the funding sources on our platform. As of December 31, 2022, the outstanding balance of loans funded by institutional funding partners on our platform in China was RMB63.8 billion (US\$9.3 billion).

## **Our Products and Services**

### *Loan Services Offered to Borrowers*

Our platform primarily offers standard loan products, consisting of basic loan products and small business loan products. We do not require security for loan products on our platform and generally provide loan applicants with a credit decision in around 10 minutes of application for first-time applicants and in as little as one minute for repeat borrowers. Approved borrowers typically receive loan disbursements within 24 hours following the loan listing, and in 2022, 77.8% of total number of loans facilitated through our platform were funded within two hours. We believe these features are essential to meeting borrowers' often imminent financing needs. Subject to credit assessment result for each loan application, a borrower is allowed to take out multiple loans on our platform if the aggregate outstanding principal amount does not exceed such borrower's credit limit for the type of loans the borrower applies for.

#### *Standard loan products—basic loan products*

Borrowers are able to apply for standard loan products using either mobile or PC devices by providing certain basic information, including bank account information, credit card information if any, educational level, marital status, occupation, email address, social media user name if any and mobile phone number of one or two alternative contact persons, in addition to the borrowers' PRC identity card information and mobile phone numbers which are mandatory for initial user registration.

Depending on the credit assessment result, a borrower may be eligible to apply for a loan within the approved credit limit for a term ranging from one month to 24 months. The average loan amount for our standard loan products was RMB3,983 in 2020, RMB4,982 in 2021 and RMB7,249 (US\$1,051) in 2022. Different credit limits and borrowing costs are applicable to different tiers of borrowers based on their respective credit scores. Borrowers' borrowing cost for taking out a standard loan on our platform include loan interest to be paid to institutional funding partners and, under certain circumstances, a guarantee service fee for services provided by financing guarantee companies. All of our standard loan products feature fixed monthly repayments, consisting of principal, interest and, where applicable, quality assurance fund contribution or guarantee service fee. Borrowers of our standard loan products may make prepayments without incurring penalties. See “—Our Platform and Transaction Process” for information on payment processing. In 2020, 2021 and 2022, the total amount of our standard loan products originated on our platform in China was RMB64.1 billion, RMB133.5 billion, and RMB170.9 billion (US\$24.8 billion), representing 99.9%, 99.9% and 99.9% of the total loan origination volume on our platform in China in the same year.

#### *Standard loan products—small business loan products*

We started to offer loans products to small business owners in 2020. Small business owners can apply for small business loan products using either mobile or PC devices by providing basic information, including business license for their small business or self-employed license, PRC identity card information and mobile phone number, and certain optional information as applicable, including but not limited to bank account information, credit card information, educational level, marital status, email address and social media username.

The principal amount of our small business loan products varies in the range from RMB500 to RMB200,000, with a term ranging from one month to 24 months. In 2022, we served approximately 906,000 small business owners on our platform in China and the total loan origination amount of our small business loan products accounted for 25.4% of the total loan origination volume on our platform in China in the same year.

### *Other loan products*

In addition, we have offered other products and will continue to develop new products from time to time. For example, we cooperate with several third parties to offer their customers loan products similar to our standard ones but with varied features, such as more preferential interest rates. In implementing our strategy of expanding loan product offerings, we have developed and are developing new loan products. In 2020, 2021 and 2022, the total loan origination amounts of our other loan products was RMB37.0 million, RMB138.6 million and RMB164.6 million (US\$23.9 million), representing 0.1%, 0.1% and 0.1% of the total loan origination volume on our platform in China in the same year. As our business develops, we will continue to expand our loan product offerings to meet demands from different tiers of borrowers.

### *Services Offered to Institutional Funding Partners*

We introduce borrowers to our institutional funding partners and provide preliminary credit assessment services as well as other services to them. Currently, our institutional funding partners primarily include commercial banks, private banks, consumer finance companies, micro-loan companies and trust management companies. The service arrangement between our institutional funding partners and us varies depending on the type of institutional funding partners. Institutional funding partners such as commercial banks and consumer finance companies typically provide loans with their own funds directly to the borrowers introduced by us. With respect to our institutional funding partners that are trust management companies, we usually collaborate with them to set up trusts with different types of investors to invest in loans through trusts on our platform. We typically invest in subordinate tranches in the trusts jointly established and other investors invest in senior tranches. Senior tranche investors in these trusts typically receive a fixed rate of return, whereas we, as the subordinate tranche investor, typically receive residual returns from the trusts. There are also trusts established by other investors without us making investment in such trusts. All trusts are administered by third-party trust management companies we collaborate with and such trust management companies are responsible for making investments in loans on our platform.

Since 2020, all new loans facilitated on our platform in China were funded by institutional funding partners. In 2022, the loan origination volume on our platform in China was RMB171.1 billion (US\$24.8 billion).

### **Our Platform and Transaction Process**

We incorporate advanced technology into every step of the transaction process on our platform to provide a better experience to our borrowers and our institutional funding partners. The entire process appears simple, seamless and efficient but our platform leverages sophisticated, proprietary technology to make it possible. Set forth below is a description of the transaction process of our standard loan products facilitated on our platform between borrowers and institutional funding partners.

#### ***Step 1: Initial Application***

Prospective borrowers are able to initiate applications online anytime, anywhere through our mobile applications and website. Potential borrowers may generally complete the application process for our standard loan products within a few minutes by providing the requested personal details, the type of information readily available to the application, and taking a selfie in real time holding the applicant's PRC identity card if the loan application is initiated via mobile applications. If the applicant is a small business owner, they are provided with an option to upload the business license of their small business to the platform.

#### ***Step 2: Fraud Detection and Credit Assessment***

Following the application for a standard loan product or a small business loan product, our system helps to aggregate the data, run our anti-fraud model, conduct credit assessment and decide whether to provide credit, except where manual review process is triggered.

Upon submission of a complete application, our system begins to match the application with data from both internal and external sources, including information provided by the prospective borrowers, data gleaned from third-party data partners, and data aggregated from the internet using our proprietary data collection technologies with due authorization from the prospective borrowers. Information aggregated, and later used for fraud detection and creditworthiness evaluation, includes basic background information, such as age, gender and occupation, behavioral data, and if available, borrowers' credit history. For repeat borrowers, historical loan performance data accumulated on our platform will also be incorporated into the borrowers' profile.

Once aggregated, the data are reviewed by our anti-fraud model to identify fraudulent behaviors. Our anti-fraud model uses a multifaceted detection method that combines sophisticated data integration with a hybrid analytical approach to both identify individual fraud based on existing fraud database and analyze collusive behaviors among multiple individuals to uncover fraudulent schemes. Once the anti-fraud detection process is completed, the prospective borrower's loan application either proceeds to the next phase or the prospective borrower is notified of the decision if we decline the application.

Following the fraud detection, we initiate a credit review process using our proprietary Magic Mirror Model to generate a Magic Mirror score for the prospective borrower. Each Magic Mirror score corresponds to a credit level in the range of I to VIII, with Level I representing the lowest risk and Level VIII representing the highest risk. See “—Risk Management—Proprietary Credit Scoring and Risk Pricing Models.” Applicants classified as Level VIII will be declined, and applicants falling under other credit levels will be assigned by our risk pricing system the approved credit amounts, maximum loan terms and applicable interest rates and other loan characteristics which are determined based on their respective Magic Mirror scores. In 2022, among all the loan applications approved on our platform, 96.3% went through the automated process. The remaining 3.7% in the respective periods often requiring additional information or verification, are forwarded to our credit assessment team for manual review. The manual review process generally takes one to three days. Following this review, our credit assessment team will either approve the loan with one or more approved sets of loan characteristics or decline the loan application.

Borrowers who pass our fraud detection and credit assessment procedures will be introduced to our institutional funding partners. See “—Our Platform and Transaction Process—Step 3: Loan Listing and Funding” for details. Borrowers who do not obtain our preliminary credit assessment approval will be introduced to third-party platforms for matching them with investors on such third-party platforms. Once those borrowers pass the relevant fraud detection and credit assessment procedures on such third-party platforms and successfully match with investors on these third-party platforms, we will charge service fees from these third-party platforms.

### ***Step 3: Loan Listing and Funding***

Loan funding process with institutional funding partners can be categorized into direct lending model and trust arrangement model.

#### *Direct lending model*

Our institutional funding partners that are commercial banks and consumer finance companies typically invest under the direct lending model. Under this model, our institutional funding partners typically provide loans with their own funds directly to the borrowers introduced by us. After obtaining our preliminary credit assessment and approval, the borrowers may submit the final loan amount and loan term within the parameters of the credit approval. Our proprietary system will then match and refer qualified borrowers to our institutional funding partners based on their specific requirements of borrower profiles, such as credit limits or ticket size. Our institutional funding partners will then review the credit application and our preliminary credit assessment of the borrower introduced by us in accordance with their own credit assessment standards and decide to approve or decline the loan application. Once the borrower's credit application is approved, our institutional funding partners will then directly disburse the loan amounts to the borrower's bank account.

We cooperate with institutional funding partners through both capital heavy model and capital light model. Under the capital heavy model, we pre-determine a fixed rate of service fees with our institutional funding partners. Under the capital light model, we provide our institutional funding partners with either no credit enhancement service or a limited credit enhancement service. Under the limited credit enhancement service, we negotiate with each institutional funding partner for a fixed upper limit of guarantee amount that we will be liable for. If the accumulated defaulted loan amount exceeds the agreed upper limit, the excess portion will be borne by the institutional funding partners. In 2022, approximately 18.2% of our total loan origination volume was facilitated through the capital light model.

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Historically, we also collaborated with third-party online lending information intermediaries under this direct lending model. Third-party online lending information intermediaries generally matched qualified borrowers introduced by us with investors on their platforms. Loans were funded by investors on their platforms upon a successful match. In light of the tightening regulatory environment and due to a lack of clear statutory interpretation and application of the relevant rules, we ceased offering new loans to third-party online lending information intermediaries since December 2019.

For the quality assurance commitments we provide to our institutional funding partners under the direct lending model, see “Item 4. Information on the Company—B. Business Overview—Quality Assurance Commitments for Our Institutional Funding Partners.”

### *Trust arrangement model*

In addition to the direct lending model, we also collaborate with trust management companies to offer flexibilities to certain of our institutional funding partners and access to a broader range of investors. Under this model, we usually establish trusts jointly with various other investors. We typically invest in subordinate tranches in these trusts while other investors, including certain of our institutional funding partners and investors approached by trust management companies, invest in senior tranches. Under this model, other investors may also collaborate with trust management companies to establish a trust among themselves without us. The trusts established are managed by third-party trust management companies we collaborate with. After we complete our borrower creditworthiness assessments and introduce qualified borrowers to the third-party trust management companies, these trust management companies will then conduct their own credit assessment and decide to approve or decline borrowers’ loan applications. If a borrower’s loan application is approved, the corresponding trust management company will then directly disburse the loan amount from the trust to the borrower’s bank account.

For the trusts jointly established by us and other investors, these investors, as senior tranche investors in the trusts, typically receive a fixed rate of return, while we, as the subordinate tranche investor, typically receive the residual returns, if any, from the trusts. In certain very limited cases, we may also receive from the trusts a service fee in addition to possible residual returns. For the trusts jointly established by other investors among themselves, we receive from trusts a service fee. In some cases, we have engaged licensed third-party financing guarantee companies to provide financing guarantees to the third-party trust management companies. If any borrower defaults, third-party guarantee companies engaged by us or our own guarantee company will be obligated to repay the full overdue amount to these trusts. After third-party financing guarantee companies repay the full overdue amount to these trusts, we will be obligated to purchase the loans from these guarantee companies at an amount equal to the repayment they made to those institutional funding partners.

### ***Step 4: Loan Servicing and Collection***

Borrowers are able to repay loans through our online platform based on the terms and conditions of the loan agreements between borrowers and institutional funding partners. For borrowers who are unable to repay loans online, we accept bank transfer on behalf of our institutional funding partners. Borrowers and institutional funding partners are able to monitor the loan performance on a real-time basis. On or prior to each scheduled repayment date, borrowers should deposit sufficient funds consisting of corresponding installment of principal, interest, late payment penalty (if applicable), guarantee service fee to third-party guarantee companies for certain borrowers in their respective accounts and authorize institutional funding partners and us, including third-party payment companies designated by us or institutional funding partners, to, on such repayment date, (i) transfer corresponding installment of principal, interest and late payment penalty (if applicable) to the corresponding institutional funding partners, and (ii) transfer each installment of guarantee service fee to the corresponding third-party guarantee company. Our institutional funding partners subsequently pay us a transaction service fee for the services we provide to them, such as borrower introduction and preliminary credit assessment as well as other services we provide over the lifecycle of loans. In addition, we also receive a portion of our transaction service fees under certain circumstances from third-party guarantee companies for services we provide to them.



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We have a collection team of over 700 employees as of December 31, 2022 and have developed a systematic process to handle collection of delinquent loans. Upon becoming delinquent, a loan enters into our collection process, which is divided into stages based on severity of delinquency. The first 90-day collection period is typically handled by our collection team although we also engage third-party loan collection service providers to assist us from time to time. Primary collection measures, including text message reminders, phone calls, legal letters and legal proceedings, are taken in succession as a loan becomes increasingly overdue. If a loan remains overdue after the 90-day period, we then outsource loan collection to third-party service providers to optimize collection efficiency. Any amount recovered from the borrower will be remitted to first cover third-party collection expenses, if any, then to repay overdue principal and interest. Any remaining amount will be used to pay the overdue interests and the collection fee charged to the borrower.

### **Risk Management**

Our strong risk management capabilities are one of the key competitive advantages that enable us to make credit available to the large unserved or underserved population in China, whose credit histories have yet been recorded in the country's developing credit system, while maintaining a sustainable business at a healthy profitability level.

### ***Data Aggregation***

We have invested significant resources in building up a comprehensive credit database since our inception. Today, we own an extensive database with several thousands of variables for our borrowers, covering a wide range of information pertinent to a borrower's creditworthiness and presenting a user profile from a 360-degree view. Data are aggregated from a number of sources. We have cooperation with a number of organizations, such as industry associations, who grant us the access to their respective data. Our strong data-mining capabilities, which we believe differentiate us from many other players in the online consumer finance industry. We have developed a number of proprietary automated programs that are capable of searching, aggregating and processing data from the internet in a short period of time. Another important component of our credit database is the payment histories of our prior and existing borrowers. We take various measures to ensure high level of reliability and accuracy of data. The following are typical data that we seek to collect for each loan application:

- historical credit data accumulated through our online platform;
- behavioral data that we glean from an applicant's behaviors as they apply for loans;
- personal identity information maintained by an organization operated under the MPS;
- background information, such as income level, education level and marital status, collected from prospective borrowers; and
- list and database of fraud cases.

Upon the data aggregation, our system converts the originally unstructured data and structured data into credit scores using machine learning techniques.

### ***Fraud Detection***

We have been working closely with multiple partners in a joint effort to identify emerging fraudulent schemes, scams, trends, threats, and criminal organizations and have accumulated data as related to fraud. The database we maintain helps us to fine-tune the rules we set and enhance our fraud detection capabilities. We adopt a multifaceted fraud detection method. First, we set up rules based on known fraud cases to filter activities for fraudulent behaviors. Afterwards, we apply advanced network techniques to identify relationships pertinent to fraud and connect the individual fraudulent activities to uncover complex fraud schemes and criminal organizations. In addition, we run anomaly detection to detect individual and aggregated abnormal patterns in order to catch unknown fraud behaviors. If available information is insufficient for our system to draw a conclusion, the relevant loan applications will be forwarded to our anti-fraud team for offline verification, which involves members of our anti-fraud team speaking with applicants to inquire after any inconsistencies in a loan application.

### ***Proprietary Credit Scoring and Risk Pricing Models***

In August 2014, we developed and launched a proprietary credit scoring model, known as Magic Mirror Model, which we believe represents one of our key competitive advantages. Our Magic Mirror Model leverages a huge database that we have built up gradually through our years of operations. Such a vast amount of data lays a strong foundation for our use of machine learning to optimize the Magic Mirror Model on a continuing basis.

Following data aggregation and fraud detection, prospective borrowers enter into credit assessment phase. Different algorithms are applied to prospective borrowers with different features in assessing the potential risks associated with them and based on the assessment results, our credit scoring model generates Magic Mirror scores for each of the prospective borrowers. A new Magic Mirror credit score is generated each time a borrower applies for a loan, which may change the borrower's credit limit for that type of loan. We apply various machine learning techniques to the data collected. Through monitoring model performance as well as variable consistency, our system is able to evaluate the effectiveness of existing variables while discovering new ones. The Magic Mirror Model then is optimized by adjusting the group of variables used. The following factors are associated with variables that are important for assessing the probability of delinquency:

- repayment history
- personal identity information
- education
- consumption behavior
- credit reports
- fraudulent records
- third-party supplementary data

For applicants of our standard loan products, the Magic Mirror score derived from our proprietary credit scoring model is used to determine which of the eight segments in our existing credit grid such applicants fall into. Among the eight segments, Level I represents the lowest risks associated with the borrowers, while Level VIII represents the highest risks. Level VIII loan applications will be rejected. Once a credit level is assigned to a specific loan, it will not be changed during the tenor of the loan.

We review and modify our segmented pricing from time to time, taking into consideration not only the borrower credit risk but also other factors, such as market interest rates, adequacy of investor protection mechanism and competition in the market.

### **Quality Assurance Commitments for Our Institutional Funding Partners**

We provide quality assurance commitments to our institutional funding partners. There are two major types of quality assurance commitments provided to our institutional funding partners—financing guarantee and insurance policy.

We engage licensed third-party financing guarantee companies to provide financing guarantees to our institutional funding partners. For loans guaranteed by third-party financing guarantee companies, if a borrower defaults, the corresponding third-party guarantee company will be obligated to repay the full overdue amount to the institutional funding partner. After the guarantee company repays the full overdue amount, we will be obligated to purchase creditor's right from the third-party guarantee companies at a price equal to the repayment it made to the institutional funding partner. Under certain circumstances, we also provide security deposits to third-party financing guarantee companies for loans funded by certain institutional funding partners as an additional quality assurance commitment.

In addition, we also provide quality assurance commitments through cooperation with third-party insurance companies. Under this arrangement, if borrowers introduced by us defaults, our institutional funding partners are able to seek insurance compensations under the insurance policies from third-party insurance companies. In some cases, if the overdue amount exceeds insurance coverage, the remaining overdue amount will be repaid by a third-party guarantee companies engaged by us. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Regulatory restrictions on institutional funding partners’ acceptance of credit enhancement may adversely affect our business and access to funding.”

In 2019 and 2020, we incorporated three financing guarantee companies in Fujian, Tianjin and Hainan. In some cases, our own financing guarantee companies provide financing guarantee services directly to our institutional funding partners for loans funded by them.

## Technology

The success of our business is dependent on our strong technological capabilities that support us in delivering superior user experience, protecting information on our platform, increasing operational efficiency and enabling innovations. Principal components of our state-of-the-art technology include:

- *Data Science.* Data science technology is extensively used in various aspects of our operations. Our data mining and user behavior analytics capabilities allow us to build a comprehensive credit profile for each borrower. Our multi-dimensional real-time analytics capabilities enable fast and accurate credit decisions. In 2022, a total of 29.0 million loan transactions were matched on our platform. Data-based machine learning is also used in numerous applications, such as improving fraud detection, optimizing marketing resource allocation and increasing collection efficiency.
- *Security.* We are committed to maintaining a secure online platform. We have built a firewall that monitors and controls incoming and outgoing traffic on our platform around the clock. Once any abnormal activity is detected, our system will immediately notify our IT team and at the same time automatically take relevant measures, such as activating third-party traffic control service, to prevent any harm to our platform. For any transmission of user information, we use data encryption to ensure confidentiality. Within our organization, we have adopted a series of policies on internal control over information system, including physical security measures, such as entry and equipment control, and network access management, such as identification, authentication and remote access control. We employ data slicing and distribute the storage of a user’s data points across several servers. We also maintain redundancy through a real-time multi-layer data backup system to prevent loss of data resulting from unforeseen circumstances. We conduct periodic reviews of our technology platform, identifying and correcting problems that may undermine our system security.
- *Stability.* Our systems infrastructure is hosted in data centers at two separate locations in Shanghai. We maintain redundancy through a real-time multi-layer data backup system to ensure the reliability of our network. Our platform adopts modular architecture that consists of multiple connected components, each of which can be separately upgraded and replaced without compromising the functioning of other components. This makes our platform both highly reliable and scalable.
- *Scalability.* With modular architecture, our platform can be easily expanded as data storage requirements and user visits increase. In addition, load balancing technology helps us improve distribution of workloads across multiple computing components, optimizing resource utilization and minimizing response time.
- *Automation.* In addition to the foregoing technologies we employ to support our highly automated platform, we have taken various measures to ensure uninterrupted operation of our platform. For example, we adopt self-healing technology that enables our system to perceive malfunction and make necessary adjustments to restore itself to normal operation without any human intervention. Also, our system is connected with systems of multiple data providers that serve as backups for each other. If services provided by one data provider are suspended, our system will shift to the backup sources automatically to ensure no interruption to our operation.

## Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of the March 31, 2023, we have (i) 164 patent applications in China and registered 45 patents in China, including our proprietary facial recognition technology used for fraud detection, (ii) registered 219 software copyrights with the PRC National Copyright Administration, (iii) registered 202 domain names, including ppdai.com, and (iv) registered 256 trademarks, including our “FINV,” “PPDAI,” “信也,” “拍拍贷” and “魔镜” trademarks.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. Even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.”

## Sales and Marketing

Our market position benefits significantly from our large user base and our strong brand recognition throughout China. We believe that our variety of loan products that offer attractive returns, as well as our effective risk management and various protection mechanisms lead to strong word-of-mouth promotion, which drives awareness of our brand among our users and business partners.

We use a variety of traditional and internet marketing channels to acquire borrowers although most of our borrowers are acquired online. Our borrower acquisition channels mainly include:

- *Online Advertising.* From time to time, we work with App Stores to promote our mobile applications and with internet companies to place online advertisements.
- *Online Partnerships.* We team up with certain websites that are able to reach quality borrowers to provide consumer finance services to their customer.
- *Search Engine Marketing.* We also use paid placement on major online search engines in China.
- *Offline Direct Sales Team.* We also establish an offline direct sales team with a workforce of 1,000 employees as of December 31, 2022.

## Competition

Online consumer finance market is an emerging industry in China. It provides a new means for consumers to obtain financing. As a leading player in China’s online consumer finance platform market, we face intensive competition from other online marketplaces, online finance service providers, technology giant backed internet finance platforms, as well as traditional financial institutions. Consumer finance marketplaces which operate online platforms connecting borrowers and institutional funding partners compete directly with us for both borrowers and institutional funding partners. We also compete with traditional financial institutions, including credit card issuers, consumer finance business units in commercial banks and other consumer finance companies. Some of our larger competitors have substantially broader product or service offerings and rich financial resources to support heavy spending on sales and marketing. We believe that our ability to compete effectively for borrowers and institutional funding partners depends on many factors, including the variety of our products, user experience on our platform, effectiveness of our risk management, the return offered to institutional funding partners, our partnership with third parties, our marketing and selling efforts and the strength and reputation of our brands.

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In addition, as our business continues to grow rapidly, we face significant competition for highly skilled personnel, including management, engineers, product managers and risk management personnel. The success of our growth strategy depends in part on our ability to retain existing personnel and add additional highly skilled employees.

### **Seasonality**

We experience seasonality in our business, reflecting seasonal fluctuations in internet usage and traditional personal consumption patterns, as our individual borrowers typically use their borrowing proceeds to finance their personal consumption needs. For example, we generally experience lower transaction volume on our online consumer finance platform during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. As we cooperate with institutional funding partners, such as commercial banks, our business may also be affected by liquidity seasonality in the banking system. For example, liquidity in China's banking sector has historically had a tendency to be looser at the beginning of each calendar year and tighter towards the end of each calendar year. Overall, the seasonality of our business may increase in the future.

### **Regulation**

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

#### ***Regulations Relating to Online Consumer Finance Services***

Due to the relatively brief history of the online consumer finance industry in China, the regulatory framework governing our industry has not developed comprehensively. The PRC government and relevant regulatory authorities have issued various laws and regulations governing the online consumer finance industry in the past few years.

##### *Regulations on online lending information intermediaries*

On July 18, 2015, the Guidelines on Promoting the Healthy Development of Online Finance Industry, or the Guidelines, were promulgated by ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC. The Guidelines define online peer-to-peer lending and borrowing as direct loans between lenders and borrowers through an online platform, which is under the supervision of the CBRC, and governed by the Contract Law of the PRC, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People's Court. The Contract Law of the PRC, and the General Principles of the Civil Law of the PRC, had been repealed by the Civil Code of the PRC, and the Civil Code of the PRC integrates the rules and guidelines set forth by the Contract Law, the General Principles of the Civil Law, the General Provisions of the Civil Law and other basic civil laws of the PRC. Pursuant to the Guidelines, a company that provides online lending information services shall make it clear its nature of being an information intermediary and provide information services rather than engage in illegal fund-raising, which further requires such company to separate funds of the borrowers and the investors from its own funds.

On August 17, 2016, the CBRC, the MIIT, the MPS and the CAC jointly issued the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries, or the Interim Measures. The Interim Measures also define the online lending information service providers as financial information intermediaries.

Pursuant to the Interim Measures, online lending information intermediaries shall complete registration with local financial regulatory authority and apply for appropriate telecommunication business license in accordance with relevant rules issued by competent telecommunication authority. The Interim Measures also require the online lending information intermediaries to substantially cover "online lending information intermediary" in its business scope filed with the local registration regulatory authority.

According to the Interim Measures, online lending information service providers shall not engage in or accept entrustment to engage in certain activities, including, among others, (i) fund raising for the intermediaries themselves, (ii) holding investors' fund or setting up capital pools with investors' fund, (iii) providing security or guarantee to investors as to the principals and returns of the investment, (iv) issuing or selling any bank wealth management products, assets management products of securities companies, fund products, insurance products, trust products or other financial products, (v) mismatch between investor's expected timing of exit and the maturity date, (vi) securitization, (vii) promoting its financing products on physical premises other than through the permitted electronic channels, such as telephones, mobile phones and internet, (viii) providing loans with its own capital, except as otherwise permitted by laws and regulations; and (ix) equity crowd-funding.

Pursuant to the Interim Measures, if an online lending information service provider violates any applicable laws, regulations or relevant regulatory provisions relating to online lending information services, sanctions could be imposed by the local financial regulatory departments or other relevant regulatory departments, including, among others, supervision interviews, regulatory warning, correction order, condemnation, credit record modification, fine up to RMB30,000 (US\$4,349.6), and criminal liabilities if the act constitutes a criminal offense.

Pursuant to the aforementioned changes of laws and regulations governing online consumer finance, we have ceased facilitating new loans with funding from individual investors on our platform since October 2019 and improve our business model through acquisition of better quality borrowers and transition of our funding sources from individual investors to institutional funding partners. On January 14, 2022, the Shanghai Financial Stability Coordinating Joint Conference Office, the Shanghai Online Lending Risk Rectification Office, and other regulatory authorities jointly announced that Shanghai PPDai, among others, had declared the termination of its business operation as an online lending information intermediary and fully settled all related legacy loan products funded by individual investors.

#### *Regulations on lending activities*

The PRC Contract Law confirms the validity of loan agreement between individuals and provides that a loan agreement becomes effective when an individual lender provides loan to an individual borrower provided that the interest rates charged under the loan agreement do not violate the applicable provisions of the PRC laws and regulations.

The 13<sup>th</sup> National People's Congress approved the Civil Code of the PRC on May 22, 2020. Upon the effectiveness of the Civil Code of the PRC on January 1, 2021, the PRC Contract Law, the General Provisions of the PRC Civil Law, and the General Principles of the PRC Civil Law have been abolished and replaced, while their provisions are generally incorporated into the Civil Code of the PRC with certain changes and supplements. It remains unclear with respect to the relevant interpretations and implementations of certain provisions of the Civil Code of the PRC and how these provisions of the Civil Code of the PRC will apply to our business operations. For example, pursuant to the Civil Code of the PRC, usurious loans are explicitly banned, but a clear definition or interpretation of "usurious loans" is not provided. We cannot rule out the possibility that certain of our operation activities would be deemed to violate or not fully comply with the Civil Code of the PRC. If that happens, our business, results of operations and financial condition would be materially and adversely affected.

On September 4, 2020, nine local governmental authorities in Shanghai jointly issued the Guidance on Further Strengthening the Administration of Financial Advertisement, which stipulates, among others, that (i) advertisements released by financial institutions and financial service providers should be within the scope permitted by the local governmental authorities; (ii) any market players without the relevant financial business qualifications cannot advertise or promote financial business; (iii) the financial advertisements should not induce purchase of improper financial products or services; and (iv) financial service provider is required to disclose name of its client when acting as an intermediary.

On February 12, 2010, the CBRC promulgated the Interim Measures on Administration of Personal Loans, or the Personal Loan Interim Measures, which provide that (i) several conditions shall be satisfied to apply for a personal loan, including but not limited to (a) the purposes of the loan shall be clear and legal, (b) the amount, term and currency of the loan as indicated in the loan application shall be reasonable, and (c) the borrower is willing and able to make repayment, and the borrower shall have a good credit standing and no record of bad credit, (ii) loan investigation shall cover, including but not limited to, the basic information of the borrower, the borrower's earnings, the purpose of the loan, and the borrower's source of funds and ability for repayment, and the method of repayment, and (iii) the lender shall perform the loan investigation on the borrower by itself and shall not delegate such matter to a third party. On January 6, 2023, the CBIRC issued the Draft Measures on Administration of Personal Loans for public comments, which will replace the Personal Loan Interim Measures once effective. This draft further stipulates that during the loan investigation process, the lender shall not delegate the core risk management matters such as the assessment of the genuine intention of the borrower, the borrower's earnings, indebtedness, source of funds, and the assessment of the entry of evaluation service provider, to a third party.

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In accordance with the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court on August 6, 2015, or the Private Lending Judicial Interpretations, in the event that loans are made through an online lending information intermediary platform and the platform only provides intermediary services, courts shall dismiss any claim concerned against the platform demanding the repayment of loans by the platform as a guarantor.

The Private Lending Judicial Interpretations also provide that agreements between lenders and borrowers on loans with interest rates below 24% per annum are valid and enforceable. As to the loans with interest rates per annum between 24% (exclusive) and 36% (inclusive), if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the excess interest payment. If the annual interest rate of a private loan is higher than 36%, the agreement on the excess part of the interest is invalid, and if the borrower requests the lender to return the part of interest exceeding 36% of the annual interest that has been paid, the courts will support such requests. The interest rates of all our loan products are below 36%. In addition, on August 4, 2017, the Supreme People's Court issued the Circular of Several Suggestions on Further Strengthening the Judicial Practice Regarding Financial Cases, which provides, among others, that (i) the claim of the borrower under a financial loan agreement to adjust or cut down the part of interest exceeding 24% per annum on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees collectively claimed by the lender is overly high shall be supported by the PRC courts; (ii) in the context of Internet finance disputes, if the online lending information intermediary platforms and the lender circumvent the upper limit of the judicially protected interest rate by charging intermediary fee, it shall be determined as invalid; and (iii) private lending transaction is defined as lending between individuals, legal persons and other organizations. Loans funded by financial institutions which are licensed by financial regulatory authorities are not private lending transactions.

On August 20, 2020, the Supreme People's Court issued the Decision on Amending the Provisions on Several Issues Concerning Laws Applicable to Trial of Private Lending Cases, which is further amended by the Supreme People's Court on December 29, 2020, or the Private Lending Judicial Interpretation Amendment, which amended the upper limit of private lending interest rates under judicial protection. The Private Lending Judicial Interpretation Amendment provides that where the lender requests the borrower to pay interest in accordance with the interest rate agreed upon in the agreement, the people's court shall support such request, except where the interest rate agreed by both parties exceeds four times of the one-year Loan Prime Rate at the time of the establishment of the agreement, or the Quadruple LPR Limit. The one-year Loan Prime Rate refers to the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center which was authorized by the PBOC on the 20<sup>th</sup> of each month since August 20, 2019. According to the Private Lending Judicial Interpretation Amendment, the upper limit of interest rates of 24% and 36% provided in the 2015 Private Lending Judicial Interpretation, are replaced by the Quadruple LPR Limit. Moreover, if the lender and the borrower agree on both the overdue interest rate and the liquidated damages or other fees, the lender may choose to claim any or all of them, but the portion in total exceeding the Quadruple LPR Limit shall not be supported by the people's court. The Private Lending Judicial Interpretation Amendment applies to new first-instance cases of private lending disputes accepted by the People's Court after the implementation of the Judicial Interpretation Amendment on August 20, 2020. If the lending occurred before August 20, 2019, the upper limit of the protected interest rate can be determined by referring to four times of the one-year Loan Prime Rate at the time of the plaintiff's filing of lawsuit. On January 21, 2021, in the response letter to the Guangdong High People's Court relating to the inquiry on the scope of application of the Private Lending Judicial Interpretation Amendment issued by the Supreme People's Court, it further clarifies that seven types of financial organizations, including micro-loan lending companies and financing guarantee companies, are financial institutions licensed by the financial administrative authorities, and the disputes arising out of their financial business activities do not apply to the Private Lending Judicial Interpretation Amendment. However, as the regulatory authorities have wide discretion in administration, interpretation and enforcement of the laws and regulations, we cannot rule out the possibility that the regulatory authorities may hold different opinions on whether Quadruple LPR Limit applies to the loans funded by financial institutions on our platform. For example, according to the Notice on Regulating and Rectifying "Cash Loan" Business, or Circular 141, promulgated by the Internet Finance Rectification Office and the Online Lending Rectification Office in December 2017, in the context of "cash loan" business operated by various types of institutions, the aggregated borrowing costs of borrower charged in forms of interests and all kinds of fees should be annualized and subject to the upper limit on interest rate of private lending set forth in the judicial interpretations issued by the Supreme People's Court. On March 31, 2021, the PBOC released its No. 3 announcement in 2021, or the PBOC No. 3 Announcement, which stipulates, among others, that the annual interest rate of a loan should be the annualized form of ratio calculated based on the percentage of all expenses charged from the borrower for the borrowing to the principal actually borrowed by this borrower. The expenses charged from the borrower include the interests and the various expenses directly related to the borrowing. If the loan is repaid in installments, the remaining principal after the deduction of the total repaid principal should be deemed as the actual borrowed principal when calculating the annual interest rate. Compound interest rate and simple interest rate are both allowed to be used to calculate the annual interest rate, provided that if simple interest rate is used, it should be explicitly disclosed to the borrower. The PBOC No. 3 Announcement applies to deposit-taking financial institutions, consumer finance companies, micro-loan lending company, and internet platforms providing loan application services like us. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Interest rates of certain of our loan products exceed the statutory interest rate limit and therefore part of the interests is not enforceable through the PRC judicial system."

The Circular 141 specifies the features of “cash loans” as not relying on consumption scenarios, with no specified use of loan proceeds, unsecured, and no qualification requirement on customers, among others. The Circular 141 also sets forth several general requirements with respect to “cash loan” business, including but without limitation: (i) the aggregated borrowing costs of borrowers charged by institutions in the forms of interest and various fees should be annualized and subject to the limit on interest rate of private lending set forth in the Private Lending Judicial Interpretations issued by the Supreme People’s Court; (ii) all relevant institutions shall follow the “know-your-customer” principle and prudentially assess and determine the borrower’s eligibility, credit limit and cooling-off period; (iii) all relevant institutions shall enhance the internal risk control and prudentially use the “data-driven” risk management model; (iv) all institutions are prohibited from providing any loans to any persons without repayment source or repayment capacity, or loans with no designated use of proceed; (v) funds from banks cannot be used for “cash loan” or “campus loan”; and (vi) in the case where a financial institution participates in the “cash loan” business, any third parties are not allowed to charge borrowers any interests or fees. Circular 141 further provides that financial institutions cooperating with third parties to engage in lending business (i) are not allowed to outsource any core lending business operations, such as credit assessment and risk management, to third parties, (ii) are not allowed to accept any credit enhancement provided by third parties without any license or approval to provide guarantees, including credit enhancement service in the form of a commitment to assume default risks, (iii) should comply with the judicial interpretations by the Supreme People’s Court of the PRC regarding interest rates in private lending regarding the annual borrowing cost charged to a borrower, i.e. interests plus other fees, and (iv) should ensure that third parties do not collect any interests or fees from borrowers.

Any violation of the Circular 141 may result in penalties, including but not limited to suspension of operation, orders to make rectification, condemnation, revocation of license, be ordered to cease business operations, and even criminal liabilities.

On July 12, 2020 the CBIRC promulgated the Interim Measures for Commercial Banks Doing Online Lending Business, or the Interim Measures for Banks, pursuant to which the banks may collaborate with financing guarantee companies, e-commerce business companies, third-party payment companies and information technology companies in various online lending business processes and activities, including but not limited to client referral, joint loan origination, risk distribution, information technology and loan collection. However, when collaborating with third parties for online lending businesses, the banks are required to independently manage core risk control procedures, such as the credit assessment and contract conclusion, and should be responsible for post-loan managements. Each of the regional banks, which is an important category of our institutional funding partners, should (i) provide online lending services primarily to its local clients, (ii) be prudent to provide loans to borrowers who reside outside its region, and (iii) take appropriate measures to monitor the business operations when serving the clients who are located outside its region. The banks may not accept credit enhancements, in a direct or a disguised form, provided by a third-party partner without financing guarantee license or credit security insurance license. The banks shall adopt appropriate measures to monitor the use of loan proceeds. The banks should evaluate and review the online lending partners they collaborate with at least once a year and terminate the cooperation if any incompetency is identified.



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On February 19, 2021, the CBIRC further issued the Notice of Further Regulating Online Loan Business of Commercial Banks, also known as Circular 24, which provides that the commercial banks shall independently carry out the risk management of online loans and are forbidden from outsourcing the material procedures of loan management. The outstanding balance of online loans extended by a bank in collaboration with third-party platforms should not exceed 50% of the bank's total outstanding balance. Where a commercial bank and its joint lending partner jointly contribute funds to issue online loans, the funding contribution percentage of its joint lending partner shall not be less than 30%. Circular 24 further strengthens the requirement that commercial banks are strictly prohibited from outsourcing the material procedures of loan management, and local commercial banks from engaging in an online loan business outside the territory of their registered place. The requirements on the limit of 30% lower limit for the joint lending loans and the cross-regional prohibition came into effect on January 1, 2022. The non-conforming legacy loans that extended before the promulgation of Circular 24 may be settled on their relative maturity dates.

On July 15, 2022, the CBIRC issued the Notice on Strengthening the Management of Commercial Banks' Online Lending Business and Improving the Quality and Efficiency of Financial Services (the "Circular 14"), which further requires commercial banks to: (i) take necessary measures to effectively assess the compliance system, supervision mechanism, information processing guidance, and security protection measures of personal information protection of the institutes they cooperate with, (ii) strengthen loan fund management, take effective measures to monitor loan usage, ensure safety of the loan funds, and prevent institutions they cooperate with from intercepting, pooling, or misappropriating funds, (iii) standardize the online loan cooperation business with third-party institutions, and restrict or refuse to cooperate with those that are in violation of relevant regulations on online loans, and (iv) strengthen the protection of consumer rights and interests, the compliance management of the marketing and promotion activities of the institutions they cooperate with, and clearly stipulate the relevant prohibited behaviors in their cooperation agreement with the institutions. With respect to the current non-compliance business, the commercial banks will be given a grace period through June 30, 2023 to rectify the non-compliance. During the grace period, the commercial banks shall comply with the requirements under the Interim Measures for Banks, Circular 24, and Circular 14 when conducting any new online loans businesses.

With certain limited exceptions, the Interim Measures for Banks, Circular 24, and Circular 14 apply to the consumer finance companies and trust companies when they conduct online lending business. As our institutional funding partners include commercial banks, consumer finance companies and trust companies, they are required to evaluate and review us as required by the Interim Measures for Banks, Circular 24, and Circular 14. If any of our institutional funding partners identifies any incompetency of us in such evaluation and review, it may terminate the cooperation with us and our business and operation results would be adversely and materially affected. Furthermore, we act as an intermediary between institutional funding partners and borrowers, and we cannot assure you that all the institutional funding partners we cooperate with have been and will be in strict compliance with the Interim Measures for Banks, Circular 24, and Circular 14.

On December 31, 2021, the PBOC, the CBIRC and five other regulatory authorities jointly published the Administrative Measures for Online Offering of Financial Products (Draft for Comments), or the Draft Offering Measures, which stipulates that, among others, (i) except otherwise explicitly stipulated by the laws or regulations, a financial institution cannot authorize other organizations to offer its financial products; (ii) without approval from the competent financial regulatory authorities, any third-party internet platform cannot get involved, or get involved in a disguised form, in the online offering of financial products, including but not limited to, procedures of interactive consultant with the consumer, know-your-customer, sales contract conclusion, or fund transferring. The third-party internet platform cannot participate, or participate in a disguised form, in sharing the revenue generated from the financial business; (iii) the third-party internet platform cannot illegally crack, hold, nor store customer information and business data; (iv) the "online offering" is defined as commercial promotion and recommendation activities of the financial products on the internet platform, including but not limited to exhibiting the financial product information and the financial institution's brand name or logo, providing sales channel for consumers to purchase financial products. The "financial products" includes deposit products, loan products, asset management products, etc. that are designed, developed, or sold by financial institutions; and (v) a transition period of 6 months would be given to the existing non-compliance activities before the effectiveness of the draft. As uncertainties remain regarding when the Draft Offering Measures would be adopted and become effective, and to what extent we would be subject to the Draft Offering Measures, we cannot assure you that we will be able to comply with such regulations in all respects in a timely manner, or at all, and we may be ordered to rectify or terminate any actions that are deemed illegal by regulatory authorities. If we cannot rectify our business model in a timely manner, or at all, the regulatory authorities may levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

*Regulations on illegal financial institutions and intermediaries*

The Measures for Banning of Illegal Financial Institutions and Illegal Financial Business Operations, or the Measures for Illegal Financial Institutions, promulgated by the State Council on July 13, 1998, provides that the establishment of financial institution should be subject to the approval of People's Bank of China, or PBOC. Without such approval, no entity or individual may establish financial institution or conduct financial business operation. Pursuant to the Measures for Illegal Financial Institutions, providing loans without the approval of PBOC is deemed as illegal financial business operation and the entity providing loans without the approval of PBOC is deemed as an illegal financial institution. The online consumer finance industry is new and developing rapidly, and the regulatory environment has evolved since the promulgation of the Measures for Illegal Financial Institutions. There are uncertainties as to the interpretation of the Measures for Illegal Financial Institutions as well as whether such laws and regulations are applicable to us or our business. We have ceased facilitating new loans with funding from individual investors on our platform since October 2019. Furthermore, in some cases we repaid outstanding balance of certain loans to the individual investors on our platform. In connection with our quality assurance commitments provided through third-party financing guarantee companies, we purchased creditor's rights from third-party financing guarantee companies after these financing guarantee company repay the full overdue amounts to our institutional funding partners. We may be deemed to be financing loans without the approval of PBOC. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be deemed to use our own fund to finance certain loans and therefore subject us to regulatory risks." If our business practices are deemed to violate any existing and future applicable laws, regulations or requirements of local regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected. Although the trust management companies that administer the trusts have been licensed and approved by the financial regulatory authorities to provide loans and we believe that it is the licensed trust management companies, not us, that provide loans to the borrowers under such trust arrangements, we cannot assure you that the financial regulatory authorities will hold the same view as ours. Our investments in the trusts may be deemed to be providing loans to the borrowers and we may be regarded as a lender in this arrangements, and therefore we may be deemed to be an illegal financial institution, which may subject us to penalties, including confiscation of illegal gains together with a fine from one time to five times of the illegal gains, or a fine of RMB100,000 to RMB500,000 if there are no illegal gains, and criminal liability if the violation constitutes a criminal offense.

In addition, the Supreme People's Court, the Supreme Peoples' Procuratorate, the MPS, and the Ministry of Justice jointly issued the Guidance on Several Issues for Illegal Lending Regarding Criminal Case, or the Guidance on Illegal Lending, on July 23, 2019, which provides, among others, that (i) if any entity or individual is engaged in providing loans to the unspecified public individuals consistently for the purpose of profits and without the approval from the regulatory authorities or outside its business scope, which disturbs the stability of financial markets, such entity or individual may face a criminal charge of unfair competition and may be imposed criminal liability in accordance with the applicable laws and regulations; "providing loans to the unspecified public individuals consistently" refers to providing loans to entities and individuals no less than ten times within two years; and (ii) if the actual annual interest rate of the loans provided by such entity or individual exceeds 36%, it would be deemed as an aggravated circumstance when such entity or individual face the abovementioned criminal charge of unfair competition. There are uncertainties as to the interpretation of the Guidance on Illegal Lending, and it is still unclear how the regulatory authorities will interpret and implement it in the future. We cannot rule out the possibility that regulatory authorities may deem our operation activities under the trust arrangements as unfair competition and impose criminal liability on us. If that happens, our business, results of operations and financial condition would be materially and adversely affected.

According to the Civil Code of the PRC, an intermediation contract 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 our institutional funding partners with individual borrowers may constitute intermediary service, and our service agreements with borrowers and institutional funding partners may be deemed as intermediation contracts under the Civil Code of the PRC. Pursuant to the Civil Code of the PRC, 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.

*Regulations on financial guarantee*

In June 1995, the Standing Committee of the National People's Congress, or the SCNPC, promulgated the PRC Guarantee Law. According to the PRC Guarantee Law, an action of guarantee means that the guarantor agrees to repay the outstanding debts to the creditor or assume any other relevant responsibilities when the debtor fails to repay the outstanding debts or fulfill the responsibilities.

The Regulations on the Administration of Financing Guarantee Companies, or the Financing Guarantee Regulations, was promulgated by the State Council on June 21, 2017 and took effect on October 1, 2017. According to the Financing Guarantee Regulations, the establishment of financing guarantee companies should be subject to the approval of the competent government authority, and unless otherwise stipulated, no entity is allowed to operate the financing guarantee business without such approval. If any entity operates the financing guarantee business without such approval, the entity may be subject to penalties, including termination 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 applicable laws and regulations. In October 2019, the CBIRC, together with eight other regulatory agencies jointly promulgated the Supplemental Rules to the Administration of Financing Guarantee Companies, or the Supplements to the Financing Guarantee Rules, which provides that any entity providing client referral or credit assessment services to the lending institutions may not provide financing guarantee services in a direct or a disguised form without the regulatory approval. If any entity operates financing guarantee business without appropriate approval, its business operations will be banned by the regulatory authorities and it will be required to properly settle existing business. On July 14, 2020, the CBIRC issued the Guidelines for Off-Site Supervision of Financing Guarantee Companies, or the Off-Site Supervision Guidelines, which took effect on September 1, 2020. The Off-Site Supervision Guidelines provides, among others, that (i) the relevant regulatory authorities and CBIRC shall collect data and non-data information from the financing guarantee companies and banks respectively; (ii) financing guarantee companies shall establish and implement an off-site supervision information report system and submit data and non-data information timely according to the requirements of the competent regulatory authorities; and (iii) for the off-site supervision, the competent regulatory authorities shall mainly focus on the corporate governance, internal control, risk management capabilities, guarantee business, associated guarantee risks, asset quality, liquidity indicators and investment conditions of financing guarantee companies.

We incorporate three financing guarantee companies and provide quality assurance commitments to our institutional funding partners either through our own financing guarantee subsidiaries or through third-party financing guarantee companies. We are subject to certain regulatory risks as a result of such business practices. On December 31, 2021, the PBOC published the Regulations on the Local Financial Supervision and Administration (Draft for Comments), or the Draft Local Financial Regulation, which stipulates that, among others, (i) the local financial organizations should primarily serve their local clients; (ii) the guidance for local financial organizations to carry out business outside provinces where they are registered should be made by the State Council or financial regulatory authorities designated by the State Council; (iii) six types of financial organizations, including financing guarantee companies and micro-lending companies, are deemed as local financial organizations; (iv) transition period will be given to the organizations carrying out business outside provinces before the effectiveness of the draft by the relevant financial regulatory authorities; and (v) organization carrying out business outside provinces without approval of the competent provincial regulatory authorities may be subject to penalties, including correction orders, confiscation of illegal gains or fines, cessation of business operations, and revocation of business license. Currently both the third-party guarantee companies engaged by us and our own guarantee companies provide services to the borrowers nationwide. As uncertainties remain regarding when the Draft Local Financial Regulation would be adopted and become effective, and to what extent we would be subject to the Draft Local Financial Regulation, we cannot assure you that we will be able to comply with such regulations in all respects in a timely manner, or at all, and we may be ordered to rectify or terminate any actions that are deemed illegal by regulatory authorities. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Regulatory restrictions on institutional funding partners' acceptance of credit enhancement may adversely affect our business and access to funding."

*Regulations on anti-money laundering*

The PRC Anti-money Laundering Law, or the AML Law, promulgated by the PBOC on October 31, 2006 and effective since January 2007, stipulates that special non-financial institutions which are required by relevant regulations to perform obligations of anti-money laundering shall comply with the anti-money laundering obligations. 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 special non-financial institutions.

In October 2018, the PBOC, the CBIRC, and the CSRC, jointly issued the Anti-money Laundering and Anti-terrorism Financing Administrative Measures for Internet Finance Institution, or Anti-money Laundering and Anti-terrorism Measures, providing that internet finance institutions are obliged to accept the anti-money laundering and anti-terrorism financing inspection conducted by the PBOC and its branches. The Anti-money Laundering and Anti-terrorism Measures also authorized the establishment of the internet finance anti-money laundering and anti-terrorism financing monitor platform, or the Monitor Platform, by the National Internet Finance Association, or NIFA under the instruction of PBOC and other financial governmental authorities to improve the online monitoring mechanism and information sharing between the institutions.

While we have formulated and implemented policies and procedures, including internal controls and “know-your-customer” policies, aimed at preventing money laundering and terrorism financing, we cannot assure you that we will be able to establish and maintain anti-money laundering policies and procedures which can effectively protect our platform from being exploited for money laundering or terrorism financing purposes, or that such policies and procedures, if adopted, will be deemed to be fully in compliance with all applicable anti-money laundering laws and regulations, including the Interim Measures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Any failure by our institutional funding partners or third-party service providers to comply with applicable anti-money laundering and anti-terrorism financing laws and regulations could damage our reputation.”

*Regulations Relating to Credit Reference*

On January 21, 2013, the State Council promulgated the Stipulations for Regulating Credit Reference, provides that any person or organization that conducts personal credit reference business without approval of the competent credit reference administrative department of the State Council may be subject to penalties, including cessation of business operations, confiscation of illegal gains, imposing fines from RMB50,000 to RMB500,000, and even criminal liability. On September 27, 2021, the PBOC issued the Measures for Regulating Credit Reference, which came into effect on January 1, 2022 and stipulates that, among others (i) credit information refers to the following information that should be legally collected and used for financial activities: basic information, loan information, other relevant information and analysis and evaluation information generated from the foregoing information of enterprises and individuals for identifying their credit status; and credit reference business refers to the activities of collecting, sorting, storing and processing the credit information of enterprises and individuals, and providing them to the information users; (ii) the individual credit reference institution license issued by the PBOC is required for engaging in the individual credit reference business, and the licensed individual credit reference institution shall report to the PBOC with respect to its cooperation with any information provider for collecting, sorting, storing and analyzing individual credit information; (iii) the financial institutions are not allowed to cooperate with any commercial entity that does not hold a credit reference license to obtain credit reference service; and (iv) any persons that engage in the individual credit reference business without the individual credit reference institution license will be given 18 months starting from January 1, 2022 to complete compliance rectification. Currently, we provide borrower referral and preliminary credit assessment services to our institutional funding partners, and the information shared by us with such institutional funding partners with due authorization may be deemed as credit information. If the preliminary credit assessment services provided by us to our institutional funding partners would be deemed by the regulatory authorities as the credit reference business, we may be required to obtain a license for individual credit reference business from the competent regulatory authorities or change our business model, pursue cooperation with the licensed credit reference agencies and filing of the relevant cooperation agreement with the PBOC or its provincial branches. If we cannot obtain the regulatory approval or complete the filing in a timely manner, we may be deemed as violating the applicable laws and regulations of credit reference services and we may be subject to penalties, including cessation of business operations, confiscation of illegal gains, imposing fines from RMB50,000 to RMB500,000, and even criminal liability, and our business, financial condition and results of operations would be materially and adversely affected.

### ***Regulations Relating to Foreign Investment***

Investment activities in the PRC by foreign investors are governed by the Guidance Catalog of Industries for Foreign Investment, or the Catalog, which was promulgated and is amended from time to time by the MOC and the National Development and Reform Commission. The Catalog divides industries into three categories in terms of foreign investment, which are “encouraged”, “restricted” and “prohibited”, and all industries not listed under one of these categories are generally deemed to be permitted. Unless otherwise provided by relevant laws and regulations, foreign investors are generally not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider in accordance with the Guidance Catalog of Industries for Foreign Investment promulgated in 2007, as amended several times during 2011 to 2020 and further amended by Special Administrative Measures for the Access of Foreign Investment (Negative List) in 2021. According to the Negative List (2021), the foreign equity interest ownership of entities that engage in value-added telecommunications business (except for e-commerce, domestic multi-party communication, storage and forwarding and call center) must not exceed 50%. Foreign investors that invest in sectors on the Negative List (2021) in which foreign investment is restricted shall comply with special management measures with respect to, among others, shareholding and senior management personnel qualification in the Negative List (2021).

On March 15, 2019, the National People’s Congress enacted the Foreign Investment Law of the People’s Republic of China, or the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law sets a general principal that foreign investors and their investments in China will enjoy national treatment and subject to a negative list. It embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, which came into effect on January 1, 2020. However, the Implementation Regulations on the Foreign Investment Law still does not explicitly define whether contractual arrangement would be deemed as a form of foreign investment. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

Foreign investment in telecommunications companies in the PRC is governed by the Provisions for the Administration of Foreign-Invested Telecommunications Enterprises, or the Foreign-Invested Telecommunications Enterprises Provisions, which was promulgated by the State Council on December 11, 2001, and amended on September 10, 2008, February 6, 2016, and April 7, 2022, respectively. Unless otherwise provided, the Foreign-Invested Telecommunications Enterprises Provisions prohibit a foreign investor from holding over 50% of the total equity interest in any value-added telecommunications service business in China.

On December 20, 2019, the MOFCOM and the SAMR jointly promulgated the Measures on Reporting of Foreign Investment Information, which came into effect on January 1, 2020, and has replaced the Interim Measures for the Administration of Record-filing of the Establishment and Changes in Foreign-Invested Enterprises. Foreign investors or foreign-invested enterprises shall submit investment information to the commerce administrative authorities through the Enterprise.

Registration System and the National Enterprise Credit Information Publicity System. On December 19, 2020, the NDRC and the MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment, effective on January 18, 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. The Office of the Working Mechanism of the Security Review of Foreign Investment (the “Office of the Working Mechanism”) will be established under the NDRC, who will lead the task together with the MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to (i) the investments in the military industry, military industrial supporting and other fields relating to the security of national defense, and investments in areas surrounding military facilities and military industry facilities; and (ii) investments in important agricultural products, important energy and resources, important equipment manufacturing, important infrastructure, important transport services, important cultural products and services, important information technology and internet products and services, important financial services, key technologies and other important fields relating to national security, and obtain control in the target enterprise. Control exists when the foreign investor (i) holds over 50% equity interests in the target, (ii) has voting rights that can materially impact on the resolutions of the board of directors or shareholders meeting of the target even when it holds less than 50% equity interests in the target, or (iii) has material impact on target’s business decisions, human resources, accounting and technology.

### ***Regulations Relating to Internet Companies***

#### *Regulations on value-added telecommunication services*

The Telecommunications Regulations of the PRC, or the Telecommunications Regulations, promulgated by the State Council on September 25, 2000 and amended on February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunication services and value-added telecommunications services. According to the Catalog of Telecommunications Business, attached to the Telecommunications Regulations, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services. In July 2006, the Ministry of Information Industry, the predecessor of the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in the Operation of Value-added Telecommunications Business, which prohibits holders of these services licenses from leasing, transferring or selling their licenses in any form, or providing any resource, sites or facilities, to any foreign investors intending to conduct such businesses in China.

In July 2017, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licenses. Under these regulations, a commercial operator of value-added telecommunications services must first obtain a license for value-added telecommunications business, or VATS License, from the MIIT or its provincial level counterparts.

Foreign ownership of internet-based businesses, such as distribution of online information, is subject to restrictions under current PRC laws and regulations. For example, unless otherwise provided, foreign investors are generally not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (except for e-commerce, domestic multi-party communication, storage and forwarding and call center) in accordance with the Special Administrative Measures for Foreign Investment Access, the Negative List (2021), which was promulgated by the MOFCOM and the NDRC on December 27, 2021 and became effective on January 1, 2022. Foreign direct investment in telecommunications companies in China is governed by the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises, which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008, February 6, 2016, and April 7, 2022, respectively. These regulations require that the foreign investors may acquire up to 50% equity interests in foreign-invested value-added telecommunications enterprises in China. PRC regulations impose sanctions for engaging in commercial internet information services, which is a sub-set of value-added telecommunication business, without a value-added telecommunication service license for internet content provider, or the ICP License, and sanctions for engaging in the operation of online data processing and transaction processing, which is another sub-set of value-added telecommunication business, without a value-added telecommunication service license for online data processing and transaction processing, or the ODPTP License. These sanctions include rectification orders and warnings from the PRC communication administrations, fines, confiscation of illegal gains, and suspension or termination of operating of the websites and mobile applications in question.

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Furthermore, as we are providing mobile applications to mobile device users, it is uncertain if any of our subsidiaries will be required to obtain a separate operating license in addition to the VATS License. We have not applied for such separate license since we have not obtained the VATS License. We cannot assure you that we will not be required to apply for an operating license for our mobile applications in the future. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.”

### *Regulation on mobile internet applications information services*

In addition to the Telecommunications Regulations and other regulations above, mobile applications are especially regulated by the Administrative Provisions on Mobile Internet Applications Information Services, or the APP Provisions, which was promulgated by the CAC, on June 28, 2016 and became effective on August 1, 2016, and amended on June 14, 2022. The APP Provisions regulate mobile application information service providers. According to the APP Provisions, the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local mobile application information, respectively.

Under the APP Provisions, mobile application information service providers are required to obtain relevant qualifications prescribed by laws and regulations and shall be responsible for the supervision and administration of mobile application information required by laws and regulations and implement the information security management responsibilities strictly, including but not limited to: (i) to authenticate the identity information of the registered users, (ii) to protect user information, and obtaining the consent of users while collecting and using users’ personal information in a lawful and proper manner. Mobile app operators shall not deny users’ access to basic functions and services of the app in the event that the users disagree with collection of unnecessary personal information, and (iii) to establish information content management mechanism, and take against any information content in violation of laws or regulations depending on circumstances.

We have implemented necessary programs in our mobile application to make sure the collection, protection and preservation of user information are in compliance with the APP Provisions in all material aspects.

### *Regulations on internet security*

The National People’s Congress has enacted legislation that prohibits use of the internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

Internet information in China is regulated and restricted from a national security standpoint. The SCNPC, has enacted the Decisions on Maintaining Internet Security on December 28, 2000 and further amended on August 27, 2009, 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. In 1997, the MPS 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 internet information service provider violates these measures, the MPS and the local security bureaus may revoke its operating license and shut down its websites.

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In December 2015, the Standing Committee of the National People's Congress promulgated the Anti-Terrorism Law of the PRC, or the Anti-Terrorism Law, which took effect on January 1, 2016 and was amended on April 27, 2018. According to the Anti-Terrorism Law, telecommunication service operators or internet service providers shall (i) carry out pertinent anti-terrorism publicity and education to society; (ii) provide technical interfaces, decryption and other technical support and assistance for the competent departments to prevent and investigate terrorist activities; (iii) implement network security and information monitoring systems as well as safety and technical prevention measures to avoid the dissemination of terrorism information, delete the terrorism information, immediately halt its dissemination, keep relevant records and report to the competent departments once the terrorism information is discovered; and (iv) examine customer identities before providing services. Any violation of the Anti-Terrorism Law may result in severe penalties, including substantial fines.

The Cyber Security Law of the PRC, which was promulgated by the SCNPC on November 7, 2016 and became effective on June 1, 2017. Under this regulation, network operators, including online lending information service providers, shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services, and take all necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. On September 12, 2022, the CAC issued a draft to amend the Cyber Security Law and proposed to, among others, increase the maximum fines for entities from RMB1 million to RMB 50 million or five percent of an entity's previous year's turnover, and from RMB100,000 to RMB1 million for directly responsible individuals for the following violation: (i) severe violations of cybersecurity protection obligations or severe harm to the security of network operation; (ii) failure to protect cyber information security, to take measures to suspend transfer of or delete information that is prohibited from distribution, or to take measures against relatively major security risks or security incidents; and (iii) distribution of transfer of prohibited information. In respect of the use by a critical information infrastructure operator of network products or services that have not been assessed or have failed a security assessment, the critical information infrastructure operator may be subject to a fine of up to ten times the procurement amount or five percent of its previous year's turnover, with a penalty of up to RMB100,000 being imposed on directly responsible individuals. Such draft amendment was released for soliciting public comments only and their final form, interpretation and implementation remain substantially uncertain.

For the further purposes of regulating data processing activities, safeguarding data security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, on June 10, 2021, the Standing Committee of the PRC National People's Congress published the Data Security Law of the People's Republic of China, which took effect on September 1, 2021. The Data Security Law requires data processing, which includes the collection, storage, use, processing, transmission, provision, publication of data, to be conducted in a legitimate and proper manner. The Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data is required to designate the personnel and the management body responsible for data security, carry out risk assessments of its data processing activities and file the risk assessment reports with the competent authorities. State core data, i.e. data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, shall be subject to stricter management system. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities. As the Data Security Law was recently promulgated, we may be required to make further adjustments to our business practices to comply with this law, as well as any adjustments that required by the Personal Information Protection Law.

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which, among others, provides for improving relevant laws and regulations on data security, cross-border data transmission, and confidential information management. It provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures.



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On July 30, 2021, the State Council issued the Regulations on Protection of Critical Information Infrastructure, or the Regulations. Pursuant to the Regulations, critical information infrastructure shall mean the important network facilities or information systems of key industries or fields such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, and important network facilities or information systems which may endanger national security, people's livelihood and public interest once there occur damage, malfunctioning or data leakage to them. The Regulations provide that no individual or organization may carry out any illegal activity of intruding into, interfering with, or sabotaging any critical information infrastructures, or endanger the security of any critical information infrastructures. The Regulations also require that critical information infrastructure operators shall establish a cybersecurity protection system and accountability system, and that the main responsible person of a critical information infrastructure operator shall take full responsibility for the security protection of the critical information infrastructures operated by it. In addition, relevant administration departments of each important industry and sector shall be responsible for formulating the rule of critical information infrastructure determination applicable to their respective industry or sector, and determine the critical information infrastructure operators in their industry or sector.

On July 12, 2021, the MIIT and two other authorities jointly issued the Provisions on the Administration of Security Vulnerabilities of Network Products, or the Provisions. The Provisions state that, no organization or individual may abuse the security vulnerabilities of network products to engage in activities that endanger network security, or to illegally collect, sell, or publish the information on such security vulnerabilities. Anyone who is aware of the aforesaid offenses shall not provide technical support, advertising, payment settlement and other assistance to the relevant offenders. According to the Provisions, network product providers, network operators, and platforms collecting network product security vulnerabilities shall establish and improve channels for receiving network product security vulnerability information and keep such channels available, and retain network product security vulnerability information reception logs for at least six months. The Provisions also bans provision of undisclosed vulnerabilities to overseas organizations or individuals other than to the product providers.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose and should be conducted in a method that has the minimum impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope as necessary to achieve the processing purpose and avoid the excessive collection of personal information. Personal information processors shall adopt necessary measures to safeguard the security of the personal information they handle. The offending entities could be ordered to correct, or to suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Data Security Regulations. The Draft Data Security Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Data Security Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. Besides, data processors that are listed overseas shall carry out an annual data security assessment. The Draft Data Security Regulations remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States, such as us. We cannot predict the impact of the Draft Data Security Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted versions of the Draft Data Security Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. In addition, if a final version of the Draft Data Security Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing.

On January 4, 2022, the CAC, the NDRC, the MIIT, and several other administrations jointly published the Amended Measures for Cybersecurity Review, which became effective on February 15, 2022. The Amended Measures for Cybersecurity Review further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Amended Measures for Cybersecurity Review, (i) when the purchase of network products and services by a critical information infrastructures operator or the data processing activities conducted by a network platform operator affect or may affect national security, a cybersecurity review shall be conducted pursuant to the Review Measures. The operators shall file for a cybersecurity review with Cybersecurity Review Office under the CAC if their behavior affects or may affect national security; (ii) an application for cybersecurity review shall be made by an issuer who is a network platform operator holding personal information of more than one million users before such issuer applies to list its securities on a foreign stock exchange; and (iii) the relevant PRC governmental authorities may initiate cybersecurity review if such governmental authorities determine that the issuer's network products or services, or data processing activities affect or may affect national security. The Amended Measures for Cybersecurity Review focuses on assessing the following national security risks factors associated with relevant objects or circumstances: (i) the risk of illegal control, interference or destruction of critical information infrastructure, arising from the purchase and utilization of network products and services; (ii) the harm on the business continuity of critical information infrastructure incurring from a disruption of network products and services supply; (iii) the safety, openness, transparency, diversity of sources of network products and services; the reliability of suppliers; and the risk of supply disruption due to political, diplomatic, trade and other reasons; (iv) the level of compliance with the PRC laws, administrative regulations and ministry rules of the suppliers of network products and services; (v) the risk of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or illegally exited the country; (vi) the risk of critical information infrastructure, core data, important data or a large amount of personal information being affected, controlled, or maliciously used by foreign governments and the network information security risk in relation to listing abroad; and (vii) other factors that may harm critical information infrastructure, cyber security and/or data security. The Amended Measures for Cybersecurity Review was promulgated recently, and there are substantial uncertainties on the interpretation and application of the Amended Measures for Cybersecurity Review. We are not sure that whether our data processing activities may raise "national security" concern. There can be no assurance that we would be required to apply for cybersecurity review, or that we would be able to complete the applicable cybersecurity review procedures in a timely manner, or at all, if we are required to do so. Any failure in completion of a cybersecurity review may result in administrative penalties, including fines, a shut down of our business, revocation of requisite licenses, as well as reputational damage or legal proceedings or actions against us, which may have material adverse effects on our business, financial condition and results of operations.

On July 7, 2022, the CAC published the Measures for Security Assessment of Cross-border Data Transfer, or the Cross-border Data Security Regulations, which came into effect on September 1, 2022. The Cross-border Data Security Regulations stipulates that if the cross-border data transfer to be conducted by a "data processor" has any of the following circumstances, the "data processor" shall apply to the national cyberspace administration authority for security assessment via the provincial cyberspace administration authority in the place where the said "data processor" is located: (i) any data processor transfers important data to overseas recipients; (ii) any "critical information infrastructure operator," or any "data processor" processing the personal information of more than one million individuals transfers personal information to overseas recipients; (iii) the personal information of more than 100,000 individuals or the sensitive personal information of more than 10,000 individuals has been provided overseas since January 1 of the previous year on a cumulative basis; and (iv) other circumstances where the security assessment is required as prescribed by the national cyberspace administration authority. For cross-border data transfer activities conducted before September 1, 2022, the Cross-border Data Security Regulations provides data processors a six-month grace period to remedy any non-compliance by March 1, 2023. Furthermore, on August 31, 2022, the CAC promulgated the Guidelines to the Application for Security Assessment of Cross-border Data Transfer (First Edition), which provides that the activities of "cross-border data transfer" include (i) overseas transmission and storage by data processors of data generated during operations in mainland China; (ii) the access to, use, download or export of the data collected and generated by data processors and stored in mainland China by overseas institutions, organizations or individuals; and (iii) other acts as specified by the CAC.

On December 14, 2022, the PBOC issued the Regulations on the Supervision and Administration of Financial Infrastructure (Draft for Comment), or the Draft Regulations on Financial Infrastructure, which provides that (i) financial infrastructure refers to registration and custody system, clearing and settlement system, trading facilities, trading report database, critical payment system, and credit reference system of the financial assets, and (ii) financial infrastructure operator refers to the enterprises that are approved according to the laws and regulations to construct, operate, and maintain the financial infrastructure. The Draft Regulations on Financial Infrastructure has been released for public comment only, and its provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty.

On December 19, 2022, the Central Committee of the Communist Party of PRC and the State Council issued the Guidance on Building Fundamental Data Systems to Put Data Resources to Better Use, or the 20 Data Articles, aiming at safeguarding national data security, protecting individuals' information and trade secrets, and ensuring the development of the data economy. Under the 20 Data Articles, data would be categorized and graded based on its sensitivity. Data processor is encouraged to open, share, exchange, and trade data both on-market and off-market. Regions and industries that meet proper conditions are encouraged to engage in pilot programs for building new systems, implementing technique methods and trial modes. Enterprises are encouraged to innovate internal system for managing data compliance, and explore ways to improve fundamental data system.

We have, in accordance with relevant provisions on network security of the State and the requirements of the State's system for classified protection of information security, conducted the record-filing of class determination and class testing of information system, possessed perfect network security facility and management system such as firewall, intrusion detection, data encryption, and disaster recovery.

#### *Regulations on privacy protection*

The Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in December 2011, provide that, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of a user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An internet information service provider is also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, online lending service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

In addition, pursuant to the Decision on Strengthening the Protection of Online Information issued by the SCNPC in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT in July 2013, 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.

Pursuant to the Ninth Amendment to the Criminal Law issued by the SCNPC, in August 2015 and became effective in November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, should be subject to criminal penalty. On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, or the Interpretations, which became effective on June 1, 2017. The Interpretations provide more practical conviction and sentencing criteria for the infringement of citizens' personal information and mark a milestone for the criminal protection of citizens' personal information. The CAC, the MIIT, the MPS, and the SAMR jointly promulgated the Notice on Rectification of Illegal Collection of Personal Information on Application, or the Notice on Illegal Collection on January 23, 2019, which requires application operators to strictly comply with the Cyber Security Law of the PRC and strengthens the personal information protection. Application operators should, among others, (i) clearly state the authorized purpose, methods and scope of the collection and usage of personal information, and obtain the consent of users for collecting and processing such users' personal information, and (ii) establish appropriate user information protection systems with remedial measures. To further implement and interpret the Notice on Illegal Collection, the Measures on Identifying Illegality of Personal Information Collection Conducts on Application was promulgated on November 28, 2019.

The MPS promulgated the Guidance on Several Issues for Soft Violence Regarding Criminal Case, or the Guidance on Soft Violence, on April 9, 2019, which provides that, among others, harassments by means of internet or telecommunication to disturb people's normal life, work, production, business, and social order may be deemed as soft violence, which may be subject to criminal liabilities.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the Cyber Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the personal information protection. Furthermore, app operators should not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on October 31, 2019. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly-seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information", "failure to expressly state the purpose, manner and scope of collecting and using personal information", "collection and use of personal information without consent of users of such App", "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity", "provision of personal information to others without users' consent", "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting". Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting an user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking for user's consent such that the user's normal use of such app is disturbed; (iii) any user's personal information which has been actually collected by the app operator or the permission for collecting any user's personal information activated by the app operator is beyond the scope of personal information which such user authorizes such app operator to collect; (iv) seeking for any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting such users' personal information by improper methods such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission of collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

On March 12, 2021, the CAC and three other authorities jointly issued the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications. The Rules specifies the scope of necessary personal information to be collected each for a variety of common mobile internet applications, such as maps and navigation apps, online ride-hailing apps, instant messaging apps, online community apps. Operators of such apps shall not refuse to provide basic services to users on the ground of users' refusal to provide their personal non-essential information. The basic service of online lending applications is to facilitate loans provided to the users online for use of personal consumption and business operation, and the necessary personal information for an online lending application includes the borrower's mobile phone number, name, bank account, as well as type, number and valid period of its identity card.

On April 26, 2021, the MIIT issued the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications (Draft for Comment). The draft of the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications sets forth two principles of collection and utilization of personal information, namely "explicit consent" and "minimum necessity."

On August 20, 2021, the Standing Committee of the National People’s Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law integrates provisions from several rules with respect to personal information rights and privacy protection. According to the Personal Information Protection Law, personal information refers to information related to identified or identifiable natural persons which is recorded by electronic or other means (excluding the anonymized information). The Personal Information Protection Law provides the circumstances under which a personal information processor could process personal information, such as where the consent of the individual concerned is obtained and where it is necessary for the conclusion or performance of a contract to which such individual is a party to such contract. It also stipulates certain specific provisions with respect to the obligations of a personal information processor. In addition, it imposes further obligations on a personal information processor that provides for basic internet platform services, has large amount of users, has complicated business activities, including formulating of an independent institution mainly comprising of outside members to supervise personal information processing activities, termination of provision of services for product or service providers on the platform whose personal information processing activities are in material violation of laws and regulations, and issuing personal information protection social responsibilities reports regularly.

While we have taken measures to protect the confidential information that we have access to, our security measures could be breached. Any accidental or willful security breaches or other unauthorized access to our platform could cause confidential borrower and institutional funding partner 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. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If our ability to collect delinquent loans is impaired, our business and results of operations might be materially and adversely affected.”

### ***Regulations Relating to Foreign Exchange***

#### *Regulations 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.

On February 13, 2015, the 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 will be required to apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of the SAFE, will directly examine the applications and conduct the registration.

On March 30, 2015, the SAFE promulgated Circular 19, to expand the reform nationwide. Circular 19 allows foreign-invested enterprises to make equity investments by using RMB fund converted from foreign exchange capital. Under Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is currently 100%. SAFE can adjust such proportion in due time based on the circumstances of international balance of payments. However, Circular 19 and another circular promulgated by SAFE in June 2016, SAFE Circular 16, 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, investment and financing (except for security investment or guarantee products issued by bank), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

On October 23, 2019, the SAFE promulgated the Notice of the Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment, or the SAFE Circular 28. The SAFE Circular 28 provides that non-investment foreign-invested entities may use foreign exchange capital or Renminbi funds converted from the foreign exchange capital to make equity investments, provided that such investments should comply with the Negative List and other relevant PRC laws and regulations. On April 10, 2020, SAFE issued the Notice on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business, or the SAFE Circular 8. The SAFE Circular 8 provides that on the premise of ensuring the true and compliant use of funds and compliance with the existing regulations on use of income under the capital account, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing for domestic payment, without prior provision of proof materials for veracity to the bank for each transaction. However, there are substantial uncertainties of the further implementation of SAFE Circular 28 and SAFE Circular 8. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our initial public offering and the concurrent private placement to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

*Regulations on foreign exchange registration of overseas investment by PRC residents*

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Round-trip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75”. 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”. 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. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. Mr. Jun Zhang, Mr. Tiezheng Li, Mr. Honghui Hu, and Mr. Shaofeng Gu, who directly or indirectly hold shares in our Cayman Islands holding company and are known to us as mainland China residents have completed the foreign exchange registrations in accordance with SAFE Circular 75 then in effect and have updated their registrations in accordance with SAFE Circular 37. They are now in the process of updating their registration required in connection with corporate restructuring. Ms. Wei Luo, who indirectly hold shares in our Cayman Islands holding company and is known to us previously to be a mainland China resident, has changed her citizenship to Hong Kong. Ms. Wei Luo registered in accordance with SAFE Circular 75 previously and now is seeking to cancel or update the registration in accordance with SAFE Circular 37.

On February 13, 2015, SAFE released Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies, or SAFE Circular 13, under which local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, starting from June 1, 2015. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.”

*Regulations on employee stock incentive plans of overseas publicly-listed company*

Pursuant to the Notices 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, individuals participating in any stock incentive plan of any overseas publicly listed company who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, subject to a few exceptions, 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 and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year and have been granted options are subject to these regulations. Failure by these individuals to complete their SAFE registrations may subject us and them to fines and other legal sanctions. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.”

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The SAT has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities.

### ***Regulations on Intellectual Property Rights***

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

*Copyright.* Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years.

*Patent.* The Patent Law provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office under the State Council is responsible for examining and approving patent applications. The duration of a patent right is either 10 years or 20 years from the date of application, depending on the type of patent right.

*Trademark.* The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. The Trademark Office under the State Administration of Industry and Commerce is responsible for the registration and administration of trademarks throughout the PRC, and grants a term of ten years to registered trademarks and another ten years if requested upon expiry of the initial or extended term. Trademark license agreements must be filed with the Trademark Office for record.

*Domain Name.* Domain names are protected under the Administrative Measures on the China Internet Domain Names promulgated by the MIIT in 2004, which will be replaced by the Administrative Measures on the Internet Domain Names effective on November 1, 2017. The MIIT is the major regulatory authority responsible for the administration of the PRC Internet domain names. 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. Our major domain name “ppdai.com” has been registered.

### ***Regulations Relating to Dividend Distribution***

Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from Shanghai Guangjian, Beijing Prosper and Shanghai Manyin, which are wholly foreign-owned enterprises incorporated in China, to fund any cash and financing requirements we may have. The principal regulations governing distribution of dividends of foreign-invested enterprises include the Foreign-Invested Enterprise Law, as amended in September 2016, and its implementation rules. Under these laws and regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

### ***Regulations Relating to Employment***

The PRC Labor Law and the Labor Contract Law require that employers must execute written employment contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. Violations of the PRC Labor Law and the Labor Contract Law may result in the imposition of fines and other administrative sanctions, and serious violations may result in criminal liabilities.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% or 0.2% per day, as the case may be. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. In addition, the PRC Individual Income Tax Law requires companies operating in China to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment. The General Office of the Central Committee of the Communist Party of China and the General Office of the State Council of the PRC issued the Reform Plan of the State Tax and Local Tax Collection Administration System, or the Tax Reform Plan, on July 20, 2018, which provides that commencing from January 1, 2019, tax authorities would be responsible for the collection of social insurance contributions.

We have not made adequate contributions to employee benefit plans, as required by applicable PRC laws and regulations. We have recorded accruals for the estimated underpaid amounts for the current employees in our financial statements. However, we have not made any accruals for the interest on underpayment and penalties that may be imposed by the relevant PRC government authorities in the financial statements as we believe it would be unlikely that the relevant PRC government authorities will impose any significant interests or penalties. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Failure to make adequate contributions to various employee benefit plans and withhold individual income tax on employees' salaries as required by PRC regulations may subject us to penalties."

### ***Regulations Relating to Tax***

#### *Dividend withholding tax*

Pursuant to the Enterprise Income Tax Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. In August 2015, the State Administration of Taxation promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, or Circular 60, which became effective on November 1, 2015. Circular 60 provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. Accordingly, FinVolution (HK) Limited, our Hong Kong subsidiary, may be able to enjoy the 5% withholding tax rate for the dividends they receive from our PRC subsidiaries, if it satisfies the conditions prescribed under Circular 81 and other relevant tax rules and regulations. However, according to Circular 81 and Circular 60, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.



*Enterprise income tax*

The Enterprise Income Tax Law, or the EIT Law, and its implementing rules, which became effective on January 1, 2008, are the principal regulations governing enterprise income tax in the PRC. The EIT Law imposes a uniform enterprise income tax rate of 25% on all resident enterprises in the PRC, including foreign-invested enterprises.

Uncertainties exist with respect to how the EIT Law applies to the tax residence status of FinVolution Group and our offshore subsidiaries. Under the EIT Law, an enterprise established outside China with its “de facto management bodies” located within China is considered a “resident enterprise”, which means that it is treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

The SAT issued the Circular of the State Administration of Taxation on Issues Concerning the Identification of Chinese- Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the Actual Standards of Organizational Management, or SAT Circular 82 in 2009. According to SAT Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (a) the primary location of the day-to-day operational management is in China; (b) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (c) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in China; and (d) 50% or more of voting board members or senior executives habitually reside in China.

We do not believe that we meet all of the conditions outlined in the immediately preceding paragraph. We believe that FinVolution Group and our offshore subsidiaries should not be treated as a “resident enterprise” for PRC tax purposes if the criteria for “de facto management body” as set forth in SAT Circular 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we may be treated as a resident enterprise for PRC tax purposes under the EIT Law, and we may therefore be subject to PRC income tax on our global income. We are actively monitoring the possibility of “resident enterprise” treatment for the applicable tax years and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

In the event that FinVolution Group or any of our offshore subsidiaries is considered to be a PRC resident enterprise: FinVolution Group or our offshore subsidiaries, as the case may be, may be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income; dividend income that FinVolution Group or our offshore subsidiaries, as the case may be, received from our PRC subsidiaries may be exempt from the PRC withholding tax; and interest paid to our overseas shareholders or ADS holders who are non-PRC resident enterprises as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of up to 10%, subject to any reduction or exemption set forth in relevant tax treaties, and similarly, dividends paid to our overseas shareholders or ADS holders who are non-PRC resident individuals, as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs, may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of 20%, subject to any reduction or exemption set forth in relevant tax treaties. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

SAT issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Resident Enterprises, or SAT Public Notice 7, on February 3, 2015, which replaced or supplemented certain previous rules under the Circular on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-Resident Enterprises, or SAT Circular 698. Under SAT Public Notice 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to SAT Public Notice 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 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. There is uncertainty as to the implementation details of SAT Public Notice 7. If SAT Public Notice 7 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with SAT Public Notice 7 or to establish that the relevant transactions should not be taxed under SAT Public Notice 7. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

Under applicable PRC laws, payers of PRC-sourced income to non-PRC residents are generally obligated to withhold PRC income taxes from the payment. In the event of a failure to withhold, the non-PRC residents are required to pay such taxes on their own. Failure to comply with the tax payment obligations by the non-PRC residents will result in penalties, including full payment of taxes owed, fines and default interest on those taxes.

#### *PRC value-added tax*

Pursuant to applicable PRC regulations promulgated by the Ministry of Finance of China and the SAT, entities or individuals conducting business in the service industry are required to pay a value-added tax, or VAT, at a rate of 6% with respect to revenues derived from the provision of online information services. A taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the revenue from services provided.

#### ***Regulations Relating to Overseas Listing and M&A***

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors shall comply with the M&A rules when they purchase equity interests of a domestic company or subscribe for the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC for the purpose of purchasing the assets of a domestic company and operating the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A rules, among other things, purports to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

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On December 27, 2021, the NDRC and the MOC jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), or the 2021 Negative List, which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. In a Q&A released on NDRC's official website on January 18, 2022, the respondent NDRC official indicates that these requirements are only imposed on PRC domestic companies that directly offer or list their securities in an overseas market. We are a Cayman Islands holding company with no equity ownership in the consolidated variable interest entities and we conduct operations in China primarily through the consolidated variable interest entities with which we have maintained contractual arrangements. We believe we are not a domestic company that directly offered or listed securities in an overseas market.

On February 17, 2023, the CSRC published the Trial Administrative Measures on the Overseas Issuance and Listing of Securities by Domestic Companies, or the Trial Measures, and five supporting guidelines, effective on March 31, 2023. Pursuant to the Trial Measures, PRC domestic companies that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after submitting their listing application documents to the relevant regulator in the place of intended listing.

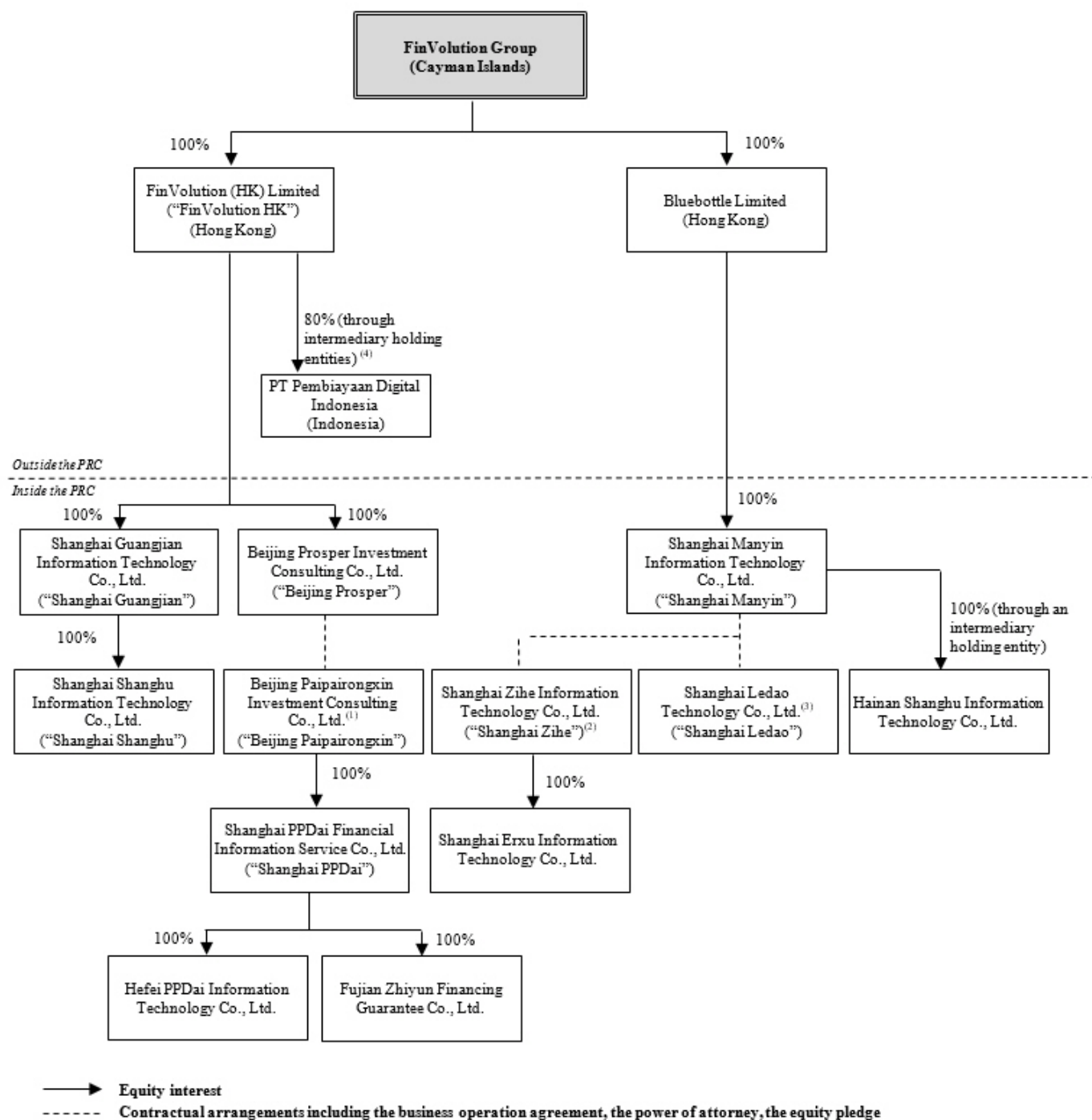
The Trial Measures proposes to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Trial Measures, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business operations is in the PRC or carried out in the PRC. According to the Trial Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to complete the record-filing under the Trial Measures may subject a PRC domestic company to a warning or a fine ranging from RMB1 million to RMB10 million, and its controlling shareholders, actual controllers, the persons directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines. According to the Notification to the Administrative Arrangement of the Overseas Issuance and Listing of Securities by Domestic Companies, the CSRC expressed that the record-filing requirement would not be imposed on the existing public companies, like us, until they refinance their securities in an overseas market based on its onshore equities, assets or similar interests. As of the date of this annual report, we have not received any formal inquiry, notice, warning, sanction, or any regulatory objection from the CSRC. However, if we refinance our securities in an overseas market, we cannot assure you that we could complete such filing or meet other requirements pursuant to applicable laws in a timely manner or at all. Under such circumstance, we, our personnel directly in charge, and other personnel with direct responsibility may be warned, fined or subject to other disciplinary measures as set forth in the Trial Measures. Furthermore, given that the Trial Measures were recently promulgated, there remains substantial uncertainties as to their interpretation, application and enforcement and how they will affect our future financing. The Trial Measure also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises: (i) if the intended securities offering and listing is specifically prohibited by national laws and regulations and relevant provisions; (ii) if the intended securities offering and listing may constitute a threat to or endangers national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) if, in the past three years, the domestic enterprise or its controlling shareholders or actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy, (iv) if the domestic company is currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations and no decision has been made; (v) if there are material ownership disputes over the stocks controlled by the controlling shareholder, or by the shareholders controlled by the controlling shareholder or actual controller.

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On February 24, the CSRC, Ministry of Finance of the PRC, National Administration of State Secrets Protection, and National Archives Administration of China published the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Confidentiality and Archives Administration Provisions. The Confidentiality and Archives Administration Provisions, among others, provides that: (i) a domestic company that seeks to offer and list its securities in an overseas market, either via direct offering or indirect offering, and the securities companies and securities service providers that undertake relevant securities business, shall strictly abide by applicable laws and regulations of the PRC, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. They shall not divulge any state secret or harm national security and public interest; (ii) a domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant entities or individuals including securities companies, securities service providers, and overseas regulators, documents and materials that contain state secrets or government work secrets, shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level. If there is ambiguity or dispute over the identification of a state secret, a request shall be submitted to the competent secrecy administrative department for determination; if there is ambiguity or dispute over the identification of a government work secret, a request shall be submitted to the competent government authority for determination; (iii) a domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant entities or individuals including securities companies, securities service providers, and overseas regulators, other documents and materials that, if divulged, will jeopardize national security or public interest, shall strictly obey the relevant procedures stipulated by applicable national regulations; (iv) archives, including working papers, that have been produced in mainland China by securities companies and securities service providers for overseas securities offering and listing by domestic companies shall be retained in mainland China, and, without prior approval by competent authorities, must not be brought, mailed or otherwise transferred to outside mainland China, or transmitted to any institutions or individuals outside mainland China through any methods including via the use of information technologies. Where archives or copies of archives that have important conservation value to the nation and the society need to be transferred or transmitted to outside mainland China, relevant approval procedures stipulated by national regulations shall be followed; and (v) overseas securities regulators and competent overseas authorities may request to investigate, including to collect evidence for investigation purpose, or inspect a domestic company that has been listed or offered securities in an overseas market or securities companies and securities service providers that undertake securities business for such domestic companies. Such investigation and inspection shall be conducted under a cross-border regulatory cooperation mechanism, and the CSRC and competent authorities of the Chinese government will provide necessary assistance pursuant to bilateral and multilateral cooperation mechanisms. Before cooperating with the investigation and inspection by, or providing documents and materials to overseas securities regulators or other competent overseas authorities, such domestic companies, securities companies and securities service providers shall report to the CSRC or other competent authorities. We may be subject to review the procedure of identifying and protecting state/government work secrets and archive administration and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in confidentiality of state/government work secrets and archive administration. As of the date of this annual report, it is still unclear as to what approvals and procedures might be required in practice.

### **C. Organizational Structure**

The following diagram illustrates our corporate structure as of the date of this annual report, including our principal subsidiaries and our principal consolidated variable interest entities and their principal subsidiaries.



Notes:

- (1) Beijing Paipairongxin currently has four shareholders: Jun Zhang, our co-founder and director, Tiezheng Li, our co-founder, vice chairman, president and chief executive officer, Honghui Hu, our co-founder and director, and Shaofeng Gu, our co-founder, chairman and chief innovation officer, each holding 13.22%, 4.81%, 12.85%, and 69.12% of Beijing Paipairongxin's equity interests, respectively.

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- (2) Shanghai Zihe currently has four shareholders: Jun Zhang our co-founder and director, Tiezheng Li, our co-founder, vice chairman, president and chief executive officer, Honghui Hu, our co-founder and director, Shaofeng Gu, our co-founder, chairman and chief innovation officer, each holding 25% of Shanghai Zihe's equity interests, respectively.
- (3) Shanghai Ledao currently has two shareholders: Lizhong Chen, a family relative of Tiezheng Li, and Yejun Jiang, a family relative of Honghui Hu, each holding 50% of Shanghai Ledao's equity interests, respectively.
- (4) The rest of the 20% equity interests are held by an independent third party.

### **Contractual Arrangements**

PRC laws and regulations impose restrictions on foreign ownership and investment in internet-based businesses such as distribution of online information, value-added telecommunications services. We are a Cayman Islands company and our PRC subsidiary is considered a foreign-invested enterprise. Before the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries was published in August 2016, there was no official guidance or interpretation from the PRC government clarifying whether online consumer finance services fall within the category of value-added telecommunication services and whether providers of such services should be subject to value-added telecommunication regulations. However, we believe the online consumer finance services offered through our platform constitute a type of value-added telecommunication services that foreign ownership and investment are restricted; and therefore, we should operate our platform through contractual arrangements with a consolidated variable interest entity and its shareholders to ensure compliance with the relevant PRC laws and regulations.

We had entered into a series of contractual arrangements, through Beijing Prosper, with Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Shanghai PPDai (with respect to the amended and restated exclusive technology consulting and service agreement only) to enable us to direct the activities of operation of Beijing Paipairongxin and its subsidiaries. In June 2017, we, through Shanghai Guangjian and Shanghai Shanghu (with respect to the business operation agreement and the exclusive technology consulting and service agreement only), entered into a new set of contractual arrangements with Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Shanghai PPDai (with respect to the exclusive technology consulting and service agreement only) to replace the previous contractual arrangements and continue enabling us to direct the activities of operation of Beijing Paipairongxin and its subsidiaries, in particular Shanghai PPDai, through which we operate our online lending information intermediary business. Shanghai PPDai has made applications for value-added telecommunication business license with the relevant local telecommunication regulatory authority, but due to the lack of detailed implementation rules, the local authority has tentatively put its applications on hold. Shanghai PPDai intends to apply for a value-added telecommunication business license again once it becomes feasible under PRC laws and regulations. In March 2018, we restated the contractual arrangements with Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Shanghai PPDai.

In March 2018, we entered into another set of contractual arrangements, through Shanghai Manyin, with Shanghai Zihe, and the shareholders of Shanghai Zihe. These contractual arrangements consist of (i) loan agreement between Shanghai Manyin and shareholders of Shanghai Zihe, (ii) business operation agreement among Shanghai Manyin, Shanghai Zihe and shareholders of Shanghai Zihe, (iii) exclusive technology consulting and service framework agreement between Shanghai Manyin and Shanghai Zihe, (iv) equity pledge agreement among Shanghai Manyin, Shanghai Zihe and shareholders of Shanghai Zihe, (v) exclusive call option agreement among Shanghai Manyin, Shanghai Zihe and shareholders of Shanghai Zihe, and (vi) power of attorney between shareholders of Shanghai Zihe and Shanghai Manyin.

In January 2019, we entered into another set of contractual arrangements, through Shanghai Manyin, with Shanghai Ledao, and the shareholders of Shanghai Ledao. These contractual arrangements consist of (i) loan agreement between Shanghai Manyin and shareholders of Shanghai Ledao, (ii) business operation agreement among Shanghai Manyin, Shanghai Ledao and shareholders of Shanghai Ledao, (iii) exclusive technology consulting and service framework agreement between Shanghai Manyin and Shanghai Ledao, (iv) equity pledge agreement among Shanghai Manyin, Shanghai Ledao and shareholders of Shanghai Ledao, (v) exclusive call option agreement among Shanghai Manyin, Shanghai Ledao and shareholders of Shanghai Ledao, and (vi) power of attorney between shareholders of Shanghai Ledao and Shanghai Manyin.

The contractual arrangements with Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao allow us to:

- enable us to direct the activities of operation of Beijing Paipairongxin, Shanghai Zihe, Shanghai Ledao and their respective subsidiaries;
- receive substantially all of the economic benefits of Beijing Paipairongxin, Shanghai Zihe, Shanghai Ledao, and their respective subsidiaries; and
- have an exclusive option to purchase all or part of the equity interests in Beijing Paipairongxin, Shanghai Zihe, Shanghai Ledao, and their respective subsidiaries when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we have become the primary beneficiary of Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao, and we treat Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao as the consolidated variable interest entities under U.S. GAAP. We have consolidated the financial results of Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao and their respective subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

#### ***Contractual Arrangements with Beijing Paipairongxin***

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Shanghai Guangjian and its wholly-owned subsidiary, Shanghai Shanghu (with respect to the business operation agreement and the exclusive technology consulting and service agreement only), our consolidated variable interest entity, Beijing Paipairongxin, the shareholders of Beijing Paipairongxin, and Shanghai PPDai (with respect to the exclusive technology consulting and service agreement only).

##### *Agreements that enable us to direct the activities of operation of Beijing Paipairongxin*

***Loan Agreement.*** Shanghai Guangjian entered into a loan agreement with each of the shareholders of Beijing Paipairongxin, namely Mr. Jun Zhang, Mr. Tiezheng Li, Mr. Honghui Hu and Mr. Shaofeng Gu, our co-founders and shareholders in March 2018. Under these loan agreements, Shanghai Guangjian has granted an interest-free loan of RMB100.0 million to the shareholders of Beijing Paipairongxin solely for the capital contributions to Beijing Paipairongxin. Upon written notice by Shanghai Guangjian, the loan shall be repaid by the shareholders of Beijing Paipairongxin from the proceeds received by transferring their equity interests in Beijing Paipairongxin to Shanghai Guangjian pursuant to the terms and conditions of the call option agreement among Shanghai Guangjian, Beijing Paipairongxin, Beijing Prosper and the shareholders of Beijing Paipairongxin. If the proceeds received by the shareholders of Beijing Paipairongxin from such transferring is higher than the principal of the loan, the amount exceeding the principal shall be deemed as cost for using the principal and shall be paid, to the extent permitted by laws, to Shanghai Guangjian together with the principal. Shanghai Guangjian has the right to request repayment of the loan before maturity.

***Restated Business Operation Agreement.*** Shanghai Guangjian, Shanghai Shanghu, Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Beijing Prosper entered into a restated business operation agreement in March 2018. Pursuant to this restated agreement, Beijing Paipairongxin and its shareholders agree that to the extent permitted by law, they will accept and unconditionally execute instructions from Shanghai Guangjian and Shanghai Shanghu on business operations, such as appointment of directors and executive officers. Beijing Paipairongxin and its shareholders further agree that, without prior written consent of Shanghai Guangjian and Shanghai Shanghu, Beijing Paipairongxin will not take any action that may have material adverse effects on its assets, businesses, human resources, rights, obligations, or business operations. The shareholders of Beijing Paipairongxin agree to transfer any dividends or other similar income or interests they receive as the shareholders of Beijing Paipairongxin, if any, immediately and unconditionally to Shanghai Guangjian and Shanghai Shanghu. This restated agreement also requires each of Beijing Paipairongxin's shareholders to issue an irrevocable power of attorney authorizing Shanghai Guangjian or any person(s) designated by Shanghai Guangjian to execute shareholders' rights on behalf of such shareholder. Unless Shanghai Guangjian and Shanghai Shanghu terminate this agreement in advance, this restated agreement will remain effective until Beijing Paipairongxin is dissolved pursuant to PRC law.

***Restated Power of Attorney.*** Through a restated power of attorney dated March 21, 2018, each shareholder of Beijing Paipairongxin irrevocably authorizes Shanghai Guangjian or any person(s) designated by Shanghai Guangjian to act as his or her attorney-in-fact to exercise all of such shareholder's voting and other rights associated with the shareholder's equity interest in Beijing Paipairongxin, such as the right to appoint directors, supervisors and officers, as well as the right to sell, transfer, pledge and dispose of all or a portion of the shares held by such shareholder. The power of attorney will remain in force for ten years unless the restated business operation agreement is terminated earlier than the expiration of the 10-year term. Upon request by Shanghai Guangjian, the shareholders of Beijing Paipairongxin shall extend the term of this power of attorney accordingly.

*Restated Equity Pledge Agreement.* Shanghai Guangjian, Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Beijing Prosper entered into a restated equity pledge agreement in March 2018. Pursuant to the equity pledge agreement, each shareholder of Beijing Paipairongxin has pledged all of his equity interest in Beijing Paipairongxin to Shanghai Guangjian to guarantee the performance by such shareholder and Beijing Paipairongxin of their respective obligations under the restated business operation agreement (including the power of attorney), the restated option agreement, the restated exclusive technology consulting and service agreement and the loan agreement. If Beijing Paipairongxin or any of its shareholders breaches any obligations under these agreements, Shanghai Guangjian, as pledgee, will be entitled to dispose of the pledged equity and have priority to be compensated by the proceeds from the disposal of the pledged equity. Each of the shareholders of Beijing Paipairongxin agrees that before his or her obligations under the contractual arrangements are discharged, he or she will not dispose of the pledged equity interests, create or allow any encumbrance on the pledged equity interests, or take any action which may result in the change of the pledged equity that may have material adverse effects on the pledgee's rights under this restated agreement without the prior written consent of Shanghai Guangjian. The restated equity pledge agreement will remain effective until Beijing Paipairongxin and its shareholders discharge all their obligations under the contractual arrangements and the pledgee consents such discharge in writing. We are preparing for the registration of the equity pledge with the relevant office of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

*Agreement that allows us to receive economic benefits from Beijing Paipairongxin and Shanghai PPDai*

*Restated Exclusive Technology Consulting and Service Agreement.* Shanghai Guangjian and Shanghai Shanghu, Beijing Paipairongxin, Shanghai PPDai and Beijing Prosper entered into a restated exclusive technology consulting and service agreement in March 2018. Pursuant to this agreement, Shanghai Guangjian, Shanghai Shanghu or their designated party has the exclusive right to provide Beijing Paipairongxin and Shanghai PPDai with technical support, consulting services and other services. Without prior written consent from Shanghai Guangjian and Shanghai Shanghu, Beijing Paipairongxin and Shanghai PPDai shall not accept any technical support and services covered by this agreement from any third party. The service fees that Beijing Paipairongxin and Shanghai PPDai are going to pay to Shanghai Guangjian and Shanghai Shanghu shall be determined on a case-by-case basis based on the level of difficulty and complexity, time spend by Shanghai Guangjian and Shanghai Shanghu and their employees in providing the services, the specific scope and commercial value of the services, the revenue generated by Beijing Paipairongxin and Shanghai PPDai resulting from such services, and other relevant factors. Shanghai Guangjian and Shanghai Shanghu own the intellectual property rights arising out of the provisions of services under this agreement. Unless Shanghai Guangjian and Shanghai Shanghu terminate this restated agreement in advance, this restated agreement will remain effective until Beijing Paipairongxin and Shanghai PPDai are dissolved in accordance with PRC law. Although this restated agreement can be terminated by mutual agreement among Shanghai Guangjian and Shanghai Shanghu, Beijing Paipairongxin, Shanghai PPDai and Beijing Prosper, Beijing Paipairongxin and Shanghai PPDai have no right to unilaterally terminate this restated agreement.

*Agreement that provides us with the option to purchase the equity interest in Beijing Paipairongxin*

*Restated Option Agreement.* Shanghai Guangjian, Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Beijing Prosper entered into a restated option agreement in March 2018. Pursuant to the restated option agreement, the shareholders of Beijing Paipairongxin have irrevocably granted Shanghai Guangjian or any third party designated by Shanghai Guangjian an exclusive option to purchase all or part of their respective equity interests in Beijing Paipairongxin. The purchase price is equal to the registered capital corresponding to the concerning equity interest. Unless otherwise agreed, the shareholders of Beijing Paipairongxin will immediately gift Shanghai Guangjian or any third party designated by Shanghai Guangjian with the purchase price after Shanghai Guangjian or any third party designated by Shanghai Guangjian exercises the option. The shareholders of Beijing Paipairongxin agree that without their separate consent, Shanghai Guangjian may transfer all or part of its option under this agreement to a third party. Without prior written consent from Shanghai Guangjian or its designated third party, Beijing Paipairongxin shall not, among other things, amend its articles of association, increase or decrease the registered capital, sell, dispose of or set any encumbrance on its assets, business or revenue outside the ordinary course of business, enter into any material contract, merge with any other persons or make any investments, distribute dividends, or enter into any transactions which have material adverse effects on its business. The shareholders of Beijing Paipairongxin also jointly and severally undertake that they will not transfer, gift or otherwise dispose of their equity interests in Beijing Paipairongxin to any third party or create or allow any encumbrance on their equity interests within the term of this restated agreement. This restated agreement will remain effective until Shanghai Guangjian has acquired all equity interests of Beijing Paipairongxin from its shareholders.



### ***Contractual Arrangements with Shanghai Zihe***

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Shanghai Manyin, our consolidated variable interest entity, Shanghai Zihe, and the shareholders of Shanghai Zihe.

#### *Agreements that enable us to direct the activities of operation of Shanghai Zihe*

*Loan Agreement.* Shanghai Manyin entered into a loan agreement with each of the shareholders of Shanghai Zihe, namely Mr. Jun Zhang, Mr. Tiezheng Li, Mr. Honghui Hu and Mr. Shaofeng Gu, our co-founders and shareholders in March 2018. Under the loan agreements, Shanghai Manyin has granted an interest-free loan of RMB100.0 million to the shareholders of Shanghai Zihe solely for the capital contributions to Shanghai Zihe. Upon written notice by Shanghai Manyin, the loan shall be repaid by the shareholders of Shanghai Zihe from the proceeds received by transferring their equity interests in Shanghai Zihe to Shanghai Manyin pursuant to the terms and conditions of the exclusive call option agreement among Shanghai Manyin, Shanghai Zihe, and the shareholders of Shanghai Zihe. If the proceeds received by the shareholders of Shanghai Zihe from such transferring is higher than the principal of the loan, the amount exceeding the principal shall be deemed as cost for using the principal and shall be paid, to the extent permitted by laws, to Shanghai Manyin together with the principal. Shanghai Manyin has the right to request repayment of the loan before maturity.

*Business Operation Agreement.* Shanghai Manyin, Shanghai Zihe, and the shareholders of Shanghai Zihe entered into a business operation agreement on March 21, 2018. Pursuant to this agreement, Shanghai Zihe and its shareholders agree that to the extent permitted by law, they will accept and strictly execute instructions from Shanghai Manyin on business operations, such as appointment of directors and senior management. Shanghai Zihe and its shareholders further agree that, without prior written consent of Shanghai Manyin, Shanghai Zihe will not take any action that may have material effects on its assets, businesses, human resources, rights, obligations, or business operations. This agreement also requires each of Shanghai Zihe's shareholders to issue an irrevocable power of attorney authorizing Shanghai Manyin or any person(s) designated by Shanghai Manyin to execute shareholders' rights on behalf of such shareholder. Unless terminated in advance pursuant this agreement, this agreement will remain effective for 30 years, renewable upon advance written notice by Shanghai Manyin.

*Power of Attorney.* Through a power of attorney dated March 21, 2018, each shareholder of Shanghai Zihe irrevocably authorizes Shanghai Manyin or any person(s) designated by Shanghai Manyin to act as his or her attorney-in-fact to exercise all of such shareholder's voting and other rights associated with the shareholder's equity interest in Shanghai Zihe, such as the right to call a shareholders' meeting, join a shareholders' meeting and sign any shareholders resolutions; the right to nominate and appoint legal representative, directors, supervisors, general manager, chief financial officer and other officers, as well as all rights a shareholder may have as a shareholder under laws and constitutional documents. The power of attorney will remain in force and irrevocable during the term each shareholder remains as a shareholder of Shanghai Zihe.

*Equity Pledge Agreement.* Shanghai Manyin, Shanghai Zihe, and the shareholders of Shanghai Zihe entered into an equity pledge agreement on March 21, 2018. Pursuant to the equity pledge agreement, each shareholder of Shanghai Zihe has pledged all of his equity interest in Shanghai Zihe to Shanghai Manyin to guarantee the performance by such shareholder and Shanghai Zihe of their respective obligations under the loan agreement, the business operation agreement (including the power of attorney), the exclusive call option agreement and the exclusive technology consulting and service framework agreement. If Shanghai Zihe or any of its shareholders breaches any obligations under these agreements, Shanghai Manyin, as pledgee, will be entitled to dispose of the pledged equity and have priority to be compensated by the proceeds from the disposal of the pledged equity. Each of the shareholders of Shanghai Zihe agrees that before his obligations under the contractual arrangements are discharged, he will not dispose of the pledged equity interests, create or allow any encumbrance on the pledged equity interests, or take any action which may result in the change of the pledged equity that may have material adverse effects on the pledgee's rights under this agreement without the prior written consent of Shanghai Manyin. The equity pledge agreement will remain effective until Shanghai Zihe and its shareholders discharge all their obligations under the contractual arrangements and the pledgee consents such discharge in writing. We have completed the registration of the equity pledge with the relevant office of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

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### *Agreement that allows us to receive economic benefits from Shanghai Zihe*

*Exclusive Technology Consulting and Service Framework Agreement.* Shanghai Manyin, and Shanghai Zihe entered into an exclusive technology consulting and service framework agreement on March 21, 2018. Pursuant to this agreement, Shanghai Manyin or its designated party has the exclusive right to provide Shanghai Zihe with technical support, consulting services and other services. Without prior written consent from Shanghai Manyin, Shanghai Zihe shall not accept any technical support and services covered by this agreement from any third party. The service fees Shanghai Zihe is going to pay to Shanghai Manyin shall be determined on a case-by-case basis based on the content of technology consulting and service, level of difficulty and complexity, time spend by Shanghai Manyin and its employees, the commercial value of the technology consulting and service to be provided by Shanghai Manyin and the revenue Shanghai Zihe generates due to the technology consulting and service provided by Shanghai Manyin. Shanghai Manyin shall own the intellectual property rights arising out of the provisions of services under this agreement. Unless Shanghai Manyin terminates this agreement in advance, this agreement will remain effective for 30 years, renewable upon Shanghai Manyin's advance written notice. Although this agreement can be terminated by mutual agreement between Shanghai Manyin and Shanghai Zihe, Shanghai Zihe has no right to unilaterally terminate this agreement.

### *Agreement that provides us with the option to purchase the equity interest in Shanghai Zihe*

*Exclusive Call Option Agreement.* Shanghai Manyin, Shanghai Zihe, and the shareholders of Shanghai Zihe entered into an exclusive call option agreement on March 21, 2018. Pursuant to the exclusive call option agreement, the shareholders of Shanghai Zihe have irrevocably granted Shanghai Manyin or any third party designated by Shanghai Manyin an exclusive option to purchase all of their respective equity interests in Shanghai Zihe at the lowest price permitted by the PRC laws. The shareholders of Shanghai Zihe will immediately gift Shanghai Manyin or any third party designated by Shanghai Manyin with the purchase price after Shanghai Manyin or any third party designated by Shanghai Manyin exercises the option. The shareholders of Shanghai Zihe agree that without their separate consent, Shanghai Manyin may transfer all or part of its option under this agreement to a third party. Without prior written consent from Shanghai Manyin or its designated third party, Shanghai Zihe shall not, among other things, amend its articles of association, increase or decrease the registered capital, sell, dispose of or set any encumbrance on its assets, business or revenue outside the ordinary course of business, enter into any material contract, merge with any other persons or make any investments, distribute dividends, or enter into any transactions which have material adverse effects on its business. The shareholders of Shanghai Zihe also jointly and severally undertake that they will not transfer, gift or otherwise dispose of their equity interests in Shanghai Zihe to any third party or create or allow any encumbrance on their equity interests within the term of this agreement. This agreement will remain effective for 30 years, renewable upon Shanghai Manyin's advance written notice.

### ***Contractual Arrangements with Shanghai Ledao***

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Shanghai Manyin, our consolidated variable interest entity, Shanghai Ledao, and the shareholders of Shanghai Ledao.

### *Agreements that enable us to direct the activities of operation of Shanghai Ledao*

*Loan Agreement.* Shanghai Manyin entered into a loan agreement with each of the shareholders of Shanghai Ledao, namely Mr. Lizhong Chen and Mr. Yejun Jiang on January 14, 2019. Under the loan agreements, Shanghai Manyin has granted an interest-free loan of RMB50.0 million to the shareholders of Shanghai Ledao solely for the capital contributions to Shanghai Ledao. Upon written notice by Shanghai Manyin, the loan shall be repaid by the shareholders of Shanghai Ledao from the proceeds received by transferring their equity interests in Shanghai Ledao to Shanghai Manyin pursuant to the terms and conditions of the exclusive call option agreement among Shanghai Manyin, Shanghai Ledao, and the shareholders of Shanghai Ledao. If the proceeds received by the shareholders of Shanghai Ledao from such transferring is higher than the principal of the loan, the amount exceeding the principal shall be deemed as cost for using the principal and shall be paid, to the extent permitted by laws, to Shanghai Manyin together with the principal. Shanghai Manyin has the right to request repayment of the loan before maturity.

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*Business Operation Agreement.* Shanghai Manyin, Shanghai Ledao, and the shareholders of Shanghai Ledao entered into a business operation agreement on January 14, 2019. Pursuant to this agreement, Shanghai Ledao and its shareholders agree that to the extent permitted by law, they will accept and strictly execute instructions from Shanghai Manyin on business operations, such as appointment of directors and senior management. Shanghai Ledao and its shareholders further agree that, without prior written consent of Shanghai Manyin, Shanghai Ledao will not take any action that may have material effects on its assets, businesses, human resources, rights, obligations, or business operations. This agreement also requires each of Shanghai Ledao's shareholders to issue an irrevocable power of attorney authorizing Shanghai Manyin or any person(s) designated by Shanghai Manyin to execute shareholders' rights on behalf of such shareholder. Unless terminated in advance pursuant this agreement, this agreement will remain effective for 30 years, renewable upon advance written notice by Shanghai Manyin.

*Power of Attorney.* Through a power of attorney dated January 14, 2019, each shareholder of Shanghai Ledao irrevocably authorizes Shanghai Manyin or any person(s) designated by Shanghai Manyin to act as his or her attorney-in-fact to exercise all of such shareholder's voting and other rights associated with the shareholder's equity interest in Shanghai Ledao, such as the right to call a shareholders' meeting, join a shareholders' meeting and sign any shareholders resolutions; the right to nominate and appoint legal representative, directors, supervisors, general manager, chief financial officer and other officers, as well as all rights a shareholder may have as a shareholder under laws and constitutional documents. The power of attorney will remain in force and irrevocable during the term each shareholder remains as a shareholder of Shanghai Ledao.

*Equity Pledge Agreement.* Shanghai Manyin, Shanghai Ledao, and the shareholders of Shanghai Ledao entered into an equity pledge agreement on January 14, 2019. Pursuant to the equity pledge agreement, each shareholder of Shanghai Ledao has pledged all of his equity interest in Shanghai Ledao to Shanghai Manyin to guarantee the performance by such shareholder and Shanghai Ledao of their respective obligations under the loan agreement, the business operation agreement (including the power of attorney), the exclusive call option agreement and the exclusive technology consulting and service framework agreement. If Shanghai Ledao or any of its shareholders breaches any obligations under these agreements, Shanghai Manyin, as pledgee, will be entitled to dispose of the pledged equity and have priority to be compensated by the proceeds from the disposal of the pledged equity. Each of the shareholders of Shanghai Ledao agrees that before his obligations under the contractual arrangements are discharged, he will not dispose of the pledged equity interests, create or allow any encumbrance on the pledged equity interests, or take any action which may result in the change of the pledged equity that may have material adverse effects on the pledgee's rights under this agreement without the prior written consent of Shanghai Manyin. The equity pledge agreement will remain effective until Shanghai Ledao and its shareholders discharge all their obligations under the contractual arrangements and the pledgee consents such discharge in writing. We have completed the registration of the equity pledge with the relevant office of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

### *Agreement that allows us to receive economic benefits from Shanghai Ledao*

*Exclusive Technology Consulting and Service Framework Agreement.* Shanghai Manyin, and Shanghai Ledao entered into an exclusive technology consulting and service framework agreement on January 14, 2019. Pursuant to this agreement, Shanghai Manyin or its designated party has the exclusive right to provide Shanghai Ledao with technical support, consulting services and other services. Without prior written consent from Shanghai Manyin, Shanghai Ledao shall not accept any technical support and services covered by this agreement from any third party. The service fees Shanghai Ledao is going to pay to Shanghai Manyin shall be determined on a case-by-case basis based on the content of technology consulting and service, level of difficulty and complexity, time spend by Shanghai Manyin and its employees, the commercial value of the technology consulting and service to be provided by Shanghai Manyin and the revenue Shanghai Ledao generates due to the technology consulting and service provided by Shanghai Manyin. Shanghai Manyin shall own the intellectual property rights arising out of the provisions of services under this agreement. Unless Shanghai Manyin terminates this agreement in advance, this agreement will remain effective for 30 years, renewable upon Shanghai Manyin's advance written notice. Although this agreement can be terminated by mutual agreement between Shanghai Manyin and Shanghai Ledao, Shanghai Ledao has no right to unilaterally terminate this agreement.

*Agreement that provides us with the option to purchase the equity interest in Shanghai Ledao*

*Exclusive Call Option Agreement.* Shanghai Manyin, Shanghai Ledao, and the shareholders of Shanghai Ledao entered into an exclusive call option agreement on January 14, 2019. Pursuant to the exclusive call option agreement, the shareholders of Shanghai Ledao have irrevocably granted Shanghai Manyin or any third party designated by Shanghai Manyin an exclusive option to purchase all of their respective equity interests in Shanghai Ledao at the lowest price permitted by the PRC laws. The shareholders of Shanghai Ledao will immediately gift Shanghai Manyin or any third party designated by Shanghai Manyin with the purchase price after Shanghai Manyin or any third party designated by Shanghai Manyin exercises the option. The shareholders of Shanghai Ledao agree that without their separate consent, Shanghai Manyin may transfer all or part of its option under this agreement to a third party. Without prior written consent from Shanghai Manyin or its designated third party, Shanghai Ledao shall not, among other things, amend its articles of association, increase or decrease the registered capital, sell, dispose of or set any encumbrance on its assets, business or revenue outside the ordinary course of business, enter into any material contract, merge with any other persons or make any investments, distribute dividends, or enter into any transactions which have material adverse effects on its business. The shareholders of Shanghai Ledao also jointly and severally undertake that they will not transfer, gift or otherwise dispose of their equity interests in Shanghai Ledao to any third party or create or allow any encumbrance on their equity interests within the term of this agreement. This agreement will remain effective for 30 years, renewable upon Shanghai Manyin's advance written notice.

In the opinion of Hui Ye Law Firm, our PRC counsel:

- the ownership structures of Shanghai Guangjian and Beijing Paipairongxin are in compliance with PRC laws or regulations currently in effect;
- the ownership structures of Shanghai Manyin and Shanghai Zihe are in compliance with PRC laws or regulations currently in effect;
- the ownership structures of Shanghai Manyin and Shanghai Ledao are in compliance with PRC laws or regulations currently in effect;
- the contractual arrangements among Shanghai Guangjian, Shanghai Shanghu (with respect to the business operation agreement and the exclusive technology consulting and service agreement only), Beijing Paipairongxin, the shareholders of Beijing Paipairongxin and Shanghai PPDai (with respect to the exclusive technology consulting and service agreement only) governed by PRC law are valid, binding and enforceable under PRC law, and do not and will not result in any violation of applicable PRC laws or regulations currently in effect;
- the contractual arrangements among Shanghai Manyin, Shanghai Zihe and the shareholders of Shanghai Zihe governed by PRC law are valid, binding and enforceable under PRC law, and do not and will not result in any violation of applicable PRC laws or regulations currently in effect; and
- the contractual arrangements among Shanghai Manyin, Shanghai Ledao and the shareholders of Shanghai Ledao governed by PRC law are valid, binding and enforceable under PRC law, and do not and will not result in any violation of applicable PRC laws or regulations currently in effect.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. For example, on March 15, 2019, the National People's Congress enacted the Foreign Investment Law of the PRC, or the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, which came into effect on January 1, 2020. However, the Implementation Regulations on the Foreign Investment Law still does not explicitly define whether contractual arrangement would be deemed as a form of foreign investment. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC counsel. If the PRC government finds that the agreements that establish the structure for operating our online consumer finance platform business do not comply with PRC government restrictions on foreign investment in value-added telecommunications services business, such as the internet content provision services, we could be subject to severe penalties, including being prohibited from continuing operations. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to the consolidated variable interest entities 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," "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations" and "—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us."

#### **D. Property, Plants and Equipment**

Our corporate headquarters is located in Shanghai, where we lease office space with an area of approximately 17,253 square meters as of the date of this annual report. For our customer services and loan collection services, we lease an area of approximately 3,929 square meters in Changsha, approximately 6,715 square meters in Hefei, and approximately 1,332 square meters in Zhengzhou. We also lease office space in Beijing, Hainan, Indonesia, Singapore and Philippines. We lease our premises from unrelated third parties under operating lease agreements. The lease term varies from one year to six years. Our servers are primarily hosted at internet data centers owned by major domestic internet data center providers. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate future growth.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F.

This report contains forward-looking statements. See "Forward-Looking Statements" on page 3 of this annual report. In evaluating our business, you should carefully consider the information provided under the caption "Item 3. Key Information—D. Risk Factors" in this annual report on Form 20-F.

We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

## **A. Operating Results**

### **Overview**

We are a leading fintech platform with strong brand recognition in China and the overseas markets. Launched in 2007, we have been a pioneer in China's online consumer finance industry. In 2018, we began our business operations in overseas markets, and currently we are serving borrowers in Indonesia and the Philippines. We strategically focus on serving borrowers of the young generation that is typically more receptive to internet financial services and whose borrowing needs are unserved or underserved by traditional financial institutions. This segment of borrowers is poised to become the major driving force of the consumer finance market. Our borrowers are primarily acquired online and stretch across a large number of cities and counties in the markets where we operate.

We have built an extensive database that contains first hand through-the-cycle credit data as well as data from various third-party sources. We have established systematic risk management procedures which have proven to be effective in various macro-economic environments. Our proprietary and big-database credit scoring model, the Magic Mirror Model, has been continually testing and refining its credit decision-making rules as we continue to study the increasing amount of data accumulated through our loan facilitation. We have also made progress in optimizing operational efficiency as we apply big-data analytics and machine learning capabilities to other aspects of our business operations, such as sales and marketing activities and loan collection.

Since 2020, all new loans facilitated on our platform in China have been funded by institutional funding partners. Our platform appeals to institutional funding partners by offering a wide spectrum of loan products. We provide our institutional funding partners with an opportunity to locate high quality borrowers and achieve attractive returns. Institutional funding partners may provide loans to borrowers that we introduce to them, relying on the preliminary credit assessment services as well as other services we provide to them. We offer attractive risk-adjusted returns supported by a set of risk management procedures and implement protection mechanisms to control and mitigate risk exposure.

As of December 31, 2022, we had over 143.9 million registered users in China and had cumulatively cooperated with 75 institutional funding partners in China. The number of cumulative registered users in China increased from 116.1 million as of December 31, 2020 to 131.2 million as of December 31, 2021 and further to 143.9 million as of December 31, 2022. Our loan origination volume in China increased from RMB64.1 billion in 2020 to RMB133.6 billion in 2021 and further to RMB171.1 billion (US\$24.8 billion) in 2022. We primarily offer short-term loans to our borrowers to meet their immediate credit needs while allowing them to gradually establish their credit history through activities on our platform. In 2020, 2021 and 2022, the average principal amount of loans originated on our platform in China was RMB3,983, RMB4,982 and RMB7,249 (US\$1,051), respectively, with an average term of 8.3 months, 8.4 months and 8.7 months, respectively. Borrowers come to our platform for convenient, simple and fast loan transaction process. We generally have a high level of borrower stickiness. In 2020, 2021 and 2022, 88.2%, 80.0% and 86.8% of the total loan origination volume on our platform in China was generated from repeat borrowers who had at least one drawdown before.

While our business primarily focuses on the PRC market, we have also been expanding our business in the overseas markets, including the Philippines and Indonesia. In December 2018 and June 2019, we established two subsidiaries in the Philippines, and one of them is authorized to operate as a lending company and the other is authorized to operate as a financing company. In December 2019, we established a subsidiary in Indonesia, which has received a license for Technology and Information Based Financial Lending Institution (peer-to-peer lending license) from the Financial Services Authority of Indonesia. We primarily offer short-term loans to our borrowers to meet their immediate credit needs while allowing them to gradually establish their credit history through activities on our platforms. Borrowers come to our platform for convenient, simple and fast loan transaction process.

The number of cumulative registered users in the overseas markets increased from 4.0 million as of December 31, 2020 to 9.0 million as of December 31, 2021 and further to 15.5 million as of December 31, 2022. Our loan origination volume in the overseas markets increased from RMB1.0 billion as of December 31, 2020 to RMB3.7 billion as of December 31, 2021 and further to RMB4.3 billion (US\$0.6 billion) as of December 31, 2022. Our outstanding loan balance in the overseas markets increased from RMB187 million as of December 31, 2020 to RMB330.0 million as of December 31, 2021 and further to RMB800.4 million (US\$116.0 million) as of December 31, 2022. In 2020, 2021 and 2022, revenue generated from the overseas markets were RMB269.9 million, RMB826.4 million and RMB1,149.7 million (US\$166.7 million), representing 3.6%, 8.7% and 10.3% of net revenues for the respective years.

We generate revenues primarily by collecting transaction service fees from institutional funding partners for our services provided to them such as borrower introduction and preliminary credit assessment, as well as other services we provide along the lifecycle of loans. Our operating revenues grew from RMB7.6 billion in 2020 to RMB9.5 billion in 2021, and further to RMB11.1 billion (US\$1.6 billion) in 2022. A substantial portion of our operating revenues for these periods were attributable to fees collected from institutional funding partners. Our net profit was RMB2.0 billion in 2020, RMB2.5 billion in 2021 and RMB2.3 billion (US\$330.8 million) in 2022. Our total assets as of December 31, 2020, 2021 and 2022 were RMB14.9 billion, RMB18.1 billion and RMB21.4 billion (US\$3.1 billion), respectively.

## **General Factors Affecting Our Results of Operations**

Our business and results of operations are affected by general factors affecting China's online consumer finance industry, which include, among other things:

- China's overall economic growth,
- impact and development of the COVID-19 pandemic,
- per capita disposable income,
- fluctuation of interest rates,
- development of regulatory environment for the China's online consumer finance industry, and
- growth of mobile internet penetration, including the popularity of smart mobile devices.

Unfavorable changes in any of these general industry conditions could negatively affect demand for our services. For example, as COVID-19 has negatively affected the broader Chinese economy and the global economy, China may continue to experience lower domestic consumption, higher unemployment, severe disruptions to exporting of goods to other countries and greater economic uncertainty, which may impact our business in a materially negative way as people in general may be less inclined to borrow. Borrowers may also have less propensity or ability to repay their loans as a result of the economic problems caused by COVID-19, which may then impact credit quality. The operations of some of our business partners and service providers have also been constrained and impacted, which may have a negative impact on our business. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We face risks related to COVID-19 outbreaks, other health epidemics and outbreaks and natural disasters, which could significantly disrupt our operations" for more information.

## **Specific Factors Affecting Our Results of Operations**

While our business is exposed to general factors affecting the online consumer finance industry in China, we believe our results of operations are more directly affected by company specific factors, including the following major factors.

### ***Ability to Maintain and Expand Our Borrower Base in a Cost-effective Manner***

Our revenues are dependent on our ability to acquire new borrowers and retain and increase engagement of existing borrowers. In 2020, 2021 and 2022, we served approximately 3.5 million, 5.6 million and 4.7 million borrowers, respectively. We use various means, including mobile app stores, search engine marketing, online advertising and online partnerships, to attract new borrowers. We also establish an offline direct sales team to acquire new borrowers across different cities in China. We are continuously seeking to improve and optimize user experience to achieve a high level of borrower satisfaction, which helps to attract and retain borrowers. We will also continue to develop new loan products to enhance engagement of our borrowers.

Our results of operations and ability to sustain and increase loan origination volume will depend, in part, on the effectiveness of our sales and marketing efforts. Our sales and marketing expenses were 6.4%, 16.7% and 15.1% of our total operating revenues in 2020, 2021 and 2022, respectively. The significant increase in our sales and marketing expenses as a percentage of our total operating revenues in 2021 was attributable to the increase in revenue contribution by new borrowers and the increase in online customer acquisition expenses. The decrease in our sales and marketing expenses as a percentage of our total operating revenues in 2022 was attributable to the increase in the revenue generated from the repeat borrowers. We intend to continuously dedicate significant resources to borrower acquisition and improve the effectiveness of these efforts.

### ***Ability to Maintain and Expand Our Cooperation with Institutional Funding Partners***

Our revenues are also dependent on the maintenance and growth of our cooperation with institutional funding partner. As of December 31, 2022, we had cumulatively cooperated with 75 institutional funding partners in China. Going forward, we will continue to retain existing institutional funding partners and attract new institutional funding partners by offering attractive returns and providing enhanced tools to meet their needs.

### ***Maintenance of Effective Risk Management***

Our ability to effectively segment borrowers into appropriate risk profiles impacts our ability to attract and retain borrowers and institutional funding partners as well as our ability to offer investors attractive risk-adjusted returns, both of which directly relate to users' confidence in our platform. We intend to optimize our fraud detection capabilities, improve accuracy of our credit scoring model and enhance our collection effectiveness on a continuing basis through the combination of our big-data analytical capabilities and the increasing amount of data we accumulate through our operations.

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For our institutional funding partners, we provide our institutional funding partners with quality assurance commitments either through our own financing guarantee subsidiary or through third-party financing guarantee companies for a substantial majority of the loans funded by our institutional funding partners. See “Item 4. Information on the Company—B. Business Overview—Quality Assurance Commitments for Our Institutional Funding Partners.” As a result, we are subject to credit risk for such loans. Our ability to accurately estimate loan delinquency rates and our ability to collect delinquent loans have an impact on the amount we need to pay to third-party financing guarantee companies and our own financial condition, which have an impact on our consolidated statements of comprehensive income/(loss). See “—E. Critical Accounting Estimates—Allowance for Credit Losses,” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Regulatory restrictions on institutional funding partners’ acceptance of credit enhancement may adversely affect our business and access to funding.”

### *Ability to Price Accurately*

Our profitability largely depends on our ability to reasonably price the loans facilitated through our platform. We implement segmented pricing for our standard loan products, which contributed a majority of our revenues in the periods presented in this annual report. Prospective borrowers for our standard loan products are divided into eight segments based on our proprietary credit scoring model: Level I applicants have the lowest risk of default whereas Level VIII loan applicants, whose applications will be rejected, have the highest risk of default. The transaction service fee rate that we collected from borrowers for standard loan products varies depending on their respective credit levels and duration of the underlying loan.

### *Ability to Innovate*

Our growth to date has depended on, and our future success will depend in part on, successfully meeting borrower and institutional funding partner demand for new products and services. We have made and intend to continue to make substantial investments to develop products and improve services for borrowers and institutional funding partners. For borrowers, we plan to introduce new features and products that meet their evolving financial needs at different stages of their lives. For our institutional funding partners, we will continue to expand our products and services to meet their needs for target returns, risk preferences, investment horizon and liquidity requirements. Failure to continue to successfully develop and offer innovative products could adversely affect our operating results and we may not recoup the costs of launching and marketing new products.

In addition, our success to date is largely attributable to our ability to seamlessly integrate the use of technologies into provision of financial services. We have been focusing on leveraging our big-data analytics and machine learning capabilities to increase the automation level of our platform and optimize our operational efficiency in various aspects. As our business grows, we will continue to invest in strengthening our technology infrastructure, which may result in the increase of our research and development expenses, and origination and servicing expenses.

### *Ability to Compete Effectively*

We compete for both borrowers and institutional funding partners with a variety of players in the consumer finance industry, ranging from traditional financial institutions to emerging online finance providers and marketplaces. We must compete effectively in order to grow our platform and increase our revenues. We intend to continue to invest in product development, technology infrastructure and our sales and marketing capabilities to address the competition we face.

## **Loan Performance Data**

### *Delinquency Rate by Balance*

We define delinquency rate as the balance of the outstanding principal for loans that were 15 to 29, 30 to 59, 60 to 89, 90 to 119, 120 to 149 and 150 to 179 calendar days past due as a percentage of the total outstanding balance of principal for the loans on our platform as of a specific date. Loans that are delinquent for 180 days or more are typically considered charged-off and are not included in the delinquency rate calculation. The following table provides the delinquency rates for all outstanding loans on our platform as of the respective dates indicated. Since the origination amount of our standard loan products accounted for the vast majority of the total amount of loans facilitated through our platform for the periods presented, the delinquency information below mainly reflects the performance of our standard loan products. The delinquency rates in late 2021 and 2022 were relatively lower than previous delinquency rates primarily due to our acquisition of better quality borrowers and the improved credit assessment models.



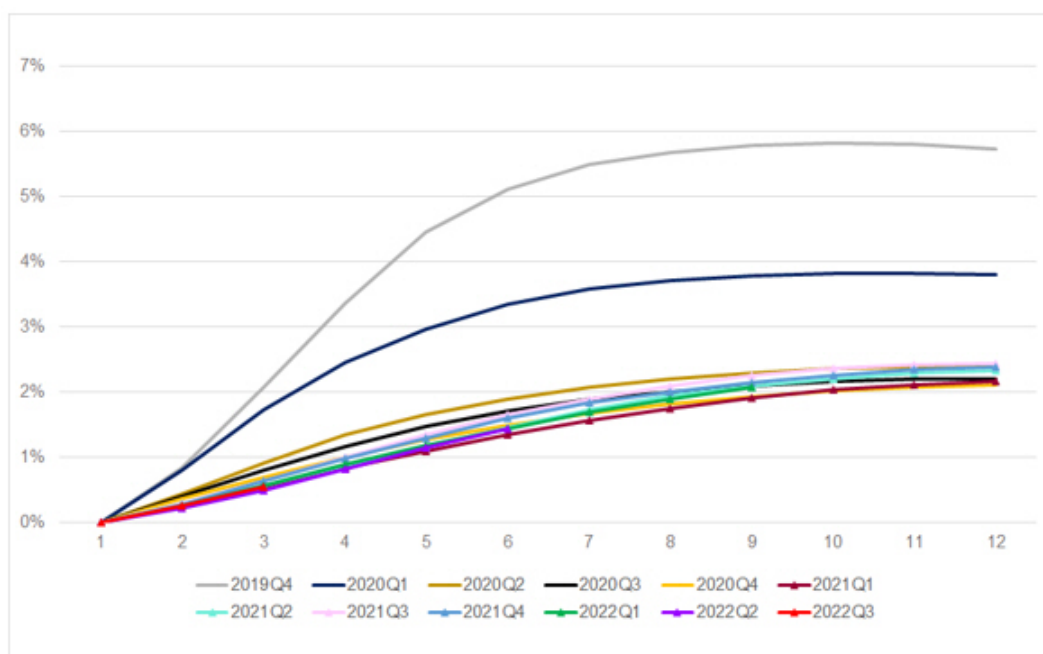
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	Delinquent for					
	15-29 days	30-59 days	60-89 days	90-119 days	120-149 days	150-179 days
March 31, 2020	1.34%	3.03%	2.33%	2.44%	2.64%	2.17%
June 30, 2020	0.71%	1.36%	1.70%	2.00%	2.75%	2.38%
September 30, 2020	0.46%	0.72%	0.74%	0.90%	1.07%	1.43%
December 31, 2020	0.35%	0.55%	0.48%	0.52%	0.49%	0.55%
March 31, 2021	0.29%	0.52%	0.43%	0.39%	0.38%	0.36%
June 30, 2021	0.30%	0.45%	0.39%	0.32%	0.36%	0.33%
September 30, 2021	0.34%	0.51%	0.43%	0.39%	0.33%	0.32%
December 31, 2021	0.39%	0.67%	0.55%	0.49%	0.41%	0.36%
March 31, 2022	0.35%	0.64%	0.57%	0.58%	0.57%	0.49%
June 30, 2022	0.31%	0.55%	0.58%	0.53%	0.55%	0.52%
September 30, 2022	0.32%	0.53%	0.49%	0.47%	0.46%	0.51%
December 31, 2022	0.36%	0.63%	0.53%	0.51%	0.46%	0.44%

**Delinquency Rate by Vintage**

We refer to loans facilitated during a specified time period as a vintage. We define vintage delinquency rate as (i) the total amount of principal for all loans in a vintage that become delinquent, less (ii) the total amount of recovered past due principal for all loans in the same vintage, and divided by (iii) the total amount of initial principal for all loans in such vintage. Loans that have been considered charged-off are included in the calculation of vintage delinquency rates.

In the first quarter of 2020, we adjusted the definition of 30-day plus past due delinquent loans in a vintage to better present delinquency rate by vintage. Under the adjusted definition, a loan is 30-day plus past due after 30 days pass its actual due date, while under our previous definition, a loan was 30-day plus past due after 30 days passed the presumed due date, which was one-month after the loan’s funding date. The following chart and table display the historical cumulative 30-day plus past due delinquency rates by loan origination vintage for all continuing loan products facilitated through our online platform under the adjusted definition of 30-day plus past due delinquent loans.



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### Notes:

- (1) Our vintage delinquency rate for loans facilitated during 2020 was 2.53%, calculated as the volume weighted average of the quarterly vintage delinquency rates at the end of the 12th month following the inception of each loan in an applicable vintage.
- (2) Our vintage delinquency rate for loans facilitated during 2021 was 2.34%, calculated as the volume weighted average of the quarterly vintage delinquency rates at the end of the 12th month following the inception of each loan in an applicable vintage.
- (3) As of December 31, 2022, our vintage delinquency rate for loans facilitated during the first three quarters was 1.32%, calculated as the volume weighted average of the quarterly vintage delinquency rates as of December 31, 2022. As loans facilitated during 2020 continue to age, the delinquency rate for the 2022 vintage, calculated as the volume weighted average of the quarterly vintage delinquency rates at the end of the 12th month following the inception of each loan in an applicable vintage, may be different from the vintage delinquency rate of 1.32% as of December 31, 2022.

Vintage	Month on Book											
	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	
2020Q1	0.81	1.73	2.46	2.97	3.35	3.59	3.71	3.78	3.82	3.82	3.80	
2020Q2	0.44	0.92	1.34	1.65	1.90	2.08	2.21	2.30	2.36	2.38	2.38	
2020Q3	0.41	0.81	1.16	1.47	1.72	1.89	2.01	2.10	2.16	2.20	2.21	
2020Q4	0.36	0.70	1.01	1.28	1.50	1.68	1.82	1.93	2.02	2.08	2.11	
2021Q1	0.27	0.55	0.84	1.10	1.34	1.56	1.74	1.91	2.04	2.12	2.16	
2021Q2	0.29	0.57	0.87	1.17	1.46	1.73	1.94	2.10	2.21	2.29	2.33	
2021Q3	0.29	0.63	1.01	1.35	1.65	1.90	2.10	2.25	2.36	2.42	2.44	
2021Q4	0.28	0.64	0.98	1.30	1.60	1.84	2.01	2.15	2.26	2.34	2.38	
2022Q1	0.25	0.57	0.90	1.18	1.44	1.69	1.90	2.07	—	—	—	
2022Q2	0.22	0.50	0.82	1.14	1.44	—	—	—	—	—	—	
2022Q3	0.25	0.55	—	—	—	—	—	—	—	—	—	

## Results of Operations

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

	For the Year Ended December 31,						
	2020		2021		2022		
	RMB	%	RMB	%	RMB	US\$(1)	
	(in thousands, except for percentages)						
Operating revenues:							
Loan facilitation service fees	1,908,851	25.2	3,794,182	40.1	4,430,778	642,402	39.8
Post-facilitation service fees	672,981	8.9	1,309,565	13.8	1,929,913	279,811	17.3
Guarantee income	3,386,032	44.8	2,593,512	27.4	3,064,440	444,302	27.5
Net interest income	1,113,337	14.7	1,216,170	12.8	1,174,204	170,244	10.5
Other revenue	481,886	6.4	556,699	5.9	534,868	77,549	4.9
Net revenues	7,563,087	100.0	9,470,128	100.0	11,134,203	1,614,308	100.0
Operating expenses:							
Origination, servicing expenses and other cost of revenue	(1,315,496)	(17.4)	(1,834,453)	(19.4)	(2,038,587)	(295,566)	(18.3)
Origination, servicing expenses and other cost of revenue-related party	(10,104)	(0.1)	(7,503)	(0.1)	(37)	(5)	(0.0)
Sales and marketing expenses	(482,859)	(6.4)	(1,584,233)	(16.7)	(1,685,022)	(244,305)	(15.1)
General and administrative expenses	(461,116)	(6.1)	(518,245)	(5.5)	(401,731)	(58,246)	(3.6)
Research and development expenses	(370,175)	(4.9)	(434,850)	(4.6)	(491,484)	(71,258)	(4.4)
Credit losses for quality assurance commitment	(2,007,968)	(26.5)	(1,963,609)	(20.7)	(3,195,220)	(463,263)	(28.7)
Provision for loans receivable	(463,175)	(6.1)	(374,243)	(4.0)	(415,902)	(60,300)	(3.7)
Provision for accounts receivable and other receivables	(144,661)	(1.9)	(139,226)	(1.5)	(390,882)	(56,673)	(3.6)
Total operating expenses	(5,255,554)	(69.5)	(6,856,362)	(72.4)	(8,618,865)	(1,249,616)	(77.4)
Other income	116,469	1.5	122,368	1.3	220,693	31,997	2.0
Profit before income tax expenses	2,424,002	32.1	2,736,134	29.0	2,736,031	396,689	24.6
Income tax expenses	(455,421)	(6.0)	(240,818)	(2.5)	(454,775)	(65,936)	(4.1)
Net profit	1,968,581	26.0	2,495,316	26.3	2,281,256	330,753	20.5

Note:

- (1) Translations from RMB into US\$ for year ended December 31, 2022 are solely for the convenience of the readers and were calculated at the rate of US\$1.00 = RMB6.8972, representing the noon buying rate set forth in the H.10 statistical release of the U.S Federal Reserve Board on December 30, 2022. No representation is made that the RMB amount could have been, or could be, converted, realized or settled into US\$ at the rate on December 30, 2022, or at any other rate.

## **Revenues**

Our operating revenues include loan facilitation service fees, post-facilitation service fees, net interest income and other revenues. We generate revenues primarily by collecting transaction service fees from institutional funding partners for our services provided to them such as borrower introduction and preliminary credit assessment, as well as other services we provide along the lifecycle of loans.

Typically, we provided quality assurance service, loan facilitation services and post-facilitation services to the borrowers and institutional funding partners. The quality assurance service is within the scope of ASC Topic 460 Guarantees and recorded at fair value at the inception of the loans. For loan facilitation services and post-facilitation services we provide, we charged one combined transaction service fee for its delivery of loan facilitation services and post-facilitation services, each of which are distinct performance obligations. We estimate the total consideration to be received over the life of the underlying loan by modeling early termination scenarios. The average rate of transaction service fees was 4.3% in 2020, 4.2% in 2021 and 3.7% in 2022.

### *Loan facilitation service fees*

For each loan facilitated on our platform, we collect transaction service fees and allocate such fees between loan facilitation services and post-facilitation services that we provide. Loan facilitation service fees are the portion of transaction service fees collected in relation to the work we perform through our platform in connecting borrowers with institutional funding partners and facilitating the origination of loan transactions.

*2022 Compared to 2021.* Loan facilitation service fees increased by 16.8% to RMB4,430.8 million (US\$642.4 million) in 2022 from RMB3,794.2 million in 2021, primarily due to the increase in loan origination volume, partially offset by the decrease in the average rate of transaction service fees. The loan origination volume increased from approximately RMB137.4 billion in 2021 to RMB175.4 billion (US\$25.4 billion) in 2022. The increase in the loan origination volume was primarily driven by the increase in loan origination volume generated from the repeat borrowers. The loan origination volume generated from repeat borrowers, who had at least one drawdown before, as a percentage of the total loan origination volume facilitated on our platform in China increased from 80.0% in 2021 to 86.8% in 2022.

*2021 Compared to 2020.* Loan facilitation service fees increased by 98.8% to RMB3,794.2 million in 2021 from RMB1,908.9 million in 2020, primarily due to the increase in loan origination volume, partially offset by the decrease in the average rate of transaction service fees. The loan origination volume increased from approximately RMB65.1 billion in 2020 to RMB137.4 billion in 2021. The increase in the loan origination volume in China was primarily driven by the increased loan origination volume generated from new borrowers. The loan origination volume generated from repeat borrowers, who had at least one drawdown before, as a percentage of the total loan origination volume facilitated on our platform in China decreased from 88.2% in 2020 to 80.0% in 2021.

### *Post-facilitation service fees*

Post-facilitation service fees are the portion of transaction service fees collected in relation to services we provide after loan origination, such as repayment facilitation and loan collection.

*2022 Compared to 2021.* Post-facilitation service fees increased by 47.4% to RMB1,929.9 million (US\$279.8 million) in 2022 from RMB1,309.6 million in 2021, primarily due to the increase in the outstanding loans facilitated by the company and the rolling impact of deferred transaction fees.

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*2021 Compared to 2020.* Post-facilitation service fees increased by 94.6% to RMB1,309.6 million in 2021 from RMB673.0 million in 2020, primarily due to the increase in outstanding loans served by the company and the rolling impact of deferred transaction fees.

### *Guarantee income*

Liabilities of quality assurance commitment are released as guarantee income systematically over the term of the loans subject to quality assurance commitment.

*2022 Compared to 2021.* Our guarantee income increased by 18.2% to RMB3,064.4 million (US\$444.3 million) in 2022 from RMB2,593.5 million in 2021, primarily due to the increased outstanding loan balance of the off-balance sheet loans, partially offset by the improvement of asset quality. The fair value of quality assurance commitment upon loan origination is released as guarantee income systematically over the term of the loans subject to quality assurance commitment. As we transitioned our business towards the better quality borrowers, the fair value of quality assurance commitment upon loan origination decreased due to the better asset quality.

*2021 Compared to 2020.* Our guarantee income decreased by 23.4% to RMB2,593.5 million in 2021 from RMB3,386.0 million in 2020. The fair value of quality assurance commitment upon loan origination is released as guarantee income systematically over the term of the loans subject to quality assurance commitment. Along with our strategical transition of our business towards better quality borrowers, the fair value of quality assurance commitment upon loan origination decreased due to the better asset quality, which resulted in the decrease in our guarantee income.

### *Other revenue*

Other revenue mainly includes customer referral fees and revenue generated from new businesses.

*2022 Compared to 2021.* Other revenue decreased by 3.9% to RMB534.9 million (US\$77.5 million) in 2022 from RMB556.7 million in 2021, primarily due to the decrease in the customer referral fees from other third-party platforms.

*2021 Compared to 2020.* Other revenue increased by 15.5% to RMB556.7 million in 2021 from RMB481.9 million in 2020, primarily due to the increase in revenue generated from new businesses, partially offset by the decrease in customer referral fees from other third-party platforms.

### *Net interest income*

The following table sets forth the composition of the interest income recorded in the consolidated statement of comprehensive income related to the loans originated by the Group for the periods presented:

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Interest income from loans originated through micro-lending company <sup>(1)</sup>	40,730	79,029	58,114
Interest income from loans originated in the overseas markets <sup>(1)</sup>	44,319	803,910	691,156
Interest income from loans originated under the trust arrangements <sup>(2)</sup>	1,256,608	407,077	571,240
Total interest income	<u>1,341,657</u>	<u>1,290,016</u>	<u>1,320,510</u>

#### Notes:

- (1) Typically, for loans originated through micro-lending company and in the overseas markets, these loans are funded by the Company itself with no interest bearing liabilities.
- (2) The interest income from loans originated under the overseas trust arrangements was nil, RMB22,381 and RMB22,576 for the year ended December 31, 2020, 2021, and 2022, respectively.

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The following table sets forth the average balances and interest rates of the interest-earning asset and interest-bearing liability under the trust arrangements for the periods presented:

	<u>Average balance</u>	<u>Interest income/ expense</u> 2020	<u>Yield/ rate</u>	<u>Average balance</u>	<u>Interest income/ expense</u> 2021	<u>Yield/ rate</u>	<u>Average balance</u>	<u>Interest income/ expense</u> 2022	<u>Yield/ rate</u>
	(RMB in thousands)								
<b>Interest-earning Assets</b>									
Loans receivable from consolidated trusts <sup>(1)</sup>	3,891,493	1,256,608	32.3%	1,306,889	407,077	31.1%	2,047,322	571,240	27.9%
<b>Interest-bearing liabilities</b>									
Funds payable to investors of consolidated trusts <sup>(1)</sup>	2,459,700	228,320	9.3%	1,073,133	73,846	6.9%	2,057,290	146,306	7.1%
The net yield on interest-earning assets			26.4%			25.5%			20.8%

Note:

(1) The average balance of loans receivable from the overseas consolidated trusts was nil, RMB50,888, RMB63,071 for the year ended December 31, 2020, 2021, and 2022, respectively. The average funds payable to investors of the overseas consolidated trusts was nil, RMB 83,525 and RMB56,152 for the year ended December 31, 2020, 2021, and 2022, respectively.

In 2022, we recorded RMB1,320.5 million (US\$191.5 million) interest income and RMB146.3 million (US\$21.2 million) interest expenses, compared to RMB1,290.0 million interest income and RMB73.8 million interest expenses in 2021. In 2021, we recorded RMB1,290.0 million interest income and RMB73.8 million interest expenses, compared to RMB1,341.7 million interest income and RMB228.3 million interest expenses in 2020.

Our interest income and interest expenses in 2021 and 2022 were related to loans originated in the overseas markets and the trusts we set up in collaboration with trust management companies. In order to provide more flexibilities and access a broader range of investors, we have collaborated with third-party trust management companies to set up numerous trusts. Those trusts are administered by third-party trust management companies. We are considered the primary beneficiary of those trusts and therefore consolidated the financial results of those trusts in our consolidated financial statements in accordance with U.S. GAAP.

A substantial portion of our interest income and interest expenses in 2020 was related to the trusts we set up in collaboration with trust management companies. In order to provide more flexibilities and access a broader range of investors, we have collaborated with third-party trust management companies to set up numerous trusts. Those trusts are administered by third-party trust management companies. We are considered the primary beneficiary of those trusts and therefore consolidated the financial results of those trusts in our consolidated financial statements in accordance with U.S. GAAP.

## ***Operating Expenses***

Our operating expenses consist of origination and servicing expenses, sales and marketing expenses and general and administrative expenses, research and development expenses, provision for accounts receivable and provision for loans receivable.

### *Origination, servicing expenses and other cost of revenue*

Origination, servicing expenses and other cost of revenue consist primarily of expenses for credit assessment, loan origination, salaries and benefits for the personnel who work on credit checking, data processing and analysis, loan origination, customer service, loan collection and other cost of revenue.

*2022 Compared to 2021.* Our origination, servicing expenses and other cost of revenue increased by 11.1% to RMB2,038.6 million (US\$295.6 million) in 2022 from RMB1,834.5 million in 2021, primarily due the increase in expenditures for employee benefits. Origination, servicing expenses and other cost of revenue for the period included share-based compensation of RMB26.7 million (US\$3.9 million).

*2021 Compared to 2020.* Our origination, servicing expenses and other cost of revenue increased by 39.4% to RMB1,834.5 million in 2021 from RMB1,315.5 million in 2020, primarily due to the increase in expenditures for employee benefits and fees paid to third party service providers. Origination, servicing expenses and other cost of revenue for the period included share-based compensation of RMB13.5 million.

### *Origination, servicing expenses and other cost of revenue-related party*

Origination, servicing expenses and other cost of revenue-related party was reclassified separately from general and administrative expenses in 2019, which consists of expenses for data collection service provided by PPeredit Data Service (Shanghai) Co., Ltd., or PPeredit, a related party controlled by our founders, for its data collection services. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Transactions with PPeredit.”

*2022 Compared to 2021.* Our origination, servicing expenses and other cost of revenue-related party decreased by 99.5% to RMB37 thousand (US\$5.0 thousand) in 2022 from RMB7.5 million in 2021, primarily due to the decreased data collection service from the related party.

*2021 Compared to 2020.* Our origination, servicing expenses and other cost of revenue-related party decreased by 25.7% to RMB7.5 million in 2021 from RMB10.1 million in 2020, primarily due to the decreased data collection service from the related party.

### *Sales and marketing expenses*

Sales and marketing expenses consist primarily of advertising and online marketing promotion expenses.

*2022 Compared to 2021.* Our sales and marketing expenses increased by 6.4% to RMB1,685.0 million (US\$244.3 million) in 2022 from RMB1,584.2 million in 2021, primarily due to the increase in online customer acquisition expenses from RMB1,377.8 million in 2021 to RMB1,605.5 million (US\$232.8 million) in 2022. Our online customer acquisition expenses primarily include expenses paid to internet marketing channels for online advertising and search engine marketing as well as to certain websites that enable us to reach quality borrowers. The increase in expenses associated with online customer acquisition was primarily due to our proactive customer acquisition efforts focusing on higher-quality borrowers in both China and the overseas markets. Our sales and marketing expenses as a percentage of our total operating revenues decreased from 16.7% to 15.1% during the same period, primarily attributable to the increase in the revenue generated from the repeat borrowers. Sales and marketing expenses for the period included share-based compensation of RMB1.6 million (US\$0.2 million).

*2021 Compared to 2020.* Our sales and marketing expenses increased by 228.1% to RMB1,584.2 million in 2021 from RMB482.9 million in 2020, primarily due to the increase in online customer acquisition expenses from RMB429.7 million in 2020 to RMB1,377.8 million in 2021. Our online customer acquisition expenses primarily include expenses paid to internet marketing channels for online advertising and search engine marketing as well as to certain websites that enable us to reach quality borrowers. The increase in expenses associated with online customer acquisition was primarily due to the increase in the number of new registered users on our platform. Our sales and marketing expenses as a percentage of our total operating revenues increased from 6.4% to 16.7% during the same period, primarily attributable to the increase in revenue contribution by new borrowers.

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### *General and administrative expenses*

General and administrative expenses consist primarily of salaries and benefits for general management, finance and administrative personnel, rental, professional service fees and other expenses.

*2022 Compared to 2021.* Our general and administrative expenses decreased by 22.5% to RMB401.7 million (US\$58.2 million) in 2022 from RMB518.2 million in 2021, primarily due to the improved operation efficiency. General and administrative expenses in 2022 included share-based compensation of RMB34.2 million (US\$5.0 million). Our general and administrative expenses as a percentage of our total operating revenues decreased from 5.5% to 3.6% during the same period, primarily because of the improved operation efficiency.

*2021 Compared to 2020.* Our general and administrative expenses increased by 12.4% to RMB518.2 million in 2021 from RMB461.1 million in 2020, primarily due to the increase in expenditures for employee benefits. General and administrative expenses for the period included share-based compensation of RMB41.3 million. Our general and administrative expenses as a percentage of our total operating revenues decreased from 6.1% to 5.5% during the same period, primarily because of the rapid growth in total operating revenues in 2021.

### *Research and development expenses*

*2022 Compared to 2021.* Research and development expenses increased by 13.0% to RMB491.5 million (US\$71.3 million) in 2022 from RMB434.9 million in 2021 as we continued investing in our technology capabilities in 2022. Our research and development expenses in 2022 included the share-based compensation expenses of RMB26.5 million (US\$3.8 million). Our research and development expenses as a percentage of our total operating revenues decreased from 4.6% to 4.4%.

*2021 Compared to 2020.* Research and development expenses increased by 17.5% to RMB434.9 million in 2021 from RMB370.2 million in 2020 as we continued to invest in our technology capabilities in 2021. Our research and development expenses in 2021 included the share-based compensation expenses of RMB40.4 million. Our research and development expenses as a percentage of our total operating revenues decreased from 4.9% to 4.6%.

### *Credit losses for quality assurance commitment*

Credit losses for quality assurance commitment was accounted for in addition to and separately from the guarantee liabilities accounted for under ASC 460.

Credit losses for quality assurance commitment increased by 62.7% to RMB3,195.2 million (US\$463.3 million) in 2022 from RMB1,963.6 million in 2021, primarily due to the increases in the loan origination volume and the outstanding loan balance.

Credit losses for quality assurance commitment decreased by 2.2% to RMB1,963.6 million in 2021 from RMB2,008.0 million in 2020, primarily due to the improved asset quality, partially offset by the increase in outstanding loan balance.

### *Provision for loans receivable*

*2022 Compared to 2021.* Our provision for loans receivables increased by 11.1% to RMB415.9 million (US\$60.3 million) in 2022 from RMB374.2 million in 2021, primarily due to the increase in the loan origination volume and the outstanding loan balance of on-balance sheet loans.

*2021 Compared to 2020.* Our provision for loans receivables decreased by 19.2% to RMB374.2 million in 2021 from RMB463.2 million in 2020, primarily due to the improved delinquency rates, partially offset by the increase in loan origination volume.

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### ***Provision for Accounts Receivable and Other Receivables***

*2022 Compared to 2021.* Our provision for accounts receivables and other receivables increased by 180.8% to RMB390.9 million (US\$56.7 million) in 2022 from RMB139.2 million in 2021, primarily due to the increase in the loan origination volume and the outstanding loan balance of off-balance sheet loans.

*2021 Compared to 2020.* Our provision for accounts receivables and other receivables decreased by 3.8% to RMB139.2 million in 2021 from RMB144.7 million in 2020, primarily due to the improvement in delinquency rates and partially offset by the increase in outstanding loan balance.

### ***Other Income***

*2022 Compared to 2021.* We recorded other income of RMB220.7 million (US\$32.0 million) in 2022, compared to RMB122.4 million in 2021. We recorded other income in 2022, primarily due to other income of RMB224.8 million (US\$32.6 million) from government subsidies and investment income from financial assets held for trading.

*2021 Compared to 2020.* We recorded other income of RMB122.4 million in 2021, compared to other income of RMB116.5 million in 2020. We recorded other income in 2021 primarily due to the interest income from short-term investments and the government subsidies.

### ***Income Tax Expenses***

*2022 Compared to 2021.* Our income tax expenses increased to RMB454.8 million (US\$65.9 million) in 2022 from RMB240.8 million in 2021, primarily due to the tax credit derived from the change in preferential tax rate for certain qualified subsidiaries in the same period of 2021.

*2021 Compared to 2020.* Our income tax expenses decreased to RMB240.8 million in 2021 from RMB455.4 million in 2020, primarily due to change in preferential tax rate for certain qualified subsidiaries, partially offset by the increase in pre-tax profit.

### ***Net Profit***

As a result of the foregoing, our net profit was RMB2.0 billion in 2020, RMB2.5 billion in 2021 and RMB2.3 billion (US\$330.8 million) in 2022.

## **Taxation**

### ***Cayman Islands***

We are incorporated in the Cayman Islands. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

### ***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 PRC subsidiaries, consolidated variable interest entities and their respective subsidiaries, which are considered PRC resident enterprises under PRC tax law, are subject to enterprise income tax on their worldwide taxable income as determined under PRC tax laws and accounting standards at a rate of 25%. A “high and new technology enterprise” is entitled to a favorable statutory tax rate of 15% and such qualification is reassessed by relevant governmental authorities every three years. Besides, a company qualified as a “software enterprise” is entitled to an exemption of income tax for the first two fiscal years and a favorable tax rate of 12.5% from the third to the fifth year. Such qualification is reassessed by relevant governmental authorities annually. In 2022, one of our PRC subsidiaries qualified as a “high and new technology enterprise” and is entitled to a preferential income tax rate of 15%. In 2022, one of our PRC subsidiaries was recognized as a “software enterprise” and is entitled to a preferential income tax rate of 12.5% for 2022.



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We are subject to value added tax, or VAT, at a rate of 6% on the services we provide to borrowers and institutional funding partners, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law. VAT has been phased in since May 2012 to replace the business tax that was previously applicable to the services we provide. During the periods presented, we were not subject to business tax on the services we provide.

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. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.”

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

### Discussion of Certain Balance Sheet Items

The following table sets forth selected information from our consolidated balance sheet as of December 31, 2020, 2021 and 2022. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The following selected consolidated balance sheet as of December 31, 2020 are derived from our audited consolidated balance sheet as of December 31, 2020 not included in this annual report.

	As of December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
<b>Assets:</b>				
Cash and cash equivalents	2,632,174	4,418,127	3,636,380	527,226
Restricted cash	3,484,227	4,073,414	2,842,707	412,154
Short-term investments	1,970,958	1,204,901	3,427,020	496,871
Quality assurance receivable, net of credit loss allowance for quality assurance receivable	1,121,554	931,798	1,669,855	242,106
Investments	950,515	971,117	1,084,084	157,177
Account receivable and contract assets, net of credit loss allowance for accounts receivable and contract assets	863,906	1,890,846	2,217,445	321,499
Total assets	14,882,185	18,138,551	21,382,911	3,100,230
<b>Liabilities and shareholders' equity</b>				
<b>Liabilities:</b>				
Deferred guarantee income	1,259,396	1,089,503	1,805,164	261,724
Liability from quality assurance commitment	2,390,501	3,188,561	3,555,618	515,516
Funds payable to investors of consolidated trusts	1,661,841	1,795,640	1,845,210	267,530
Total liabilities	6,451,855	7,428,941	8,938,422	1,295,948
Total shareholders' equity	8,430,330	10,709,610	12,444,489	1,804,282

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### **Cash and Cash Equivalents**

Our cash and cash equivalents increased by 67.9% from RMB2.6 billion as of December 31, 2020 to RMB4.4 billion as of December 31, 2021, primarily due to the maturity of some of the wealth management products we purchased previously.

Our cash and cash equivalents decreased by 17.7% from RMB4.4 billion as of December 31, 2021 to RMB3.6 billion (US\$527.2 million) as of December 31, 2022, primarily due to the purchase of the wealth management products in 2022.

### **Restricted Cash**

Restricted cash mainly included cash under the quality assurance commitment and in the quality assurance fund, cash in investor reserve funds, cash received from investors and borrowers that has yet to be disbursed, cash received via consolidated trust that has not been distributed, cash held as collateral for short-term borrowings and cash held in escrow accounts. The following table sets forth a breakdown of our restricted cash as of December 31, 2020, 2021 and 2022:

	As of December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
Restricted cash:				
Quality assurance commitment and quality assurance fund	1,671,785	2,042,084	1,394,870	202,237
Cash received from investors and borrowers	103,453	81,150	78,766	11,420
Cash received via consolidated trust that has not yet been distributed	482,285	341,397	449,337	65,148
Escrow accounts	701,673	1,281,869	558,520	80,978
Cash received from borrower to be distributed to funding partners	225,031	326,914	361,214	52,371
Cash held in capital verification account	300,000	—	—	—
<b>Total restricted cash</b>	<b>3,484,227</b>	<b>4,073,414</b>	<b>2,842,707</b>	<b>412,154</b>

Restricted cash increased by 16.9% from RMB3.5 billion as of December 31, 2020 to RMB4.1 billion as of December 31, 2021, primarily due to (i) an increase of RMB580.2 million in escrow accounts due to increased guarantee amount for our financing guarantee, (ii) an increase of RMB370.3 million in quality assurance commitment and quality assurance fund due to the increase in loan origination volume, partially offset by the improved delinquency rates, and (iii) an increase of RMB101.9 million in cash received from borrower to be distributed to funding partners due to a settlement time lag, which was largely offset by (i) a decrease of RMB300.0 million in cash held in capital verification account due to no capital verification in progress at the end of 2021, and (ii) a decrease of RMB140.9 million in cash received via consolidated trust that has not yet been distributed due to the decrease in the outstanding loan balances of consolidated trusts, and (iii) a decrease of RMB22.3 million in cash received from investors and borrowers due to a settlement time lag.

Restricted cash decreased by 30.2% from RMB4.1 billion as of December 31, 2021 to RMB2.8 billion (US\$412.2 million) as of December 31, 2022, primarily due to (i) a decrease of RMB723.3 million in escrow accounts due to decreased guarantee amount for our financing guarantee, and (ii) a decrease of RMB647.2 million in cash in quality assurance commitment and quality assurance fund due to the increase in short term investments in 2022, which was offset by (i) an increase of RMB107.9 million in cash received via consolidated trusts that has not yet been distributed due to the increase in the outstanding loan balances of consolidated trusts and (ii) an increase of RMB34.3 million in cash received from borrower to be distributed to funding partners due to a settlement time lag.

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### ***Short-term Investments***

Short-term investments mainly consist of investments in time deposits placed with banks with original maturities between three months and one year and investments in short-term wealth management products.

Our short-term investments decreased by 38.9% from RMB1,971.0 million as of December 31, 2020 to RMB1,204.9 million as of December 31, 2021, primarily due to the maturity of some wealth management products we purchased previously.

Our short-term investments increased by 184.4% from RMB1,204.9 million as of December 31, 2021 to RMB3,427.0 million (US\$496.9 million) as of December 31, 2022, primarily due to the purchase of wealth management products in 2022.

### ***Quality Assurance Receivable***

Quality assurance receivable decreased by 16.9% from RMB1.1 billion as of December 31, 2020 to RMB0.9 billion as of December 31, 2021, primarily due to the improved delinquency rates, partially offset by the increase in loan origination volume.

Quality assurance receivable increased by 79.2% from RMB0.9 billion as of December 31, 2021 to RMB1.7 billion (US\$242.1 million) as of December 31, 2022, primarily due to the increases in the loan origination volume.

### ***Accounts Receivable and Contract Assets and Related Provision***

Accounts receivable and contract assets primarily consists of transaction service fees for facilitation and post facilitation services. Provision for credit loss allowance mainly consist of provision for accounts receivable and contract assets for loan facilitation and post facilitation services.

Accounts receivable and contract assets increased by 103.4% to RMB2.1 billion in 2021 from RMB1.1 billion in 2020, mainly due to the increase in loan origination volume in the fourth quarter of 2021. Provision for credit loss allowance increased from RMB188.7 million in 2020 to RMB250.7 million in 2021, mainly due to the increase in loan origination volume in 2021.

Accounts receivable and contract assets increased by 26.7% to RMB2.7 billion (US\$393.5 million) in 2022 from RMB2.1 billion in 2021, mainly due to the increase in the loan origination volume. Provision for credit loss allowance increased from RMB250.7 million in 2021 to RMB496.9 million (US\$72.0 million) in 2022, mainly due to the increase in the loan origination volume in 2022.

### ***Deferred Guarantee Income***

Deferred guarantee income was RMB1.1 billion as of December 31, 2021 compared to RMB1.3 billion as of December 31, 2020, primarily due to the improved delinquency rates.

Deferred guarantee income was RMB1.8 billion (US\$261.7 million) as of December 31, 2022 compared to RMB1.1 billion as of December 31, 2021, primarily due to the increases in the loan origination volume.

### ***Liability from Quality Assurance Commitment***

Liability from quality assurance commitment was RMB3.2 billion as of December 31, 2021 compared to RMB2.4 billion as of December 31, 2020, primarily due to a 80.4% increase in the outstanding loan balance, partially offset by the improved delinquency rates.

Liability from quality assurance commitment was RMB3.6 billion (US\$515.5 million) as of December 31, 2022 compared to RMB3.2 billion as of December 31, 2021, primarily due to a 33.8% increase in the outstanding loan balance, partially offset by the improved delinquency rates.

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### ***Funds Payable to Investors of Consolidated Trusts***

Funds payable to investors of consolidated trusts increased by 8.1% to RMB1.8 billion in 2021 from RMB1.7 billion in 2020, mainly due to the increase in the loan origination volume of consolidated trusts.

Funds payable to investors of consolidated trusts remained stable at RMB1.8 billion (US\$267.5 million) in 2022, which remained stable compared to RMB1.8 billion in 2021.

### **Recent Accounting Pronouncements**

See note 2 to the consolidated financial statements on page F-40 for details on recent accounting pronouncements and our adoption of certain accounting rules.

### **Inflation**

To date, inflation in China has not materially impacted 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 December 2020, 2021 and 2022 were increases of 0.2%, 1.5% and 1.8%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

## **B. Liquidity and Capital Resources**

### **Cash Flows and Working Capital**

To date, we have financed our operations primarily through cash generated by operating activities. As of December 31, 2020, 2021 and 2022, we had RMB2.6 billion, RMB4.4 billion and RMB3.6 billion (US\$527.2 million), respectively, in cash and cash equivalents. In November 2017, we completed our initial public offering in which we issued and sold an aggregate of 17,000,000 ADSs, representing 85,000,000 class A ordinary shares, resulting in net proceeds to us of approximately US\$205.0 million. Concurrently with our initial public offering, we sold 19,230,769 ordinary shares to Sun Hung Kai & Co. Limited in a private placement, resulting in net proceeds to us of approximately US\$49.5 million. Our cash and cash equivalents primarily consist of cash on hand and short-term bank demand deposits. We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for the next 12 months. We may, however, need additional capital in the future to fund our continued operations. 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 might restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Although we consolidate the results of Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao, three of the consolidated variable interest entities, and their subsidiaries, we only have access to the assets or earnings of Beijing Paipairongxin, Shanghai Zihe, Shanghai Ledao and their subsidiaries through our contractual arrangements with Beijing Paipairongxin, Shanghai Zihe, Shanghai Ledao and their shareholders. 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.” Substantially all of our future revenues are likely to continue to be in the form of RMB. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiary is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiary to pay dividends to us only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Our PRC subsidiary is required to set aside at least 10% of its after-tax profits after making up previous years’ accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE and its local branches. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our net revenues effectively and affect the price of our ADSs.” The following table sets forth a summary of our cash flows for the periods presented:

**For the Year Ended December 31,**

	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Summary Consolidated Cash Flows Data:</b>				
Net cash provided by operating activities	2,206,909	630,227	268,833	38,977
Net cash provided by/(used in) investing activities	1,041,496	1,994,845	(1,553,228)	(225,197)
Net cash used in financing activities	(3,091,279)	(239,800)	(795,856)	(115,388)
Net increase in cash, cash equivalents and restricted cash	105,656	2,375,140	(2,012,454)	(291,778)
Cash, cash equivalents and restricted cash at beginning of year	6,010,745	6,116,401	8,491,541	1,231,158
Cash, cash equivalents and restricted cash at end of year	6,116,401	8,491,541	6,479,087	939,380

**Operating Activities**

Net cash provided by operating activities was RMB268.8 million (US\$39.0 million) in 2022, decreased from RMB630.2 million in 2021. The decrease was primarily attributable to the increase of security deposits requested by certain institutional funding partners due to the increase of loan origination volume. In 2022, the difference between our net cash provided by operating activities and our net profit of RMB2.3 billion (US\$330.8 million) resulted mainly from a net gain from investment in loans of RMB1.2 billion (US\$170.2 million), an increase in prepaid expenses and other assets of RMB1.2 billion (US\$167.1 million), an increase in quality assurance receivable of RMB914.4 million (US\$132.6 million), an increase in deferred guarantee income of RMB715.7 million (US\$103.8 million), an increase in accounts receivable and contract assets of RMB717.5 million (US\$104.0 million), and a provision for loans receivable of RMB415.9 million (US\$60.3 million). The gain from investment in loans was primarily due to the interest income from loans originated in the overseas markets and the interest income from loans held by consolidated trusts. The increase in prepaid expenses and other assets was primarily due to increased amount of deposits required by institutional funding partners as a result of the increase in outstanding loan balance. The increase in quality assurance receivable was primarily due to the increases in the loan origination volume. The increase in the deferred guarantee income was primarily due to the increases in the loan origination volume. The increase in accounts receivable and contract assets was primarily due to the increase in the loan origination volume. The provision for loans receivable was primarily due to the recognition of the life time credit losses.

Net cash provided by operating activities was RMB630.2 million in 2021. In 2021, the difference between our net cash provided by operating activities and our net profit of RMB2.5 billion resulted mainly from a net gain from investment in loans of RMB1.2 billion, an increase in accounts receivable and contract assets of RMB1.2 billion, an increase in prepaid expenses and other assets of RMB875.3 million, an increase of liability from quality assurance commitment of RMB798.1 million and a provision for loans receivable of RMB374.2 million. The gain from investment in loans was primarily due to the interest income from loans held by consolidated trusts. The increase in accounts receivable was primarily due to the increase in loan origination volume in the fourth quarter of 2021. The increase in prepaid expenses and other assets was primarily due to increased amount of deposits required by institutional funding partners as a result of the increase in outstanding loan balance. The increase of liability from quality assurance commitment was primarily due to the increase in outstanding loan balance and partially offset by the improvement in delinquency rates. The provision for loans receivable was primarily due to the recognition of the life time credit losses.

Net cash provided by operating activities was RMB2.2 billion in 2020. In 2020, the difference between our net cash provided by operating activities and our net profit of RMB2.0 billion resulted mainly from a decrease in quality assurance receivable of RMB2.5 billion, a provision for loans receivable of RMB463.2 million, a decrease in prepaid expenses and other assets of RMB353.4 million, a net gain from investment in loans of RMB1.1 billion, and a decrease in payable to platform customers of RMB581.2 million. The decrease in quality assurance receivable was primarily due to the discontinuation of our investment programs in 2020. The provision for loans receivable was primarily due to the recognition of the life time credit losses. The decrease in prepaid expenses and other assets was primarily due to decreased amount of deposits required by institutional funding partners. The gain from investment in loans was primarily due to the interest income from loans held by consolidated trusts. The decrease in payable to platform customers was primarily due to a decrease in outstanding loans facilitated by individual investors on our platform as we ceased facilitating new loans with funding from individual investors in October 2019.

### ***Investing Activities***

Net cash used in investing activities was RMB1.6 billion (US\$225.2 million) in 2022, which was mainly attributable to cash paid for purchase of short-term investments (mainly time deposits and wealth management products) in an amount of RMB17.1 billion (US\$2.5 billion), and cash paid for investment in loans originated and held by us in an amount of RMB10.1 billion (US\$1.5 billion), partially offset by proceeds from short-term investments in an amount of RMB15.0 billion (US\$2.2 billion) from maturity of time deposits and wealth management products, and proceeds from investment in loans originated and held by us in an amount of RMB10.8 billion (US\$1.6 billion).

Net cash provided by investing activities was RMB2.0 billion in 2021, which was mainly attributable to proceeds from short-term investments in an amount of RMB13.5 billion from maturity of wealth management products, and proceeds from investment in loans originated and held by us in an amount of RMB7.0 billion, partially offset by cash paid for purchase of short-term investments (mainly wealth management products) in an amount of RMB12.7 billion, and cash paid for investment in loans originated and held by us in an amount of RMB5.8 billion.

Net cash provided by investing activities was RMB1.0 billion in 2020, which was mainly attributable to proceeds from investment in loans originated and held by us in an amount of RMB12.8 billion, and proceeds from short-term investments in an amount of RMB6.2 billion from maturity of wealth management products, partially offset by cash paid for investment in loans originated and held by us in an amount of RMB9.8 billion, and cash paid for purchase of short-term investments (mainly wealth management products) in an amount of RMB8.0 billion.

### ***Financing Activities***

Net cash used in financing activities was RMB795.9 million (US\$115.4 million) in 2022, which was mainly attributable to cash paid to our institutional funding partners that invested in our consolidated trusts in an amount of RMB1.4 billion (US\$208.2 million), dividends payout in amount of RMB372.5 million (US\$54.0 million), and repurchase of our ADSs in an amount of RMB340.8 million (US\$49.4 million), partially offset by cash received from our institutional funding partners that invested in our consolidated trusts in an amount of RMB1.3 billion (US\$194.2 million).

Net cash used in financing activities was RMB239.8 million in 2021, which was mainly attributable to cash paid to our institutional funding partners that invested in our consolidated trusts in an amount of RMB1.6 billion, dividends payout in amount of RMB317.6 million, partially offset by cash received from our institutional funding partners that invested in our consolidated trusts in an amount of RMB1.6 billion.

Net cash used in financing activities was RMB3.1 billion in 2020, which was mainly attributable to cash paid to our institutional funding partners that invested in our consolidated trusts in an amount of RMB3.0 billion, the repurchase of our ADSs in an amount of RMB380.0 million, dividends payout in amount of RMB263.6 million, and repayment of short-term borrowing in amount of RMB235 million, partially offset by cash received from our institutional funding partners that invested in our consolidated trusts in an amount of RMB766.2 million.

### ***Material Cash Requirements***

Our material cash requirements as of December 31, 2022 and any subsequent interim period primarily include our capital expenditures and operating lease obligations.

We made capital expenditures of RMB11.0 million, RMB55.3 million and RMB52.8 million (US\$7.7 million) in 2020, 2021 and 2022, respectively. In these periods, our capital expenditures were mainly used for purchases of property, equipment and software. Our capital expenditures for 2023 are expected to be approximately RMB45.8 million (US\$6.6 million), primarily due to the optimization of server units and IT infrastructure.

Our operating lease obligations relate to our leases of office premises. We lease our office premises under non-cancelable operating lease arrangements. We made payment of RMB40.8 million (US\$5.9 million) in 2022. Our non-cancelable payment for 2023 is expected to be approximately RMB44.1 million (US\$6.4 million).

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We intend to fund our existing and future material cash requirements with our existing cash balance and other financing alternatives. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have retained or contingent interests in assets transferred. We have not entered into contractual arrangements that support the credit, liquidity or market risk for transferred assets. We do not have obligations that arise or could arise from variable interests held in an unconsolidated entity, or obligations related to derivative instruments that are both indexed to and classified in our own equity, or not reflected in the statement of financial position.

### **Holding Company Structure**

FinVolution Group is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries, three consolidated variable interest entities and their subsidiaries in China. As a result, FinVolution Group's ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and consolidated variable interest entities 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, each of our subsidiaries 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 the consolidated variable interest entities may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries are not able to pay dividends out of China until they generate accumulated profits and meet the requirements for statutory reserve funds. In 2020, Shanghai Guangjian, one of our PRC subsidiaries, had paid dividends of RMB79.5 million out of China.

### **C. Research and Development, Patents, and Licenses, etc.**

See "Item 4. Information On the Company—B. Business Overview—Technology" and "Item 4. Information On the Company—B. Business Overview—Intellectual Property."

### **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, 2022 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

## **E. Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the end of each reporting period and (iii) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates and assumptions based on historical experience, knowledge and assessment of current business and other conditions, expectations regarding the future based on available information and reasonable assumptions, which together form a basis for making judgments about matters not readily apparent from other sources. The use of estimates is an integral component of the financial reporting process, though actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on the judgment of our management. For a detailed discussion of our significant accounting policies and related judgments, please see “Note 2—Summary of Significant Accounting Policies.” You should read the following description of critical accounting estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

### ***Revenue Recognition***

*Nature of estimate:* We operate an online consumer finance platform that matches borrowers with institutional funding partners. Typically, we provided quality assurance service, loan facilitation services and post-facilitation services to the borrowers and institutional funding partners. The quality assurance service is within the scope of ASC Topic 460 Guarantees and recorded at fair value at the inception of the loans. For loan facilitation services and post-facilitation services we provide, we charged one combined transaction service fee, each of which we have assessed and concluded that they were distinct performance obligations.

*Assumptions:* The combined transaction price was allocated to loan facilitation and post-facilitation services based on their standalone selling price. We did not have an observable standalone selling price for the loan facilitation or post-facilitation services because we did not provide such services on a standalone basis in similar circumstances to similar customers, and because there was no directly observable standalone selling price that was reasonably available for similar services in the market. As a result, we used an expected “cost plus margin” approach to estimate the standalone selling prices. As part of the expected “cost plus margin” model, we made certain assumptions including estimates of the cost of providing the services, plus a reasonable profit margin. When our estimates of the standalone selling prices for loan facilitation service increased/decreased by 1% while holding all other estimates constant, our loan facilitation service revenue would increase/decrease by approximately RMB87 million. Our estimate of the key assumptions related to revenue recognition did not change significantly throughout the periods presented.

### ***Allowance for Credit Losses***

We have the following types of financial assets and liabilities that are subject to credit losses of borrowers: accounts receivable and contract assets, quality assurance receivable, loans receivable and liability from quality assurance commitment.

*Nature of estimate:* Measurement of credit losses on financial instruments, which requires us to record the full amount of expected credit losses for the life of a financial asset at the time it is originated or acquired and adjusted for changes in expected lifetime credit losses subsequently, which requires earlier recognition of credit losses.

*Assumptions:* The credit losses related to these financial assets and liabilities are estimated mainly based on historical default experience, known or inherit risks in the portfolio, current economic conditions, and macroeconomic forecasts as well as other factors surrounding the credit risk of borrowers. The estimate of expected credit losses is sensitive to our assumptions in these factors. When change in one of our estimates or a combined effect of changes of multiple estimates, which results in a 1% increase/decrease in our default rate while holding all other estimates constant, there would be approximately RMB1,537 million pre-tax impact to our consolidated results of operations. Our estimate of the key assumptions related to credit losses did not change significantly throughout the periods presented.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **A. Directors and Senior Management**

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.



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<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Shaofeng Gu	44	Chairman of the Board and Chief Innovation Officer
Tiezheng Li	38	Vice Chairman of the Board, President and Chief Executive Officer
Jun Zhang	45	Director
Honghui Hu	45	Director
Simon Tak Leung Ho	49	Director
Jimmy Y. Lai	66	Independent Director
Bing Xiang	60	Independent Director
Jiayuan Xu	42	Chief Financial Officer
Yuxiang Wang	43	Chief Operating Officer and Chief Technology Officer

*Mr. Shaofeng Gu* is one of our four co-founders and has been serving as our director since April 2009, chief innovation officer since March 2019 and chairman of our board of directors since March 2020. Mr. Gu served as our strategy adviser from December 2016 to March 2019, chief strategy officer from August 2014 to December 2016, chief technology officer from January 2011 to August 2014 and chief executive officer from 2007 to 2011. Prior to founding our company, Mr. Gu was the founder and the chief executive officer of Shanghai Jufei Internet Technology Co., Ltd. (Podlook), a startup running podcast aggregation business, from 2005 to 2007. Prior to founding Podlook, Mr. Gu served as a technical lead of Microsoft Corporation from 2000 to 2005. Mr. Gu received his bachelor's degree in communication science and engineering from Shanghai Jiaotong University in China.

*Mr. Tiezheng Li* is one of our four co-founders and has been serving as our chief executive officer since March 2023, president since May 2020, vice chairman of the board since September 2018, and director since March 2015. Mr. Li also served as our chief strategy officer from July 2017 to April 2020, our chief operating officer from April 2015 to July 2017 and our chief risk officer from January 2011 to April 2015. Prior to founding our company, Mr. Li served as a risk manager at China Minsheng Banking Corporation Limited from 2006 to 2011. Mr. Li received his bachelor's degree in civil engineering from Shanghai Jiaotong University in China and FMBA degree from China Europe International Business School in China.

*Mr. Jun Zhang* is one of our four co-founders and has been serving as our director since September 2011 and our adviser since March 2020. Mr. Zhang was our chairman of our board of directors from December 2016 to March 2020, co-chief executive officer from September 2018 to March 2020 and chief executive officer from January 2011 to September 2018. Mr. Zhang served as the operation manager at Wicresoft, a provider of "Internet +" transition service jointly founded by Microsoft Corporation and Shanghai Alliance Investment Limited, from October 2008 to July 2010. Prior to that, Mr. Zhang served as a technical lead of Microsoft Global Technical Engineering Center since 2001. Prior to that, Mr. Zhang worked at Shanghai Online E-Biz Co., Ltd. as a coder and programmer from 2000 to 2001. Mr. Zhang received his bachelor's degree in communication science and engineering and master's degree in industrial engineering from Shanghai Jiaotong University in China.

*Mr. Honghui Hu* is one of our four co-founders and has been serving as our director since September 2011. Mr. Hu served as our president from January 2011 to May 2020. Prior to founding our company, Mr. Hu worked in the legal industry as a lawyer and a senior partner at several PRC law firms from 2001 to 2009. From 2000 to 2001, Mr. Hu served as a loan officer in Shanghai Branch of Industrial and Commercial Bank of China Limited. Mr. Hu received his bachelor's degree in economics from Shanghai Jiaotong University in China and master's degree in economics from Fudan University in China.

*Mr. Simon Tak Leung Ho* has been serving as our director since November 2020. Mr. Ho currently serves as the group chief financial officer of Maya Philippines. Mr. Ho served as our chief financial officer from September 2016 to November 2020. Prior to joining us, Mr. Ho served various positions at Citigroup Global Markets Asia Limited from 2008 to 2016 including managing director and head of Asian financials research. Mr. Ho received his bachelor's degree in engineering from Northwestern University, Illinois. Mr. Ho is also a Chartered Financial Analyst.

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*Mr. Jimmy Y. Lai* has been serving as our independent director since November 2017. Mr. Lai currently serves as the chief financial officer of Kneron, a leading provider of full stack edge AI solutions company. Mr. Lai also serves as an independent director of several other NYSE-listed companies, including Zepp Corporation (NYSE: ZEPP). Mr. Lai served as the chief financial officer of China Online Education Group, a leading online education platform in China listed on the NYSE, from June 2015 to December 2018. Prior to joining China Online Education Group in 2015, Mr. Lai served as the chief financial officer for several companies, including Chukong Technologies Corp., a leading mobile entertainment platform company in China, from 2013 to 2015, Gamewave Corporation, a leading webpage company in China, from 2011 to 2013, Daqo New Energy Corp., an NYSE-listed company and a leading polysilicon manufacturer based in China, from 2009 to 2011, Linktone Ltd., a NASDAQ-listed company and a leading provider of wireless interactive entertainment services to consumers in China, from 2008 to 2009 and Palm Commerce Holdings, a leading information technology solution provider for the China lottery industry, from 2006 to 2008. Prior to that, Mr. Lai served as an associate vice president of investor relations at Semiconductor Manufacturing International Corporation, a company listed on the NYSE and the Main Board of the Hong Kong Stock Exchange, from 2002 to 2006, and as a controller and director of financial planning at AMX Corporation from 1997 to 2001. Mr. Lai received his MBA from the University of Texas at Dallas and his bachelor's degree in statistics from the National Cheng Kung University in Taiwan. Mr. Lai is a certified public accountant licensed in the State of Texas.

*Mr. Bing Xiang* has been serving as our independent director since November 2017. Mr. Xiang currently serves as an independent director of multiple public companies listed on the Hong Kong Stock Exchange, including Sinolink Worldwide Holdings Limited and Longfor Properties Co. Ltd. Mr. Xiang is the founding dean of the Cheung Kong Graduate School of Business and has been a professor there since 2002. Prior to that, Mr. Xiang was a professor, a PhD adviser and the director of EMBA at Guanghua School of Management, Peking University, from 1999 to 2001. He has also taught at Chinese University of Hong Kong, China Europe International Business School, Hong Kong University of Science and Technology and the University of Calgary. Mr. Xiang received his bachelor's degree in mechanical engineering from Xi'an Jiaotong University and a PhD degree in finance and accounting from the University of Alberta.

*Mr. Jiayuan Xu* has been serving as our chief financial officer since December 2020. Prior to serving as our chief financial officer, Mr. Xu served various positions at our company from June 2015 to November 2020, including our senior vice president for finance, head of financial institutions department and our financial controller. Prior to joining us, Mr. Xu served as the head of financial management department of Nanyang Commercial Bank (China) Co., Ltd. from 2008 to 2015. Mr. Xu was an audit manager at PricewaterhouseCoopers Zhong Tian LLP from 2003 to 2008. Mr. Xu received his bachelor's degree in international trade and finance from Shanghai Jiaotong University in and FMBA degree from China Europe International Business School. Mr. Xu is also a member of Chinese Institute of Certified Public Accountants.

*Mr. Yuxiang Wang* has been serving as our chief operating officer since March 2023 and our chief technology officer since October 2019. Mr. Wang served as our chief product officer from June 2015 to March 2023. Prior to joining us, Mr. Wang served as the vice president of product at Opera Software ASA, a Norwegian software company, from 2013 to 2015. Mr. Wang worked at Baidu.com as a product head of Baidu mobile browser from 2012 to 2013. Mr. Wang served as the product director at TeleNav, a company providing location-based services including navigation, from 2009 to 2012. Prior to that, Mr. Wang served as a senior product manager at MiTAC Research (Shanghai) Ltd., an electronics company, from 2002 to 2009. Mr. Wang received his bachelor's degree in communication engineering from Jiangsu University, his master's degree in software engineering from Fudan University and his EMBA degree from China Europe International Business School.

## **B. Compensation**

For the fiscal year ended December 31, 2022, we paid an aggregate of approximately RMB23.0 million (US\$3.3 million) in cash to our directors and officers. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and the consolidated variable interest entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

## **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 or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. 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 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 clients or prospective clients, 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 our suppliers, clients, customers or contacts 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.

We have entered 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 Plans**

### ***2013 Plan***

In June 2013, our board of directors approved our stock option plan, as amended, or the 2013 Plan, to provide incentives to employees, directors and consultants and promote the success of our business. The maximum number of ordinary shares that may be issued under the 2013 Plan is 221,917,800. As of the completion of our initial public offering, options to purchase 134,455,800 Class A ordinary shares had been granted and outstanding but no ordinary shares underlying those options are issued and outstanding due to the exercisability restriction before the initial public offering of our ordinary shares. As of March 31, 2023, options to purchase 127,415,885 Class A ordinary shares were granted (excluding those cancelled, forfeited or expired) under the 2013 Plan and 127,415,885 Class A ordinary shares underlying those options were issued.

The following paragraphs describe the principal terms of the 2013 Plan.

*Type of awards.* The 2013 Plan permits the awards of options.

*Plan administration.* The 2013 Plan will be administered by our board of directors or by the compensation committee, which will be authorized by our board. The plan administrator has the power and authority to determine the persons who are eligible to receive awards, the number of awards, as well as other terms and conditions of awards.

*Award agreement.* Any award granted under the 2013 Plan is evidenced by an award agreement that sets forth terms, conditions and limitations for such award, which may include the number of options awarded, the exercise price, the provisions applicable in the event of the grantee's employment or service terminates, among other provisions. The plan administrator may amend the terms of any award, prospectively or retroactively; provided that no such amendment shall impair the rights of any participant without his or her consent.

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*Eligibility.* We may grant awards to directors, officers, employees and consultants of our company or any of our subsidiaries.

*Vesting schedule.* Except as otherwise approved by the plan administrator and subject to forfeiture and arrangement on termination of employment or service, 25% of the shares subject to the option shall become vested on the first anniversary of the vesting commencement date, with the remaining 75% to vest annually thereafter in three equal installments. If a change of control event occurs, such participant's options will be immediately vested and exercisable.

*Exercise of options.* Vested options will become exercisable after an initial public offering of our ordinary shares, subject to other terms and conditions provided in the relevant award agreements. Once all the preconditions are met, a participant may exercise options in whole or in part by giving written notice of exercise to us specifying information such as the number of shares to be purchased, as well as making full payment of the aggregate exercise price of the shares so purchased.

*Term of options.* The plan administrator will determine the term of each option and provide it in the relevant award agreement, but no option shall be exercisable more than five or six years after the grant date, as the case may be.

*Transfer restrictions.* Except under the laws of descent and distribution or otherwise permitted by the plan administrator, the participant will not be permitted to sell, transfer, pledge or assign any option. In principle, all options shall be exercisable only by the participants. However, a participant may also transfer one or more options to a trust controlled by him or her for estate planning purposes.

*Termination and amendment of the 2013 Plan.* Our board of directors may amend, alter or discontinue the 2013 Plan, but no amendment, alteration or discontinuation shall be made if such amendment, alteration or discontinuation would impair the rights of a participant under any award without such participant's consent.

### **2017 Plan**

In October 2017, we adopted our 2017 Share Incentive Plan, or the 2017 Plan, which allows us to offer a variety of share-based incentive awards to employees, officers, directors and individual consultants who render services to us. The plan permits the grant of three types of awards: options, restricted shares and restricted share units. The maximum number of our shares that may be issued pursuant to all awards under the 2017 Plan is 1,000,000,000 ordinary shares after giving effect to the 100-for-1 share split effected by us in October 2017. As of March 31, 2023, options to purchase 6,710,045 Class A ordinary shares had been granted (excluding those cancelled, forfeited or expired) under the 2017 Plan and 3,769,345 Class A ordinary shares underlying those options were issued and outstanding. As of March 31, 2023, 109,433,625 restricted share units had been granted (excluding those cancelled, forfeited or expired) and 57,312,525 Class A ordinary shares underlying these restricted share units were issued.

The following paragraphs summarize the terms of the 2017 Plan:

*Plan administration.* Our board of directors, or a committee designated by our board of directors, will administer the plan. The committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of each option grant.

*Award agreements.* Options and other awards granted under the plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award and the provisions applicable in the event of the grantee's employment or service terminates. The exercise price of granted options may be amended or adjusted in the absolute discretion of our board of directors, or a committee designated by our board of directors, without the approval of our shareholders or the recipients of the options.

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*Eligibility.* We may grant awards to employees, directors and consultants of our company or any of our affiliates, which include our parent company, subsidiaries and any entities in which our parent company or a subsidiary of our company holds a substantial ownership interest.

*Vesting schedule.* In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

*Acceleration of awards upon change in control.* If a change-of-control corporate transaction occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-of-control corporate transaction plus reasonable interest.

*Term of options.* The term of each option grant shall be stated in the award agreement, provided that the term shall not exceed ten years from the date of the grant.

*Transfer restrictions.* Subject to certain exceptions, awards may not be transferred by the recipient, except as otherwise provided by applicable laws or the award agreement.

*Termination of the plan.* Unless terminated earlier, the plan will terminate automatically in 2027. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law. However, no such action may impair the rights of any award recipient unless agreed by the recipient.

The following table summarizes, as of March 31, 2023, the options granted (excluding those cancelled, forfeited or expired) under the 2013 Plan and 2017 Plan to our directors, executive officers and other grantees.

<u>Name</u>	<u>Ordinary Shares Underlying Options Awarded</u>	<u>Exercise Price (US\$/Share)</u>	<u>Date of Grant</u>	<u>Date of Expiration</u>
Shaofeng Gu	*	0.126	March 21, 2016	March 20, 2021
Tiezheng Li	*	0.007	January 29, 2014	January 28, 2019
	*	0.030	April 1, 2015	March 31, 2020
Jun Zhang	*	0.126	March 21, 2016	March 20, 2021
	*	1.400	February 1, 2018	January 31, 2024
	*	0.654	January 28, 2019	January 27, 2024
	*	0.007	January 29, 2014	January 28, 2019
	*	0.030	April 1, 2015	March 31, 2020
	*	0.126	March 21, 2016	March 20, 2021
Honghui Hu	*	0.320	February 1, 2017	January 31, 2022
	*	1.400	February 1, 2018	January 31, 2023
	*	0.007	January 29, 2014	January 28, 2019
	*	0.126	March 21, 2016	March 20, 2021
Simon Tak Leung Ho	*	0.126	September 7, 2016	September 6, 2022
	*	1.400	February 1, 2018	January 31, 2024
	*	0.330	April 6, 2020	April 6, 2022
Jiayuan Xu	*	0.030	May 5, 2015	May 4, 2020
	*	0.126	March 21, 2016	March 20, 2021
	*	0.320	February 1, 2017	January 31, 2022
	*	0.330	April 6, 2020	April 5, 2025
Yuxiang Wang	*	0.030	June 15, 2015	June 14, 2020
	*	0.126	March 21, 2016	March 20, 2021
	*	0.320	February 1, 2017	January 31, 2022
Other grantees as a Group	74,169,020	From 0.0001 to 1.400	From July 1, 2012 to April 6, 2020	From June 30, 2018 to April 5, 2025

\* Less than 1% of our total outstanding shares.

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The following table summarizes, as of March 31, 2023, the restrict share units granted under the 2017 Plan to our directors and executive officers and other grantees.

<u>Name</u>	<u>Class A Ordinary Shares Underlying Restricted Share Units Awarded</u>	<u>Date of Grant</u>	<u>Date of Expiration</u>
Tiezheng Li	*	October 6, 2020	October 5, 2025
	*	June 1, 2022	May 31, 2027
	*	January 23, 2023	January 22, 2028
Bing Xiang	*	May 24, 2021	May 23, 2026
Jimmy Y. Lai	*	May 24, 2021	May 23, 2026
Jiayuan Xu	*	February 1, 2018	January 31, 2023
	*	January 28, 2019	January 27, 2024
	*	April 6, 2020	April 5, 2025
	*	October 6, 2020	October 5, 2025
Yuxiang Wang	*	February 1, 2018	January 31, 2023
	*	January 28, 2019	January 27, 2024
	*	April 6, 2020	April 5, 2025
	*	October 6, 2020	October 5, 2025
Other grantees as a Group	89,031,345	From February 1, 2018 to March 2, 2023	From January 31, 2023 to March 1, 2028

\* Less than 1% of our total outstanding shares.

## **C. Board Practices**

Our board of directors consists of seven directors. 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, proposed contract or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered, provided (a) such director, if his interest (whether direct or indirect) in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, 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.

## **Committees of the Board of Directors**

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

*Audit Committee.* Our audit committee consists of Jimmy Y. Lai and Bing Xiang. Jimmy Y. Lai is the chairman of our audit committee. We have determined that both Jimmy Y. Lai and Bing Xiang satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Securities Exchange Act of 1934. We rely on the exemption provided by Rule 10A-3(b)(1)(iv)(A) under the Securities Exchange Act of 1934, which allows a minority of the members of our audit committee not to be independent for one year from November 9, 2017, the date of effectiveness of our registration statement on Form F-1.

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In addition, we have determined that Jimmy Y. Lai qualifies as an “audit committee financial expert.” The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Compensation Committee.* Our compensation committee consists of Jimmy Y. Lai and Bing Xiang. Jimmy Y. Lai is the chairman of our compensation committee. We have determined that Jimmy Y. Lai and Bing Xiang satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

*Nominating and Corporate Governance Committee.* Our nominating and corporate governance committee consists of Jimmy Y. Lai and Bing Xiang. Jimmy Y. Lai is the chairperson of our nominating and corporate governance committee. We have determined that Jimmy Y. Lai and Bing Xiang satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The nominating and corporate governance committee assists 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 is responsible for, among other things:

- selecting and recommending nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and

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- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

### **Duties of Directors**

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise the skill they actually possess and such care and diligence 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, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. Our company has the right to seek damages if a duty owed by our directors is breached. A shareholder may in certain limited exceptional circumstances have the right to seek damages in our name if a duty owed by the directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual and extraordinary general meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our register of members.

### **Terms of Directors and Officers**

Our directors may be appointed by a resolution of our board of directors, or by a special resolution of our shareholders. Our directors are not subject to a term of office (unless this is expressly set out in the director's appointment) and hold office until such time as they are removed from office by special resolution of the shareholders. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated, or (v) is removed from office pursuant to our currently effective articles of association. Our officers are appointed by and serve at the discretion of the board of directors.

### **D. Employees**

We had 4,144 employees as of December 31, 2022. As of December 31, 2022, 1,634 of our employees were located in Shanghai while the remaining employees were located in other regions. The following table sets forth the numbers of our employees categorized by function as of December 31, 2022.

	<u>As of December 31, 2022</u>	
	<u>Number of employees</u>	<u>% of total</u>
<b>Functions:</b>		
Operations	704	17.0%
Risk Management	901	21.7%
Research and Development	645	15.6%
Sales and Marketing	1,568	37.8%
General and Administration	326	7.9%
<b>Total number of employees</b>	<b>4,144</b>	<b>100.0%</b>



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As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including, among other things, housing, pension, medical insurance and unemployment insurance. 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 from time to time.

We typically enter into standard employment, confidentiality and non-compete agreements with our senior management and core personnel. These contracts include a standard non-compete covenant that prohibits the employee from competing with us, directly or indirectly, during his or her employment and for two years after the termination of his or her employment, provided that we pay compensation equal to 30% of the employee's salary during the restriction period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any labor disputes. None of our employees are represented by labor unions.

### **E. Share Ownership**

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2023 by:

- each of our directors and executive officers; and
- each of our principal shareholders who beneficially own more than 5% of our total outstanding ordinary shares.

We have adopted a dual class ordinary share structure. The calculations in the table below are based on 1,400,592,809 outstanding ordinary shares (consisting of 831,392,809 Class A ordinary shares and 569,200,000 Class B ordinary shares) as of March 31, 2023.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned as of March 31, 2023			
	Class A ordinary shares	Class B ordinary shares	Percentage of total ordinary shares†	Percentage of aggregate voting power††
<b>Directors and Executive Officers**:</b>				
Shaofeng Gu <sup>(1)</sup>	29,697,710	394,818,900	30.3%	64.9%
Tiezheng Li <sup>(2)</sup>	9,632,905	27,987,900	2.7%	4.7%
Jun Zhang <sup>(3)</sup>	23,163,130	65,209,800	6.3%	10.9%
Honghui Hu <sup>(4)</sup>	3,600,000	54,883,400	4.2%	9.0%
Simon Tak Leung Ho	*	—	*	*
Jimmy Y. Lai	*	—	*	*
Bing Xiang	*	—	*	*
Jiayuan Xu	*	—	*	*
Yuxiang Wang	*	—	*	*
All directors and executive officers as a group	84,069,660	542,900,000	44.7%	89.6%
<b>Principal Shareholders:</b>				
PPD Investment Limited <sup>(5)</sup>	29,697,710	394,818,900	30.3%	64.9%
Metallica Holding Limited <sup>(6)</sup>	23,163,130	65,209,800	6.3%	10.9%
Susquehanna Entities <sup>(7)</sup>	82,648,730	—	5.9%	*

\* Less than 1% of our total outstanding shares.

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- \*\* Except for Jimmy Y. Lai and Bing Xiang, the business address for our directors and executive officers is Building G1, No. 999 Dangui Road, Pudong New District, Shanghai 201203, People's Republic of China. The business address of Jimmy Y. Lai is 7th Floor, No. 8 Zhongyuan St. Zhonghe District, New Taipei City 23556, Taiwan. The business address of Bing Xiang is Floor 20th, Tower East II, Dongfang Square, Dongcheng District, Beijing, China.
- † For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the total number of shares outstanding and the number of shares such person or group has the right to acquire upon exercise of option, warrant or other right within 60 days after March 31, 2023.
- †† 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. Each holder of Class A ordinary shares is entitled to one vote per share and each holder of our Class B ordinary shares is entitled to twenty votes per share on all matters submitted to them for vote. Our Class B ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.
- (1) Represents (i) 394,818,900 Class B ordinary shares directly held by PPD Investment Limited, a company incorporated in the British Virgin Islands, and (ii) 5,939,542 ADSs, representing 29,697,710 Class A ordinary shares, directly held by PPD Investment Limited. Mr. Shaofeng Gu is the sole shareholder and the sole director of PPD Investment Limited. The registered office address of PPD Investment Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- (2) Represents (i) 27,987,900 Class B ordinary shares directly held by Happyariel Holding Limited, a company incorporated in the British Virgin Islands, (ii) 1,308,130 ADSs, representing 6,540,650 Class A ordinary shares directly held by Happyariel Holding Limited, (iii) 135,509 ADSs, representing 677,545 Class A ordinary shares directly held by Mr. Tiezheng Li, and (iv) 2,414,710 Class A ordinary shares that Mr. Tiezheng Li may purchase upon exercise of options within 60 days after March 31, 2023. Mr. Tiezheng Li is the sole shareholder and the sole director of Happyariel Holding Limited. The registered office address of Happyariel Holding Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- (3) Represents (i) 65,209,800 Class B ordinary shares directly held by Metallica Holding Limited, a company incorporated in the British Virgin Islands, and (ii) 4,632,626 ADSs, representing 23,163,130 Class A ordinary shares, directly held by Metallica Holding Limited. Mr. Jun Zhang is the sole shareholder and the sole director of Metallica Holding Limited. The registered office address of Metallica Holding Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- (4) Represents (i) 54,883,400 Class B ordinary shares directly held by Emma & Oliver Holding Limited, a company incorporated in the British Virgin Islands, and (ii) 720,000 ADSs, representing 3,600,000 Class A ordinary shares, directly held by Emma & Oliver Holding Limited. Mr. Honghui Hu is the sole shareholder and the sole director of Emma & Oliver Holding Limited. The registered office address of Emma & Oliver Holding Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- (5) Represents (i) 394,818,900 Class B ordinary shares directly held by PPD Investment Limited, a company incorporated in the British Virgin Islands, and (ii) 5,939,542 ADSs, representing 29,697,710 Class A ordinary shares, directly held by PPD Investment Limited. Mr. Shaofeng Gu is the sole shareholder and the sole director of PPD Investment Limited. The registered office address of PPD Investment Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- (6) Represents (i) 65,209,800 Class B ordinary shares directly held by Metallica Holding Limited, a company incorporated in the British Virgin Islands, and (ii) 4,632,626 ADSs, representing 23,163,130 Class A ordinary shares, directly held by Metallica Holding Limited. Mr. Jun Zhang is the sole shareholder and the sole director of Metallica Holding Limited. The registered office address of Metallica Holding Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands.
- (7) Represents (i) 38,884 ADSs, representing 194,420 Class A ordinary shares beneficially owned by Susquehanna Fundamental Investments, LLC, a company incorporated in Delaware, and (ii) 16,490,862 ADSs, representing 82,454,310 Class A ordinary shares, beneficially owned by Susquehanna Securities, LLC, as reported in a Schedule 13G/A filed by Susquehanna Fundamental Investments, LLC and Susquehanna Securities, LLC on February 14, 2023. Susquehanna Fundamental Investments, LLC and Susquehanna Securities, LLC are collectively referred to as Susquehanna Entities. Susquehanna Securities, LLC, an independent broker-dealer, and Susquehanna Fundamental Investments, LLC may be deemed a group. The address of the principal business office of each of Susquehanna Entities is 401 E. City Avenue, Suite 220, Bala Cynwyd, PA 19004.

As of March 31, 2023, none of our outstanding Class A or Class B ordinary shares were held by record holders in the United States. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

### **F. Disclosure of a Registrant's Action to Recover Erroneously Awarded Compensation**

Not applicable.

## 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

#### Contractual Arrangements

PRC laws and regulations currently restrict foreign ownership and investment in value-added telecommunications services in China. As a result, we operate our relevant business through Beijing Paipairongxin, Shanghai Zihe, and Shanghai Ledao, the consolidated variable interest entities, and their subsidiaries based on series of contractual arrangements. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

#### Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements and Indemnification Agreements.”

#### Share Incentive Plans

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans.”

#### Transactions with PPcredit

We use data collection services from PPcredit, a company controlled by our founders, based on arm’s length transaction terms and conditions. In 2020, we and PPcredit agreed to extend the term of the original service agreement to December 31, 2022. In 2020, 2021 and 2022, we incurred RMB10.1 million, RMB7.5 million and RMB37.0 thousand (US\$5.4 thousand) expenses for such services. As of December 31, 2020, 2021 and 2022, the amount due to PPcredit was RMB2.0 million, RMB2.3 million and RMB1.0 million (US\$145.0 thousand), respectively.

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

#### Consolidated Financial Statements

We have appended consolidated financial statements filed as part of this annual report.

#### Legal Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Starting in September 2018, our company and certain of our current and former officers and directors, the underwriters of our company’s initial public offering in November 2017, and our agent for the service of process in the U.S. have been named as defendants in putative securities class actions captioned Yizhong Huang v. PPD AI Group Inc., et al.

- Case No. 654482/2018 (New York County of the Supreme Court of the State of New York, filed on September 10, 2018) (the “Huang Case”); Ravindra Vora v. PPD AI Group Inc., et al.

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- Case No. 654777/2018 (New York County of the Supreme Court of the State of New York, filed on September 27, 2018) (the “Vora Case”); Lai v. PPDAl Group Inc., et al.
- Case No. 1:2018-cv-06716 (U.S. District Court for the Eastern District of New York, filed on November 26, 2018) (the “Lai Case”); and Goyal v. PPDAl Group Inc., et al.
- Case No. 2:2019-cv-00168 (U.S. District Court for the Eastern District of New York, filed on January 9, 2019) (the “Goyal Case”).

These actions allege that defendants made misstatements and omissions in connection with our initial public offering in November 2017 in violation of the Securities Act of 1933. The Lai Case also advances claims under the Securities Exchange Act of 1934. On October 16, 2018, the Supreme Court of the State of New York consolidated the two state court lawsuits (the Huang Case and the Vora Case) under the caption In re PPDAl Group Securities Litigation, No. 654482/2018 (the “New York State Action”). On December 17, 2018, the plaintiffs in the New York State Action filed a consolidated amended complaint, which the Company and certain other defendants moved to dismiss. On February 26, 2020, the Court in the New York State Action granted in part and denied in part defendants’ motion to dismiss. The Company and certain other defendants appealed the partial denial of their motion. On February 21, 2019, the U.S. District Court for the Eastern District of New York consolidated the two federal court lawsuits (the Lai Case and the Goyal Case) under the caption In re PPDAl Group Inc. Securities Litigation, No. 18-cv-6716-FB-JO (the “Federal Court Action”). On April 22, 2019, plaintiffs in the Federal Court Action filed a second amended complaint. Defendants filed a motion to dismiss the Federal Court Action, which was fully briefed as of January 17, 2020. On December 9, 2020, the parties notified both courts that they reached an agreement in principle to settle both lawsuits. On June 11, 2021, the lead plaintiffs in both actions filed an unopposed motion with the Federal Court for preliminary approval of a global settlement of both the Federal Court Action and the New York State Action for a settlement amount of US\$9 million in total. The Federal Court granted that motion and, on December 16, 2021, held a settlement fairness hearing. On January 21, 2022, the Federal Court approved the settlement and issued final judgment, ending the Federal Court Action. On February 11, 2022, the parties submitted a stipulation of dismissal for the New York State Action. On April 5, 2022, the New York State Court so-ordered the stipulation of dismissal.

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**

Our board of directors declared dividends in every March from 2019 to 2023. In addition, in March 2022, our board of directors approved an annual cash dividend policy, pursuant to which we will declare and distribute a recurring cash dividend at an amount of no less than 10% of our net income after tax in the previous fiscal year in the future. Our board of directors has discretion on whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon 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.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Dividend Distribution” and “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” If we pay any dividends, we will pay our ADS holders to the same extent as holders of our 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—D. American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

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### **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

Our ADSs, each representing five of our Class A ordinary shares, have been listed on the NYSE since November 10, 2017. Our ADSs trade under the symbol “FINV.”

### **B. Plan and Distribution**

Not applicable.

### **C. Markets**

Our ADSs have been listed on the NYSE since November 10, 2017 under the symbol “PPDF.” We changed our symbol from “PPDF” to “FINV” in November 2019.

### **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 are a Cayman Islands exempted company with limited liability and our corporate affairs are governed by our memorandum and articles of association, as amended from time to time and the Companies Act (As Revised) of the Cayman Islands, which we refer to as the Companies Act below, and the common law of the Cayman Islands.

The following are summaries of material provisions of our currently effective memorandum and articles of association and of the Companies Act, insofar as they relate to the material terms of our ordinary shares.

*Objects of Our Company.* Under our currently effective memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands.

*Ordinary Shares.* Our ordinary shares are issued in registered form and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

*Dividend.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, our company may declare and pay a dividend only out of funds legally available therefor, namely out of either profit or our share premium account, provided that in no circumstances may we pay a dividend if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

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*Voting Rights.* In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary share is entitled to one vote for each Class A ordinary share registered in his or her name on our register of members, and each holder of Class B ordinary share is entitled to twenty votes for each Class B ordinary share registered in his or her name on our register of members. Holders of Class A ordinary shares and Class B ordinary shares shall, at all times, vote together on all resolutions submitted to a vote of the members. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholders present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present and holding shares which represent, in aggregate, not less than one-third of the votes attaching to the issued and outstanding voting shares in our company. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders' meetings may be convened by the chairman of our board of directors or a majority of our directors or upon a request to the directors by shareholders holding shares which represent, in aggregate, no less than one-third of the votes attaching to the issued and outstanding shares that as at the date of the deposit of the shareholder's requisition carry the right to vote at general meetings of our company. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attached to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attached to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our amended and restated memorandum and articles of association. Holders of the ordinary shares may, among other things, divide or combine their shares by ordinary resolution.

*Conversion.* 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. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder to any person who is not an affiliate of such shareholder, or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person who is not an affiliate of the registered shareholder of such share, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

*Transfer of Ordinary Shares.* Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and

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- a fee of such maximum sum as the NYSE may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the NYSE, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

*Liquidation.* On a winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them. We are a “limited liability” company registered under the Companies Act, and under the Companies Act, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our memorandum of association contains a declaration that the liability of our members is so limited.

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

*Redemption, Repurchase and Surrender of Ordinary Shares.* We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our memorandum and articles of association. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company’s profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

*Variations of Rights of Shares.* The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

*Issuance of Additional Shares.* Our currently effective memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our currently effective memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;

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- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

*Inspection of Books and Records.* Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies). However, we will provide our shareholders with annual audited financial statements.

*Anti-Takeover Provisions.* Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*General Meetings of Shareholders and Shareholder Proposals.* Our shareholders' general meetings may be held in such place within or outside the Cayman Islands as our board of directors considers appropriate.

As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our currently effective memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of our shareholders may be convened by a majority of our board of directors or our chairman. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for a general meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of the votes attaching to the issued and outstanding shares in our company entitled to vote at general meetings.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our currently effective memorandum and articles of association allow our shareholders holding shares representing in aggregate not less than one-third of the votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our currently effective memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

*Appointment and Removal of Directors.* Unless otherwise determined by our company in general meeting, our articles provide that our board will consist of not less than three directors. There are no provisions relating to retirement of directors upon reaching any age limit.

The directors have the power to appoint any person as a director either to fill a casual vacancy on the board or as an addition to the existing board. Our shareholders may also appoint any person to be a director by way of special resolution.



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A director may be removed with or without cause by special resolution.

In addition, the office of any director shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors, (ii) dies or is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to our company, or (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board resolves that his office be vacated.

*Proceedings of Board of Directors.* Our currently effective memorandum and articles of association provide that our business is to be managed and conducted by our board of directors. The quorum necessary for board meetings may be fixed by the board and, unless so fixed at another number, will be a majority of the directors.

Our currently effective memorandum and articles of association provide that the board may from exercise all the powers of our company to borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our company and to issue debentures and other securities whenever money is borrowed, or as security for any debt, liability or obligation of our company or of any third party.

*Changes in Capital.* Our shareholders may from time to time by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

Our shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by our company for an order confirming such reduction, reduce our share capital or any capital redemption reserve in any manner permitted by law.

*Exempted Company.* We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

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“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder’s shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

*Register of Members.* Under Cayman Islands law, we must keep a register of members and there should be entered therein:

- the names and addresses of the members, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member, and confirmation on whether shares held by each member carries voting rights under our articles of association, and if so, whether such voting rights are conditional;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e. the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members should be deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members. The shareholders recorded in the register of members are deemed to have legal title to the shares set against their name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

### **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,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” or elsewhere in this annual report on Form 20-F.

### **D. Exchange Controls**

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange.”

### **E. Taxation**

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States.

#### **Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the ADSs and ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the Shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation.

### **People's Republic of China Taxation**

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

We do not believe that FinVolution Group meets all of the conditions above. FinVolution Group is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. 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.” There can be no assurance that the PRC government will ultimately take a view that is consistent with ours.

However, if the PRC tax authorities determine that FinVolution Group is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. Such 10% tax rate could be reduced by applicable tax treaties or similar arrangements between China and the jurisdiction of our shareholders. For example, for shareholders eligible for the benefits of the tax treaty between China and Hong Kong, the tax rate is reduced to 5% for dividends if relevant conditions are met. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of FinVolution Group would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that FinVolution Group is treated as a PRC resident enterprise.

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Provided that our Cayman Islands holding company, FinVolution Group, is not deemed to be a PRC resident enterprise, holders of our ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Circular 698 and SAT Public Notice 7, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferor obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Circular 698 and SAT Public Notice 7, and we may be required to expend valuable resources to comply with SAT Circular 698 and SAT Public Notice 7, or to establish that we should not be taxed under these circulars. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

### **United States Federal Income Tax Considerations**

The following discussion is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. holder (as defined below) that holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended, or the “Code.” This discussion is based upon existing United States federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion, moreover, does not address the United States federal estate, gift, Medicare, and minimum tax considerations, or any state, local and non-United States tax considerations, relating to the ownership or disposition of our ADSs or ordinary shares. The following summary does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former United States citizens or long-term residents;
- tax-exempt entities (including private foundations);
- persons liable for alternative minimum tax;
- persons who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for United States federal income tax purposes;
- investors that have a functional currency other than the United States dollar;
- persons that actually or constructively own ADSs or ordinary shares representing 10% or more of our stock (by vote or value); or

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- partnerships or other entities taxable as partnerships for United States federal income tax purposes, or persons holding ADSs or ordinary shares through such entities;

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. holder is urged to consult its tax adviser regarding the application of United States federal taxation to its particular circumstances, and the state, local, non-United States and other tax considerations of the ownership and disposition of our ADSs or ordinary shares.

### **General**

For purposes of this discussion, a “U.S. holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and partners in such partnerships are urged to consult their tax advisors as to the particular United States federal income tax consequences of an investment in our ADSs or ordinary shares.

For United States federal income tax purposes, a U.S. holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. holder of our ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to United States federal income tax.

### **Passive Foreign Investment Company Considerations**

A non-United States corporation, such as our company, will be a “passive foreign investment company,” or “PFIC,” for United States federal income tax purposes, if, in any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Cash is categorized as a passive asset and the company’s goodwill and other unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

Although the law in this regard is unclear, we intend to treat the consolidated variable interest entities (including their subsidiaries) as being owned by us for United States federal income tax purposes, and we treat them that way, not only because we are able to direct the activities of operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements.

Based upon the nature and composition of our income and assets, and the market price of our ADSs, we believe that we were likely a PFIC for United States federal income tax purposes for the taxable year ended December 31, 2022, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income. If we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares.

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If we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares. However, if we cease to be a PFIC, provided that you have not made a mark-to-market election, as described below, you may avoid some of the adverse effects of the PFIC regime by making a “deemed sale” election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold our ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the rules described below under “Passive Foreign Investment Company Rules.” After the deemed sale election, so long as we do not become a PFIC in a subsequent taxable year, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC and you will not be subject to the rules described below with respect to any “excess distribution” you receive from us or any gain from an actual sale or other disposition of the ADSs or ordinary shares. The rules dealing with deemed sale elections are very complex. Each U.S. holder should consult its tax advisors regarding the possibility and considerations of making a deemed sale election.

### *Dividends*

Subject to the PFIC rules discussed below, any cash distributions (including the amount of any tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. holder as dividend income on the day actually or constructively received by the U.S. holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be reported as a dividend for United States federal income tax purposes. A non-corporate recipient of dividend income from a “qualified foreign corporation” will generally be subject to tax at a reduced United States federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period and other requirements are met.

A non-United States corporation (other than a corporation that is a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs (but not our ordinary shares) are listed on the NYSE and is considered readily tradable on an established securities market in the United States. Since we do not expect that our ordinary shares will be listed on established securities markets, we do not believe that dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. In the event we are deemed to be a resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the United States-PRC income tax treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and in that case we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares or ADSs. Each non-corporate U.S. holder is advised to consult its tax advisors regarding the availability of the reduced tax rate applicable to qualified dividend income for any dividends we pay with respect to our ADSs or ordinary shares. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC “resident enterprise” under the Enterprise Income Tax Law, a U.S. holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” In that case, a U.S. holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on ADSs or ordinary shares. A U.S. holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such U.S. holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. holders are advised to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

As mentioned above, we believe that we were likely a PFIC for the taxable year ended December 31, 2022, and we will likely be classified as a PFIC for our current taxable year. U.S. holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends with respect to the ADSs or Class A ordinary shares in their particular circumstances.

### ***Sale or Other Disposition of ADSs or Ordinary Shares***

Subject to the PFIC rules discussed below, a U.S. holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. holder's adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. Long-term capital gain of non-corporate U.S. holders is generally eligible for a reduced rate of taxation. The deductibility of a capital loss may be subject to limitations. In the event that we are treated as a PRC "resident enterprise" under the Enterprise Income Tax Law and gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. Pursuant to recently issued United States Treasury Regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of ADSs or ordinary shares. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. Holders should consult their tax advisors regarding the availability of a foreign tax credit or deduction in light of their particular circumstances, including their eligibility for benefits under the Treaty and the potential impact of the recently issued United States Treasury Regulations.

As mentioned above, we believe that we were likely a PFIC for the taxable year ended December 31, 2022, and we will likely be classified as a PFIC for our current taxable year. U.S. holders are urged to consult their tax advisors regarding the tax considerations of the sale or other disposition of the ADSs or Class A ordinary shares in their particular circumstances.

### ***Passive Foreign Investment Company Rules***

As mentioned above, we believe that we were likely a PFIC for the taxable year ended December 31, 2022, and we will likely be classified as a PFIC for our current taxable year. If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares, and unless the U.S. holder makes a mark-to-market election (as described below), the U.S. holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, for subsequent taxable years, on (i) any excess distribution that we make to the U.S. holder (which generally means any distribution paid during a taxable year to a U.S. holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- such excess distribution and/or gain will be allocated ratably over the U.S. holder's holding period for the ADSs or ordinary shares;
- such amount allocated to the current taxable year and any taxable years in the U.S. holder's holding period prior to the first taxable year in which we are a PFIC, or pre-PFIC year, will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for that year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. holders are advised to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

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As an alternative to the foregoing rules, a U.S. holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to such stock, provided that such stock is regularly traded on a qualified exchange or other market, as defined in the applicable United States Treasury regulations. For those purposes, our ADSs, but not our ordinary shares, are listed on the NYSE, which is a qualified exchange. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard. Because a mark-to-market election cannot technically be made for any lower-tier PFICs that a PFIC may own, a U.S. holder who makes a mark-to-market election with respect to our ADSs will generally continue to be subject to the foregoing rules with respect to such U.S. holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

If a mark-to-market election is made with respect to our ADSs, the U.S. holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. holder makes an effective mark-to-market election, in each year that we are a PFIC any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If a U.S. holder makes 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 the IRS consents to the revocation of the election. It should also be noted that only the ADSs, and not the ordinary shares, are listed on the NYSE. Consequently, if a U.S. holder holds ordinary shares that are not represented by ADSs, such holder generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC.

If a U.S. holder makes a mark-to-market election in respect of a PFIC and such corporation ceases to be a PFIC, the U.S. holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not a PFIC.

We do not intend to provide information necessary for U.S. holders to make qualified electing fund elections, which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, such holder would generally be required to file an annual IRS Form 8621. Each U.S. holder is advised to consult its tax advisors regarding the potential tax consequences to such holder if we are or become a PFIC, including the possibility of making a mark-to-market election.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers, and are required to file reports and other information with the SEC. Specifically, we are required to file annually an annual report on Form 20-F within four months after the end of each fiscal year, which is December 31. All information filed with the SEC can be obtained over the internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). 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.



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We will furnish Citibank, N.A., the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

### **I. Subsidiary Information**

Not applicable.

### **J. Annual Report to Security Holders**

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. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars. As of the date of this annual report, we have no foreign exchange derivative contracts outstanding.

Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and RMB because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

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

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert 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.

The fluctuation of interest rates may affect the demand for loan services on our platform. For example, a decrease in interest rates may cause potential borrowers to seek lower-priced loans from other channels. A high interest rate environment will likely increase the funding costs for our institutional funding partners, which may lead to a higher rate of return required by such institutional funding partners and thereby dampen their desire to invest on our platform. We do not expect that the fluctuation of interest rates will have a material impact on our financial condition. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Fluctuations in interest rates could negatively affect transaction volume facilitated through our platform." We may invest our cash 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.

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### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

#### A. Debt Securities

Not applicable.

#### B. Warrants and Rights

Not applicable.

#### C. Other Securities

Not applicable.

#### D. American Depositary Shares

#### Fees and Charges Our ADS holders May Have to Pay

As an ADS holder, you will be required to pay the following fees under the terms of the deposit agreement:

<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
• 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.

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ADS fees and charges payable upon (i) the issuance of ADSs, and (ii) the cancellation of ADSs are charged to the person to whom the ADSs are issued (in the case of ADS issuances) and to the person whose 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.

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 of the 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.

### **Fees and Other Payments Made by the Depositary to Us**

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. For the year ended December 31, 2022, we received US\$4.0 million (RMB27.6 million) reimbursement from the depositary.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**Material Modifications to the Rights of Security Holders**

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

**Use of Proceeds**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of December 31, 2022, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we filed and furnished under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we filed or submitted under the Exchange Act was accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

**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 Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles in the United States of America (“US GAAP”) and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness 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.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the SEC, our management including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of internal control over financial reporting as of December 31, 2022 using the criteria set forth in the report “Internal Control—Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2022.

## Attestation Report of the Independent Registered Public Accounting Firm

PricewaterhouseCoopers Zhong Tian LLP has audited the effectiveness of our internal control over financial reporting as of December 31, 2022 as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

## Changes in Internal Control over Financial Reporting

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 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Jimmy Y. Lai, an independent director (under the standards set forth under Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act) and a member of our audit committee, is an “audit committee financial expert.”

## ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in October 2017. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.finvgroup.com/>.

## 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 PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, and its affiliates for the periods indicated.

	2021	2022	
	RMB	RMB	US\$
	(in thousands)		
Audit fees <sup>(1)</sup>	9,800	9,910	1,437
Audit-related fees <sup>(2)</sup>	—	—	—
Tax fees <sup>(3)</sup>	404	591	86
All other fees <sup>(4)</sup>	328	540	78

\* The US\$ amounts are translated from corresponding RMB amounts using a rate of RMB6.8972 = US\$1.00, the noon buying rate on December 30, 2022 set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

- (1) “Audit fees” mean the aggregate fees billed or to be billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant’s annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.
- (2) “Audit-related fees” mean the aggregate fees billed or to be billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant’s financial statements and are not reported under footnote (1) above.
- (3) “Tax fees” mean the aggregate fees billed or to be billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning.
- (4) “All other fees” mean the aggregate fees billed or to be billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in footnotes (1) through (3).

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian LLP, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the audit committee prior to the completion of the audit.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On August 24, 2020, our board of directors approved a share repurchase program, under which we may repurchase our own Class A ordinary shares in the form of ADSs with an aggregate value of up to US\$60 million until December 31, 2021 (the “2020 Share Repurchase Program”). This share repurchase program was publicly announced on August 25, 2020. On November 17, 2021, our board of directors approved an extension of the 2020 Share Repurchase Program for another twelve months from January 1, 2022 through December 31, 2022. On August 21, 2022, our board of directors further approved an increase of the 2020 Share Repurchase Program from up to US\$60 million to up to US\$140 million and another extension for another twelve months from January 1, 2023 through December 31, 2023.

As of March 31, 2023, we had repurchased a total of approximately 24.5 million ADSs under the 2020 Share Repurchase Program. The table below is a summary of the shares repurchased by us from January 1, 2022 to March 31, 2023. All shares were repurchased in the open market pursuant to the 2020 Share Repurchase Program announced on August 25, 2020.

<u>Period</u>	<u>Total number of ADSs purchased</u>	<u>Average price paid per ADS</u>	<u>Total number of ADSs purchased as part of the publicly announced plan</u>	<u>Approximate dollar value of ADSs that may yet be purchased under the plan <sup>(1)</sup></u>
January 1, 2022 – January 31, 2022	678,800	4.36	10,450,536	36,465,095
February 1, 2022 – February 28, 2022	780,200	4.23	11,230,736	33,165,032
March 1, 2022 – March 31, 2022	1,131,900	3.78	12,362,636	28,889,619
April 1, 2022 – April 30, 2022	1,161,000	3.81	13,523,636	24,468,532
May 1, 2022 – May 31, 2022	1,298,500	3.80	14,822,136	19,538,832
June 1, 2022 – June 30, 2022	721,600	4.50	15,543,736	16,289,068
July 1, 2022 – July 31, 2022	760,600	4.57	16,304,336	12,812,954
August 1, 2022 – August 31, 2022	781,600	4.55	17,085,936	89,253,724
September 1, 2022 – September 30, 2022	879,077	4.47	17,965,013	85,325,016
October 1, 2022 – October 31, 2022	1,302,600	4.56	19,267,613	79,380,611
November 1, 2022 – November 30, 2022	1,122,400	4.55	20,390,013	74,279,280
December 1, 2022 – December 31, 2022	1,199,500	4.87	21,589,513	68,433,392
January 1, 2023 – January 31, 2023	527,700	5.39	22,117,213	65,588,634
February 1, 2023 – February 28, 2023	243,600	5.26	22,360,813	64,306,669
March 1, 2023 – March 31, 2023	2,173,800	4.28	24,534,613	54,995,433
<b>Total</b>	<b>14,762,877</b>	<b>4.36</b>	<b>24,534,613</b>	<b>54,995,433</b>

Note:

(1) The dollar value in this column is based on US\$140 million after the adjustment of repurchase authorization.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Section 303A.12(a) of the NYSE Listed Company Manual requires each listed company’s chief executive officer to certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. We are a Cayman Islands exempted company, and our chief executive officer is not required under applicable Cayman Islands law to make such a certification. Pursuant to the exceptions granted to foreign private issuers under Section 303A.00 of the NYSE Listed Company Manual, we have followed our home country practice in this regard and have not in the past submitted the certification set forth in Section 303A.12(a) of the NYSE Listed Company Manual.

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Section 303A.01 of the NYSE Listed Company Manual requires a listed company to have a majority of independent directors. Section 303A.07(a) of the NYSE Listed Company Manual requires a listed company to have an audit committee composed a minimum of three members. Section 303A.05(a) of the NYSE Listed Company Manual requires a listed company to have a compensation committee composed entirely of independent directors. We are a Cayman Islands exempted company, and there are no requirements under applicable Cayman Islands law that correspond to these sections of the NYSE Listed Company Manual. Pursuant to the exceptions granted to foreign private issuers under Section 303A.00 of the NYSE Listed Company Manual, we have followed our home country practice and are exempted from the requirements of Sections 303A.01, 303A.07(a) and 303A.05(a) of the NYSE Listed Company Manual.

Section 302.00 of the NYSE Listed Company Manual requires a listed company to hold an annual meeting during each fiscal year. We are a Cayman Islands exempted company, and we are not required under applicable Cayman Islands law to hold an annual meeting during each fiscal year. Pursuant to the exceptions granted to foreign private issuers under Section 303A.00 of the NYSE Listed Company Manual, we have followed our home country practice and are exempted from the requirements of Section 302.00 of the NYSE Listed Company Manual.

Other than the requirements discussed above, there are no significant differences between our corporate governance practices and those followed by domestic listed companies as required under the NYSE Listed Company Manual. Since we have chosen to follow our home country practice, our shareholders may be afforded less protection than they otherwise would enjoy under the NYSE corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—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.”

### **ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

### **ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, and our auditor was subject to that determination.

In May 2022, FinVolution Group was conclusively listed by the SEC as a Commission-Identified Issuer under the HFCA Act following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021.

On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCA Act after we file this annual report on Form 20-F.

To our knowledge, no Cayman Islands governmental entities own any shares of FinVolution Group as of the date of this annual report.

To our knowledge, no PRC governmental entities own any shares of FinVolution Group or the consolidated variable interest entities as of the date of this annual report. The PRC governmental entities do not have a controlling financial interest in FinVolution Group or the consolidated variable interest entities as of the date of this annual report.

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To our knowledge, none of the members of the board of directors of FinVolution Group or our operating entities, including the consolidated variable interest entities, is an official of the Chinese Communist Party as of the date of this annual report.

None of the currently effective memorandum and articles of association (or equivalent organizing document) of FinVolution Group or the consolidated variable interest entities contains any charter of the Chinese Communist Party.

**ITEM 16J. INSIDER TRADING POLICIES**

Not applicable.



**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of FinVolution Group, its subsidiaries and the consolidated 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	<a href="#">Fourth 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. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
1.2	<a href="#">Certificate of Incorporation on Change of Name as of November 6, 2019 (incorporated herein by reference to Exhibit 1.2 to the Form 20-F filed on April 28, 2021 (File No. 001-38269))</a>
2.1	<a href="#">Registrant's Specimen American Depositary Receipt (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
2.2	<a href="#">Registrant's Specimen Certificate for Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
2.3	<a href="#">Deposit Agreement dated November 14, 2017, among the Registrant, the depository and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-224011), filed with the Securities and Exchange Commission on March 29, 2018)</a>
2.4*	<a href="#">Description of Securities</a>
4.1	<a href="#">The 2017 Share Incentive Plan of the Registrant (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
4.2	<a href="#">The Third Amended and Restated Stock Option Plan of the Registrant (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
4.3	<a href="#">Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
4.4	<a href="#">Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
4.5	<a href="#">English translation of the Restated Equity Pledge agreement between Beijing Prosper and the shareholders of Beijing Paipairongxin dated January 23, 2014 (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.6	<a href="#"><u>English translation of the Restated Business Operation Agreement among Beijing Prosper, Beijing Paipairongxin, and the shareholders of Beijing Paipairongxin dated January 23, 2014 (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.7	<a href="#"><u>English translation of the Power of Attorney granted by the shareholders of Beijing Paipairongxin dated January 23, 2014 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.8	<a href="#"><u>English translation of the Amended and Restated Exclusive Technology Consulting and Service Agreement among Beijing Prosper, Shanghai PPDai, and Beijing Paipairongxin dated February 9, 2015 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.9	<a href="#"><u>English translation of the Restated Option Agreement among Beijing Prosper, the shareholders of Beijing Paipairongxin, and Beijing Paipairongxin dated January 23, 2014 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.10	<a href="#"><u>English translation of the Equity Pledge Agreement among Shanghai Guangjian, Beijing Paipairongxin, Beijing Prosper and the shareholders of Beijing Paipairongxin dated June 30, 2017 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.11	<a href="#"><u>English translation of the Business Operation Agreement among Shanghai Guangjian, Shanghai Shanghu, Beijing Paipairongxin, Beijing Prosper, and the shareholders of Beijing Paipairongxin dated June 30, 2017 (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.12	<a href="#"><u>English translation of the Power of Attorney granted by the shareholders of Beijing Paipairongxin dated June 30, 2017 (incorporated herein by reference to the exhibit of Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.13	<a href="#"><u>English translation of the Exclusive Technology Consulting and Service Agreement among Shanghai Guangjian, Shanghai Shanghu, Beijing Prosper, Shanghai PPDai, and Beijing Paipairongxin dated June 30, 2017 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.14	<a href="#"><u>English translation of the Call Option Agreement among Shanghai Guangjian, Beijing Prosper, Beijing Paipairongxin and the shareholders of Beijing Paipairongxin dated June 30, 2017 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</u></a>
4.15	<a href="#"><u>English translation of the Loan Agreement between Shanghai Guangjian and the shareholders of Beijing Paipairongxin dated March 21, 2018 (incorporated herein by reference to Exhibit 4.16 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.16	<a href="#"><u>English translation of the Restated Equity Pledge Agreement among Shanghai Guangjian, Beijing Paipairongxin, Beijing Prosper and the shareholders of Beijing Paipairongxin dated March 21, 2018 (incorporated herein by reference to Exhibit 4.17 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.17	<a href="#"><u>English translation of the Restated Business Operation Agreement among Shanghai Guangjian, Shanghai Shanghu, Beijing Paipairongxin, Beijing Prosper, and the shareholders of Beijing Paipairongxin dated March 21, 2018 (incorporated herein by reference to Exhibit 4.18 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.18	<a href="#"><u>English translation of the Restated Power of Attorney granted by the shareholders of Beijing Paipairongxin dated March 21, 2018 (incorporated herein by reference to Exhibit 4.19 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.19	<a href="#"><u>English translation of the Restated Exclusive Technology Consulting and Service Agreement among Shanghai Guangjian, Shanghai Shanghu, Beijing Prosper, Shanghai PPDai, and Beijing Paipairongxin dated March 21, 2018 (incorporated herein by reference to Exhibit 4.20 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.20	<a href="#"><u>English translation of the Restated Option Agreement among Shanghai Guangjian, Beijing Prosper, Beijing Paipairongxin and the shareholders of Beijing Paipairongxin dated March 21, 2018 (incorporated herein by reference to Exhibit 4.21 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.21	<a href="#"><u>English translation of the Loan Agreement between Shanghai Manyin and shareholders of Shanghai Zihe dated March 21, 2018 (incorporated herein by reference to Exhibit 4.22 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.22	<a href="#"><u>English translation of the Equity Pledge Agreement among Shanghai Manyin, Shanghai Zihe and the shareholders of Shanghai Zihe dated March 21, 2018 (incorporated herein by reference to Exhibit 4.23 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.23	<a href="#"><u>English translation of the Business Operation Agreement among Shanghai Manyin, Shanghai Zihe and the shareholders of Shanghai Zihe dated March 21, 2018 (incorporated herein by reference to Exhibit 4.24 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.24	<a href="#"><u>English translation of the Power of Attorney granted by the shareholders of Shanghai Zihe dated March 21, 2018 (incorporated herein by reference to Exhibit 4.25 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.25	<a href="#"><u>English translation of the Exclusive Technology Consulting and Service Framework Agreement between Shanghai Manyin and Shanghai Zihe dated March 21, 2018 (incorporated herein by reference to Exhibit 4.26 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.26	<a href="#"><u>English translation of the Exclusive Call Option Agreement among Shanghai Manyin, Shanghai Zihe and the shareholders of Shanghai Zihe dated March 21, 2018 (incorporated herein by reference to Exhibit 4.27 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 27, 2017)</u></a>
4.27	<a href="#"><u>English translation of the Loan Agreement between Shanghai Manyin and the shareholders of Shanghai Ledao dated January 14, 2019 (incorporated herein by reference to Exhibit 4.28 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 25, 2019)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.28	<a href="#">English translation of the Equity Pledge Agreement among Shanghai Manyin, Shanghai Ledao and the shareholders of Shanghai Ledao dated January 14, 2019 (incorporated herein by reference to Exhibit 4.29 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 25, 2019)</a>
4.29	<a href="#">English translation of the Business Operation Agreement among Shanghai Manyin, Shanghai Ledao and the shareholders of Shanghai Ledao dated January 14, 2019 (incorporated herein by reference to Exhibit 4.30 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 25, 2019)</a>
4.30	<a href="#">English translation of the Power of Attorney granted by the shareholders of Shanghai Ledao dated January 14, 2019 (incorporated herein by reference to Exhibit 4.31 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 25, 2019)</a>
4.31	<a href="#">English translation of the Exclusive Technology Consulting and Service Framework Agreement between Shanghai Manyin and Shanghai Ledao dated January 14, 2019 (incorporated herein by reference to Exhibit 4.32 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 25, 2019)</a>
4.32	<a href="#">English translation of the Exclusive Call Option Agreement among Shanghai Manyin, Shanghai Ledao and the shareholders of Shanghai Ledao dated January 14, 2019 (incorporated herein by reference to Exhibit 4.33 to the annual report on Form 20-F (File No. 001-38269), filed with the Securities and Exchange Commission on April 25, 2019)</a>
8.1*	<a href="#">Principal Subsidiaries and Variable Interest Entities of the Registrant</a>
11.1	<a href="#">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. 333-220954), as amended, initially filed with the Securities and Exchange Commission on October 13, 2017)</a>
12.1*	<a href="#">Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1**	<a href="#">Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm</a>
15.2*	<a href="#">Consent of Hui Ye Law Firm</a>
15.3*	<a href="#">Consent of Maples and Calder (Hong Kong) LLP</a>
101.INS*	Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document

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<u>Exhibit Number</u>	<u>Description of Document</u>
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

**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.

**FinVolution Group**

By: /s/ Tiezheng Li

Name: Tiezheng Li

Title: Chief Executive Officer

Date: April 25, 2023

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**FINVOLUTION GROUP**  
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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of FinVolution Group

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of FinVolution Group and its subsidiaries (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on certain financial assets and guarantee liabilities in 2020.

***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.



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Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Revenue Recognition - Estimates of Standalone Selling Price for Loan Facilitation and Post Facilitation Services*

As described in Note 2(u) to the consolidated financial statements, loan facilitation service revenue and post facilitation service revenue for the year ended December 31, 2022 were RMB4,430.8 million and RMB1,929.9 million, respectively. The Company charged one combined transaction service fee for its loan facilitation services and post-facilitation services, which were distinct performance obligations. The combined transaction price was allocated to these two performance obligations based on estimation of their relative standalone selling price. Management did not have an observable standalone selling price for the loan facilitation or post-facilitation services because it did not provide such services on a standalone basis in similar circumstances to similar customers, and because there was no directly observable standalone selling price that was reasonably available for similar services in the market. As a result, the estimation of standalone selling prices involved significant judgement. Management used an expected “cost plus margin” approach to estimate the standalone selling prices of the services and then allocated the combined revenue received from customers to each performance obligation, based on the relative estimated standalone selling prices. When estimating the amount to allocate, management made certain assumptions mainly including estimates of the cost of providing the services.

The principal considerations for our determination that performing procedures relating to the estimation of standalone selling prices for loan facilitation and post-facilitation services is a critical audit matter are the significant judgments by management in estimating the standalone selling prices, which in turn led to a high degree of auditor judgment, subjectivity, and audit effort in performing procedures and evaluating audit evidence relating to estimates of standalone selling price made by management, including estimates of the cost of providing the services.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management’s revenue recognition process, including controls over the Company’s model, significant assumptions and data used to estimate the standalone selling prices for loan facilitation and post-facilitation services. These procedures also included, among others, testing management’s process for developing the estimated standalone selling price, which involved (i) reading service agreements between the Company and its customers to identify the nature of services provided as part of loan facilitation and post-facilitation services; (ii) evaluating the appropriateness of management’s expected “cost plus margin” method of estimating standalone selling price; (iii) evaluating the reasonableness of estimates of the cost of providing the services; and (iv) testing the completeness, accuracy and relevance of underlying data used to develop management’s estimate. Evaluating the estimates of cost of providing the services involved (i) testing the allocation of expenses, which were driven by the roles and responsibility of each department and (ii) testing the completeness, accuracy, relevance, and classification of all types of expenses.

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### *Measurement of expected credit losses for certain financial assets and guarantee liabilities*

As described in Notes 2(t), 3 and 7 to the consolidated financial statements, the Company had the following accounts associated with expected credit losses measurement as of December 31, 2022:

- Accounts receivable and contract assets RMB2,217.4 million, net of credit loss allowance of RMB496.9 million
- Quality assurance receivable RMB1,669.9 million, net of credit loss allowance of RMB374.3 million
- Loans receivable RMB2,136.4 million, net of credit loss allowance of RMB294.4 million
- Liability from quality assurance commitment RMB3,555.6 million

The Company determined the amounts of the provisions and liabilities relating to the above accounts using an expected credit loss methodology that was based on (i) historical default experience; (ii) known and inherent risks in the portfolio; (iii) current economic conditions; and (iv) future macroeconomic forecasts as well as other factors surrounding the credit risk of borrowers. When forecasting macroeconomic factors, management primarily considered gross domestic product, consumer price index and other pertinent factors such as money supply wherein M1 money supply was determined to be the most relevant to the Company's business.

The principal considerations for our determination that performing procedures relating to measurement of expected credit losses is a critical audit matter are (i) there was significant judgment and estimation by management in determining the modeling techniques utilized in their expected credit losses methodology and in determining the underlying estimates, which in turn led to a high degree of auditor judgment, subjectivity, and audit effort in performing procedures and evaluating audit evidence relating to estimates used in the expected credit loss methodology and (ii) the audit effort involved professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's estimate of expected credit losses, including controls over the Company's models, significant assumptions, and underlying data. The procedures also included, among other things, testing management's process for developing the estimate of expected credit losses, which involved (i) evaluating the appropriateness of management's methodology; (ii) testing the completeness, accuracy and relevance of underlying data used in the estimate; and (iii) evaluating the reasonableness of management's forward-looking adjustments made to historical default experience. These procedures also included the use of professionals with specialized skill and knowledge to assist in evaluating the appropriateness of certain models, methodologies and inputs used in developing the estimate of the expected credit losses.

/s/PricewaterhouseCoopers Zhong Tian LLP  
Shanghai, the People's Republic of China  
April 25, 2023

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

**FINVOLUTION GROUP**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2021 AND 2022**  
**(All amounts in thousands, except share data, or otherwise noted)**

	Note	As of December 31,		
		2021	2022	US\$ Note 2(f)
		RMB	RMB	
<b>Assets</b>				
Cash and cash equivalents	2(i)	4,418,127	3,636,380	527,226
Restricted cash	2(j)	4,073,414	2,842,707	412,154
Short-term investments	2(k)	1,204,901	3,427,020	496,871
Accounts receivable and contract assets, net of credit loss allowance for accounts receivable and contract assets of RMB250,696 and RMB496,918 as of December 31, 2021 and 2022, respectively	7	1,890,846	2,217,445	321,499
Quality assurance receivable, net of credit loss allowance for quality assurance receivable of RMB239,506 and RMB374,304 as of December 31, 2021 and 2022, respectively	2(t)	931,798	1,669,855	242,106
Property, equipment and software, net	5	112,397	141,345	20,493
Right of use assets	15	49,138	192,428	27,899
Intangible assets	6	98,947	98,692	14,309
Goodwill		50,411	50,411	7,309
Loans receivable, net of credit loss allowance for loans receivable of RMB427,873 and RMB294,355 as of December 31, 2021 and 2022, respectively	3	1,982,276	2,136,432	309,754
Investments	2(m)	971,117	1,084,084	157,177
Deferred tax assets	11	455,741	919,361	133,295
Prepaid expenses and other assets	4	1,899,438	2,966,751	430,138
<b>Total assets</b>		<b>18,138,551</b>	<b>21,382,911</b>	<b>3,100,230</b>
<b>Liabilities and Shareholders' Equity:</b>				
Deferred guarantee income (including deferred guarantee income of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB1,089,503 and RMB1,723,200 as of December 31, 2021 and 2022, respectively)	2(t)	1,089,503	1,805,164	261,724
Liability from quality assurance commitment (including liability from quality assurance commitment of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB3,188,561 and RMB3,239,835 as of December 31, 2021 and 2022, respectively)	2(t)	3,188,561	3,555,618	515,516
Payroll and welfare payable (including payroll and welfare payable of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB146,697 and RMB157,955 as of December 31, 2021 and 2022, respectively)	8	252,918	274,408	39,785
Taxes payable (including taxes payable of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB57,237 and RMB51,574 as of December 31, 2021 and 2022, respectively)		200,648	134,027	19,432
Funds payable to investors of consolidated trusts (including funds payable to investors of consolidated trusts of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB1,795,640 and RMB1,845,210 as of December 31, 2021 and 2022, respectively)	3	1,795,640	1,845,210	267,530
Contract liabilities (including contract liabilities of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB6,826 and RMB5,109 as of December 31, 2021 and 2022, respectively)	2(u)	8,436	5,109	741

The accompanying notes form an integral part of these consolidated financial statements.

**FINVOLUTION GROUP**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2021 AND 2022 (Continued)**  
**(All amounts in thousands, except share data, or otherwise noted)**

	Note	As of December 31,		
		2021	2022	US\$ Note 2(f)
		RMB	RMB	
<b>Liabilities and Shareholders' Equity (Continued)</b>				
Amounts due to related party (including amounts due to related party of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB2,265 and RMB1,000 as of December 31, 2021 and 2022, respectively)	10	2,265	1,000	145
Leasing liabilities (including leasing liabilities of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB33,184 and RMB174,062 as of December 31, 2021 and 2022, respectively)	15	33,356	176,990	25,661
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB45,656 and RMB140,212 as of December 31, 2021 and 2022, respectively)	11	137,632	232,188	33,664
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIE and VIE's subsidiaries including consolidated trusts without recourse to the Company of RMB679,720 and RMB890,047 as of December 31, 2021 and 2022, respectively)	9	719,982	908,708	131,750
<b>Total liabilities</b>		<u>7,428,941</u>	<u>8,938,422</u>	<u>1,295,948</u>
<b>Commitments and contingencies</b>	16			
<b>FinVolution Group shareholders' equity:</b>				
Class A ordinary shares (US\$0.00001 par value; 10,000,000,000 shares authorized as of December 31, 2021 and 2022; 970,871,169 and 980,871,169 issued as of December 31, 2021 and 2022; 854,591,404 and 843,996,769 outstanding as of December 31, 2021 and 2022)	12	64	64	9
Class B ordinary shares (US\$0.00001 par value; 10,000,000,000 shares authorized as of December 31, 2021 and 2022; 579,200,000 and 569,200,000 issued and outstanding as of December 31, 2021 and 2022)	12	39	39	6
Additional paid-in capital		5,694,733	5,692,703	825,364
Treasury stock (116,279,765 and 136,874,400 shares as of December 31, 2021 and 2022, respectively)	12	(324,171)	(568,595)	(82,439)
Statutory reserves	2(ag)	610,403	698,401	101,259
Accumulated other comprehensive income		(16,769)	52,237	7,575
Retained earnings		4,690,951	6,496,852	941,955
<b>Total FinVolution Group shareholders' equity</b>		<u>10,655,250</u>	<u>12,371,701</u>	<u>1,793,729</u>
Non-controlling interest		54,360	72,788	10,553
<b>Total shareholders' equity</b>		<u>10,709,610</u>	<u>12,444,489</u>	<u>1,804,282</u>
<b>Total liabilities and shareholders' equity</b>		<u>18,138,551</u>	<u>21,382,911</u>	<u>3,100,230</u>

The accompanying notes form an integral part of these consolidated financial statements.

**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022**  
**(All amounts in thousands, except share data, or otherwise noted)**

	Note	For the years ended December 31,			US\$ Note 2(f)
		2020	2021	2022	
		RMB	RMB	RMB	
<b>Operating revenue:</b>					
Loan facilitation service fees	2(u)	1,908,851	3,794,182	4,430,778	642,402
Post-facilitation service fees	2(u)	672,981	1,309,565	1,929,913	279,811
Guarantee income	2(t)	3,386,032	2,593,512	3,064,440	444,302
Net interest income	2(o)	1,113,337	1,216,170	1,174,204	170,244
Other revenue	2(u)	481,886	556,699	534,868	77,549
<b>Net revenues</b>		<u>7,563,087</u>	<u>9,470,128</u>	<u>11,134,203</u>	<u>1,614,308</u>
<b>Operating expenses:</b>					
Origination, servicing expenses and other cost of revenue	2(v)	(1,315,496)	(1,834,453)	(2,038,587)	(295,566)
Origination, servicing expenses and other cost of revenue-related party	2(v)	(10,104)	(7,503)	(37)	(5)
Sales and marketing expenses	2(w)	(482,859)	(1,584,233)	(1,685,022)	(244,305)
General and administrative expenses	2(x)	(461,116)	(518,245)	(401,731)	(58,246)
Research and development expenses	2(y)	(370,175)	(434,850)	(491,484)	(71,258)
Credit losses for quality assurance commitment	2(t)	(2,007,968)	(1,963,609)	(3,195,220)	(463,263)
Provision for loans receivable	3	(463,175)	(374,243)	(415,902)	(60,300)
Provision for accounts receivable and contract assets	7	(144,661)	(139,226)	(390,882)	(56,673)
<b>Total operating expenses</b>		<u>(5,255,554)</u>	<u>(6,856,362)</u>	<u>(8,618,865)</u>	<u>(1,249,616)</u>
<b>Other income</b>					
Other income, net	2(k), 2(ab)	116,469	122,368	220,693	31,997
<b>Profit before income tax expenses</b>		2,424,002	2,736,134	2,736,031	396,689
Income tax expenses	11	(455,421)	(240,818)	(454,775)	(65,936)
<b>Net profit</b>		1,968,581	2,495,316	2,281,256	330,753
Net loss (profit) attributable to non-controlling interest shareholders		4,119	13,631	(14,874)	(2,157)
<b>Net profit attributable to FinVolution Group's ordinary shareholders</b>		<u>1,972,700</u>	<u>2,508,947</u>	<u>2,266,382</u>	<u>328,596</u>

**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022 (Continued)**  
 (All amounts in thousands, except share data, or otherwise noted)

	Note	For the years ended December 31,			US\$ Note 2(f)
		2020	2021	2022	
		RMB	RMB	RMB	
<b>Net profit</b>		1,968,581	2,495,316	2,281,256	330,753
Foreign currency translation adjustment, net of nil tax		(75,462)	(11,627)	69,006	10,005
<b>Total comprehensive income</b>		<u>1,893,119</u>	<u>2,483,689</u>	<u>2,350,262</u>	<u>340,758</u>
Total comprehensive loss (income) attributable to non-controlling interest shareholders		4,119	13,631	(14,874)	(2,157)
<b>Total comprehensive income attributable to FinVolution Group's ordinary shareholders</b>		<u>1,897,238</u>	<u>2,497,320</u>	<u>2,335,388</u>	<u>338,601</u>
<b>Weighted average number of ordinary shares used in computing net profit per share</b>					
Basic		1,477,162,991	1,420,870,790	1,412,648,862	1,412,648,862
Diluted		1,491,325,420	1,482,501,832	1,454,291,316	1,454,291,316
<b>Net profit per share attributable to FinVolution Group's ordinary shareholders</b>					
Basic		1.34	1.77	1.60	0.23
Diluted		1.32	1.69	1.56	0.23
<b>Net profit per ADS attributable to FinVolution Group's ordinary shareholders (one ADS equals to five ordinary shares)</b>					
Basic		6.68	8.83	8.02	1.16
Diluted		6.61	8.46	7.79	1.13

The accompanying notes form an integral part of these consolidated financial statements.

**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022**  
**(All amounts in thousands, except share data, or otherwise noted)**

	Note	Issued ordinary shares		Additional paid-in capital RMB	Treasury stock		Accumulated other comprehensive income RMB	Statutory reserve RMB	Retained earnings RMB	Non-controlling interest RMB	Total shareholders' equity RMB
		Share	Amount RMB		Share	Amount RMB					
<b>Balance as of December 31, 2019</b>		<u>1,550,071,169</u>	<u>103</u>	<u>5,640,898</u>	<u>(20,634,265)</u>	<u>(47,174)</u>	<u>70,320</u>	<u>317,198</u>	<u>1,966,611</u>	<u>63,524</u>	<u>8,011,480</u>
Cumulative effect of accounting change	2(b)	—	—	—	—	—	—	—	(882,964)	—	(882,964)
Repurchase of ordinary shares	12	—	—	—	(139,954,870)	(384,871)	—	—	—	—	(384,871)
Share-based compensation	13	—	—	42,169	—	—	—	—	—	—	42,169
Exercise of share-based compensation plans	13	—	—	(23,077)	15,682,565	30,424	—	—	—	—	7,347
Net profit		—	—	—	—	—	—	—	1,972,700	(4,119)	1,968,581
Dividends paid to shareholders		—	—	—	—	—	—	—	(263,569)	—	(263,569)
Foreign currency translation adjustment		—	—	—	—	—	(75,462)	—	—	—	(75,462)
Appropriation to statutory reserve		—	—	—	—	—	—	140,860	(140,860)	—	—
Capital injection from non-controlling interest		—	—	—	—	—	—	—	—	7,619	7,619
<b>Balance as of December 31, 2020</b>		<u>1,550,071,169</u>	<u>103</u>	<u>5,659,990</u>	<u>(144,906,570)</u>	<u>(401,621)</u>	<u>(5,142)</u>	<u>458,058</u>	<u>2,651,918</u>	<u>67,024</u>	<u>8,430,330</u>



**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022 (Continued)**  
**(All amounts in thousands, except share data, or otherwise noted)**

	Note	Issued ordinary shares		Treasury stock		Accumulated other comprehensive income RMB	Statutory reserve RMB	Retained earnings RMB	Non-controlling interest RMB	Total shareholders' equity RMB	
		Share	Amount RMB	Share	Amount RMB						
<b>Balance as of December 31, 2020</b>		<u>1,550,071,169</u>	<u>103</u>	<u>5,659,990</u>	<u>(144,906,570)</u>	<u>(401,621)</u>	<u>(5,142)</u>	<u>458,058</u>	<u>2,651,918</u>	<u>67,024</u>	<u>8,430,330</u>
Repurchase of ordinary shares	12	—	—	—	(4,171,000)	(16,228)	—	—	—	—	(16,228)
Share-based compensation	13	—	—	95,213	—	—	—	—	—	—	95,213
Exercise of share-based compensation plans	13	—	—	(60,470)	32,797,805	93,678	—	—	—	—	33,208
Net profit		—	—	—	—	—	—	2,508,947	(13,631)	—	2,495,316
Dividends paid to shareholders		—	—	—	—	—	—	(317,569)	—	—	(317,569)
Foreign currency translation adjustment		—	—	—	—	—	(11,627)	—	—	—	(11,627)
Appropriation to statutory reserve		—	—	—	—	—	—	152,345	(152,345)	—	—
Capital injection from non-controlling interest		—	—	—	—	—	—	—	—	967	967
<b>Balance as of December 31, 2021</b>		<u>1,550,071,169</u>	<u>103</u>	<u>5,694,733</u>	<u>(116,279,765)</u>	<u>(324,171)</u>	<u>(16,769)</u>	<u>610,403</u>	<u>4,690,951</u>	<u>54,360</u>	<u>10,709,610</u>

**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022 (Continued)**  
**(All amounts in thousands, except share data, or otherwise noted)**

	Note	Issued ordinary shares		Treasury stock		Accumulated other comprehensive income	Statutory reserve	Retained earnings	Non-controlling interest	Total shareholders' equity	
		Share	Amount RMB	Share	Amount RMB						RMB
<b>Balance as of December 31, 2021</b>		<u>1,550,071,169</u>	<u>103</u>	<u>5,694,733</u>	<u>(116,279,765)</u>	<u>(324,171)</u>	<u>(16,769)</u>	<u>610,403</u>	<u>4,690,951</u>	<u>54,360</u>	<u>10,709,610</u>
Repurchase of ordinary shares	12	—	—	—	(59,088,885)	(343,817)	—	—	—	—	(343,817)
Share-based compensation	13	—	—	89,030	—	—	—	—	—	—	89,030
Exercise of share-based compensation plans	13	—	—	(91,060)	38,494,250	99,393	—	—	—	—	8,333
Net profit		—	—	—	—	—	—	2,266,382	14,874	—	2,281,256
Dividends paid to shareholders		—	—	—	—	—	—	(372,483)	—	—	(372,483)
Foreign currency translation adjustment		—	—	—	—	—	69,006	—	—	—	69,006
Appropriation to statutory reserve		—	—	—	—	—	—	87,998	(87,998)	—	—
Capital injection from non-controlling interest		—	—	—	—	—	—	—	—	3,554	3,554
<b>Balance as of December 31, 2022</b>		<u>1,550,071,169</u>	<u>103</u>	<u>5,692,703</u>	<u>(136,874,400)</u>	<u>(568,595)</u>	<u>52,237</u>	<u>698,401</u>	<u>6,496,852</u>	<u>72,788</u>	<u>12,444,489</u>

The accompanying notes form an integral part of these consolidated financial statements.

**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022**  
**(All amounts in thousands, except share data, or otherwise noted)**

	For the years ended December 31,			US\$ Note 2(f)
	2020	2021	2022	
	RMB	RMB	RMB	
<b>Cash flows from operating activities:</b>				
Net profit	1,968,581	2,495,316	2,281,256	330,753
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:				
Provision for loans receivable	463,175	374,243	415,902	60,300
Provision for accounts receivable and contract assets	144,661	139,226	390,882	56,673
Provision for quality assurance receivable	(49,590)	59,136	176,310	25,562
Depreciation and amortization	51,780	37,277	23,825	3,454
Amortization of right-of-use asset and interest of leasing liabilities	44,653	31,956	41,181	5,971
Change in fair value of short-term investments	(7,211)	(1,573)	(9,806)	(1,422)
Provision for investment	33,660	5,000	6,000	870
Equity pick up of investments	—	4,245	890	129
Net gain from investment in loans	(1,113,337)	(1,216,170)	(1,174,204)	(170,244)
Share-based compensation	42,169	95,213	89,030	12,908
Impairment of intangible assets	—	—	255	37
Changes in operating assets and liabilities:				
Accounts receivable and contract assets	(227,784)	(1,166,166)	(717,481)	(104,025)
Quality assurance receivable	2,542,680	130,620	(914,367)	(132,571)
Deferred tax assets	151,335	(299,983)	(463,620)	(67,219)
Amounts due from related party	—	—	—	—
Prepaid expenses and other assets	353,383	(875,274)	(1,152,660)	(167,120)
Deferred guarantee income	(613,858)	(169,893)	715,661	103,761
Liability from quality assurance commitment	(1,202,520)	798,060	367,057	53,218
Payroll and welfare payable	44,304	31,929	21,490	3,116
Taxes payable	26,100	46,250	(66,621)	(9,659)
Contract liabilities	(52,281)	4,989	(3,327)	(482)
Amounts due to related parties	(2,325)	281	(1,265)	(183)
Leasing liabilities	(45,682)	(36,066)	(40,837)	(5,921)
Deferred tax liabilities	14,816	34,084	94,556	13,709
Accrued expenses and other liabilities	(359,800)	107,527	188,726	27,362
<b>Net cash provided by operating activities</b>	<b>2,206,909</b>	<b>630,227</b>	<b>268,833</b>	<b>38,977</b>
<b>Cash flows from investing activities:</b>				
Collection of loans originated and held by the Group	12,757,947	7,032,972	10,812,431	1,567,656
Investment in loans originated and held by the Group	(9,826,856)	(5,809,353)	(10,075,218)	(1,460,769)
Proceeds from disposal of investments	2,460	—	3,158	458
Purchase of investments	(36,829)	(31,246)	(119,858)	(17,378)
Proceeds from short-term investments	6,177,791	13,534,543	15,013,648	2,176,774
Purchase of short-term investments	(8,001,000)	(12,676,800)	(17,134,614)	(2,484,286)
Purchase of property, equipment and software	(11,017)	(55,271)	(52,775)	(7,652)
Acquisition of intangible assets	(21,000)	—	—	—
<b>Net cash provided by (used in) investing activities</b>	<b>1,041,496</b>	<b>1,994,845</b>	<b>(1,553,228)</b>	<b>(225,197)</b>

**FINVOLUTION GROUP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022**  
**(All amounts in thousands, except share data, or otherwise noted)**

	For the years ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$ Note 2(f)
<b>Cash flows from financing activities:</b>				
Cash received from investors - consolidated trusts	766,160	1,643,572	1,339,459	194,204
Cash paid to investors - consolidated trusts	(2,993,122)	(1,574,118)	(1,436,195)	(208,228)
Repayment of short-term borrowings	(235,000)	—	—	—
Cash paid for dividends	(263,569)	(317,569)	(372,483)	(54,005)
Repurchase of ordinary shares	(379,984)	(25,991)	(340,781)	(49,409)
Proceeds from exercise of share-based compensation plans	6,617	33,339	10,590	1,535
Capital injection from non-controlling interest	7,619	967	3,554	515
<b>Net cash used in financing activities</b>	<b>(3,091,279)</b>	<b>(239,800)</b>	<b>(795,856)</b>	<b>(115,388)</b>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(51,470)	(10,132)	67,797	9,830
<b>Net increase/(decrease) in cash, cash equivalents and restricted cash</b>	<b>105,656</b>	<b>2,375,140</b>	<b>(2,012,454)</b>	<b>(291,778)</b>
Cash, cash equivalents and restricted cash at beginning of year	6,010,745	6,116,401	8,491,541	1,231,158
Cash, cash equivalents and restricted cash at end of year	<u>6,116,401</u>	<u>8,491,541</u>	<u>6,479,087</u>	<u>939,380</u>
<b>Supplemental disclosure of cash investing and financing activities</b>				
Cash paid for interest including interest paid to investors of consolidated trusts	(268,182)	(161,431)	(83,410)	(12,093)
Cash paid for income taxes	(367,004)	(574,939)	(963,249)	(139,658)
<b>Supplemental disclosure of non-cash investing and financing activities</b>				
Payable for purchase of property, equipment and software	607	1,134	1,132	164
Payable for purchase of intangible assets	5,000	5,000	5,000	725
Payable for repurchase of ordinary shares	9,784	21	3,057	443
Receivable from exercise of share-based compensation plans	4,668	4,537	2,280	330

The following table sets forth cash, cash equivalents and restricted cash by category within the Consolidated Balance Sheets:

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$ Note 2(f)
Cash and cash equivalents	4,418,127	3,636,380	527,226
Restricted cash	4,073,414	2,842,707	412,154
<b>Total cash, cash equivalents and restricted cash</b>	<u>8,491,541</u>	<u>6,479,087</u>	<u>939,380</u>

The accompanying notes form an integral part of these consolidated financial statements.

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except share data, or otherwise noted)**

**1. Principal activities and organization**

FinVolution Group (the “Company”) is an investment holding company and with its consolidated subsidiaries and the consolidated variable interest entities (“VIEs”) (collectively referred to as the “Group”) operates an online consumer finance marketplace through its platform (www.ppdai.com) and PPDai mobile application registered in the People’s Republic of China (the “PRC” or “China”). The Company has been listed on the New York Stock Exchange in the United States of America since November 2017. As of December 31, 2022, the Company had power to direct activities of a number of VIEs through a series of commercial agreements (the “VIE Agreements”) entered into between certain subsidiaries of the Group (the “WOFEs”), the VIEs and nominal shareholders of the VIEs.

As of December 31, 2022, the Company’s principal subsidiaries and the consolidated VIEs are as follows:

Name	Percentage of direct or indirect economic interest	Date of incorporation	Place of incorporation
<b><u>Subsidiaries</u></b>			
FinVolution (HK) Limited (“FinVolution HK”)	100%	June 12, 2012	Hong Kong, China
Beijing Prosper Investment Consulting Co., Ltd. (“Beijing Prosper”)	100%	August 21, 2012	Beijing, China
Shanghai Guangjian Information Technology Co., Ltd. (“Shanghai Guangjian”)	100%	June 5, 2017	Shanghai, China
Shanghai Shanghu Information Technology Co., Ltd. (“Shanghai Shanghu”)			
Shanghai Manyin Information Technology Co., Ltd. (“Shanghai Manyin”)	100%	February 12, 2018	Shanghai, China
Hainan Shanghu Information Technology Co., Ltd. (“Hainan Shanghu”)	100%	August 1, 2018	Hainan, China
<b><u>Consolidated VIEs</u></b>			
Beijing Paipairongxin Investment Consulting Co., Ltd. (“Beijing Paipairongxin”)	100%*	June 15, 2012	Beijing, China
Shanghai Zihe Information Technology Group Co., Ltd. (“Shanghai Zihe”)	100%*	July 6, 2017	Shanghai, China
Shanghai Ledao Technology Co., Ltd. (“Shanghai Ledao”)	100%*	January 10, 2019	Shanghai, China
<b><u>Consolidated VIEs’ principal subsidiaries</u></b>			
Shanghai PPDai Financial Information Services Co., Ltd. (“Shanghai PPDai”)	100%*	January 18, 2011	Shanghai, China
Shanghai Erxu Information Technology Co., Ltd. (“Shanghai Erxu”)	100%*	April 28, 2018	Shanghai, China
Fujian Zhiyun Financing Guarantee Co., Ltd. (“Fujian Zhiyun”)	100%*	November 21, 2019	Fujian, China

\* Have power to direct activities via contractual relationships

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except share data, or otherwise noted)**

**2. Summary of significant accounting policies**

**(a) Basis of presentation**

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and related disclosures. Actual results may differ from those estimates.

**(b) Adoption of new credit loss accounting standard**

On January 1, 2020, the Group adopted ASU 2016-13 Financial Instruments-Credit Losses (ASC Topic 326):

ASC Topic 326 introduced a current expected credit loss ("CECL") methodology, which replaced the probable incurred credit losses methodology used under the historical accounting guidance. Under ASC Topic 326 methodology, credit losses are recorded upon initial recognition of financial assets at an amount equal to the lifetime expected losses. Under probable incurred credit losses methodology, credit losses are recorded when the losses are probable or have been incurred. ASC Topic 326 requires the expected credit losses related to guarantee contracts be recorded separately from and in addition to the stand ready guarantee liability accounted for in accordance with ASC Topic 460. Before adoption of ASC Topic 326, guarantee liability is recorded at the higher of the amount determined in accordance with ASC Topic 450 and the amount determined in accordance with ASC Topic 460. The initial adoption resulted in an increase in guarantee liability related to the recognition of a separate contingent liability. Consequently, the quality assurance payable is separated into liability from quality assurance commitment, which represents the expected credit losses of the guarantee contracts accounted for in accordance with ASC Topic 326, and deferred guarantee income, which represents the stand-ready liability accounted for in accordance with ASC Topic 460. The adoption of ASC Topic 326 on January 1, 2020, resulted in a RMB883.0 million decrease to retained earnings.

**(c) Principle of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries, which include the WOFEs and the consolidated VIEs, for which the Company is the ultimate primary beneficiary. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

The Company depends on a series of contractual arrangements to provide the WOFEs with a "controlling financial interest" in the VIEs, as defined in FASB ASC 810, making it the primary beneficiary of the VIEs. The contractual arrangements provide the Company with the power to direct the activities that most significantly impact the economic performance of the VIEs and provide them with economic benefits of the VIEs and as such they are the primary beneficiary and consolidate the VIEs for financial reporting.

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

**FINVOLUTION GROUP**  
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**2. Summary of significant accounting policies (continued)**

**(c) Principle of consolidation (continued)**

Details of the typical VIE structure are set forth below:

- i) VIE Agreements that give the Company the power to direct the activities that most significantly impact the economic performance of the VIEs

*Business Operation Agreement*

Pursuant to the relevant business operation agreements, the shareholders of the VIEs agree that to the extent permitted by law, they will accept and unconditionally execute the WOFEs' instructions on business operations, such as appointment of directors and executive officers. They further agree that, without the WOFEs' prior written consent, the VIEs will not take any action that may have material adverse effects on their assets, businesses, human resources, rights, obligations, or business operations. The shareholders of the VIEs agree to transfer any dividends or other similar income or interests they receive as the shareholders of the VIEs, if any, immediately and unconditionally to the WOFEs. This agreement also requires each of the shareholders of the VIEs to issue an irrevocable power of attorney authorizing the WOFEs or any person(s) designated by the WOFEs to execute shareholders' rights on behalf of such shareholder. Unless the WOFEs terminate this agreement in advance, the agreement will remain effective until the VIEs are dissolved pursuant to PRC law.

*Power of Attorney*

Pursuant to each power of attorney, each shareholder of the VIEs have irrevocably appointed the WOFEs or any persons designated by the WOFEs to act as such shareholder's attorney-in-fact to exercise all shareholder rights under PRC law and the relevant articles of association, including but not limited to, appointing directors, supervisors and officers of the VIEs as well as the right to sell, transfer, pledge and dispose all or a portion of the shares held by Nominee Shareholder. The power of attorney will remain in force for ten years unless early terminated by the WOFEs. The term of the power of attorney can be extended at the WOFEs' option until the VIEs are dissolved in accordance with PRC law and regulation.

*Exclusive Option Agreement*

Pursuant to the exclusive option agreements, the Nominee Shareholders of the VIEs granted the WOFEs or any third party designated by the WOFEs the exclusive and irrevocable right to purchase from the Nominee Shareholders, to the extent permitted by PRC law and regulations, all or part of its respective equity interests in the VIEs for a purchase price equal to the registered capital. The Nominee Shareholders will then return the purchase price to the WOFEs or any third party designated by the WOFEs after the option is exercised. The WOFEs may transfer all or part of its option to a third party at its own option. The VIEs and the Nominee Shareholders agree that without prior written consent of the WOFEs, they may not transfer or otherwise dispose the equity interests or declare any dividend. The exclusive option agreement will remain effective until the WOFEs or any third party designated by the WOFEs acquire all equity interest of the VIEs.

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**2. Summary of significant accounting policies (continued)**

**(c) Principle of consolidation (continued)**

i) VIE Agreements that give the Company the power to direct the activities that most significantly impact the economic performance of the VIEs (continued)

Equity Pledge Agreement

Pursuant to relevant equity pledge agreements, each shareholder of the VIEs has pledged all of his or her equity interest held in the VIEs to the WOFEs to guarantee his or her obligations under the business operation agreement, the power of attorney, exclusive option agreement and the exclusive technology consulting and service agreement. In the event that the VIEs breach any obligations under these agreements, the WOFEs as the pledgee, will be entitled to request immediate disposal of the pledged equity interests and have priority to be compensated by the proceeds from the disposal of the pledged equity. The Nominee Shareholders may not dispose of the equity interests or create or permit any pledges which may have an adverse effect on the rights or benefits of the WOFEs without the prior written consent of the WOFEs. The relevant share pledge agreements will remain effective until the VIEs and its Nominee Shareholders discharge all of their obligations under the VIE Agreements and the pledgee consents such discharge in writing.

ii) VIE Agreement that enables the Company to receive the economic benefits from the VIEs

Exclusive technology consulting and service agreement

Pursuant to the exclusive technology consulting and service agreements, WOFEs have the exclusive right to provide the VIEs and their subsidiaries (as designated in the agreement) with technical support, consulting services and other services. The WOFEs shall exclusively own any intellectual property arising from the performance of the agreement. During the term of this agreement, the VIEs and their designated subsidiaries may not accept any services covered by this agreement provided by any third party. The VIEs and their designated subsidiaries agree to pay service fees equal to 100% of the net profit generated or otherwise determined by the WOFEs. Except by mutual agreement upon early termination by parties in writing, the exclusive business cooperation agreement will remain effective until the VIEs and their designated subsidiaries are dissolved in accordance with PRC law and regulation.

Based on these contractual agreements, the Company believes that the VIEs as described above should be considered as VIEs because the equity holders do not have significant equity at risk nor do they have the characteristics of a controlling financial interest. Given that the Company, through the WOFEs, is the primary beneficiary of these VIEs, the Company believes that these VIEs should be consolidated based on the structure as described above.



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**2. Summary of significant accounting policies (continued)****(c) Principle of consolidation (continued)**

The Group has established a series of trusts administrated by third-party trust companies. Since these trusts make loans solely to borrowers referred the Group to provide returns to the trust beneficiaries, the Group has power to direct the activities of the trusts. In addition, the Group has the obligation to absorb losses or the right to receive benefits from the trusts that could potentially be significant to the trusts. As a result, the Group is considered the primary beneficiary of the trusts and their assets including loans receivable (Note 3), liabilities, results of operations and cash flows are consolidated under Accounting Standards Codification (“ASC”) 810.

The following table sets forth the assets, liabilities, results of operations and cash flows of the VIEs and their subsidiaries (including the consolidated trusts), which are included in the Group’s consolidated financial statements. Transactions between the VIEs (including the consolidated trusts) and their subsidiaries are eliminated in the balances presented below:

	As of December 31,	
	2021 RMB	2022 RMB
Cash and cash equivalents	2,176,581	1,850,016
Restricted cash	3,691,832	2,672,810
Short-term investments	1,173,523	2,697,320
Accounts receivable and contract assets	1,805,079	1,573,345
Quality assurance receivable	931,798	1,544,961
Property, equipment and software, net	43,241	26,914
Intangible assets	35,187	35,187
Right of use assets	48,941	189,216
Loans receivable, net of credit loss allowance for loans receivable	1,696,495	1,442,213
Investments	820,607	945,947
Investment in subsidiaries	70,578	73,853
Deferred tax assets	343,494	788,865
Amounts due from Group companies	2,200,275	2,316,737
Prepaid expenses and other assets	1,672,654	2,702,678
<b>Total assets</b>	<b>16,710,285</b>	<b>18,860,062</b>
Deferred guarantee income	1,089,503	1,723,200
Liability from quality assurance commitment	3,188,561	3,239,835
Payroll and welfare payable	146,697	157,955
Taxes payable	57,237	51,574
Funds payable to investors of consolidated trusts	1,795,640	1,845,210
Contract liabilities	6,826	5,109
Deferred tax liabilities	45,656	140,212
Leasing liabilities	33,184	174,062
Amounts due to Group companies	4,005,052	5,149,065
Amounts due to related party	2,265	1,000
Accrued expenses and other liabilities	679,720	890,047
<b>Total liabilities</b>	<b>11,050,341</b>	<b>13,377,269</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(c) Principle of consolidation (continued)**

	For the years ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Third-party revenues	6,993,099	8,333,978	9,340,431
Inter-company revenues	159,319	796,071	535,053
<b>Net revenues</b>	<b>7,152,418</b>	<b>9,130,049</b>	<b>9,875,484</b>
Third-party expenses	(2,000,511)	(3,441,504)	(3,567,004)
Inter-company expenses	(1,129,163)	(2,545,816)	(3,343,680)
Related party expenses	(10,104)	(7,503)	(37)
Provision for accounts receivable and contract assets	(116,387)	(134,938)	(284,384)
Provision for loans receivable	(302,243)	32,317	(92,790)
Credit losses for quality assurance commitment	(2,007,968)	(1,963,609)	(2,981,336)
<b>Total Operating expenses</b>	<b>(5,566,376)</b>	<b>(8,061,053)</b>	<b>(10,269,231)</b>
Income (loss) from subsidiaries	(2,372)	(448)	2,379
<b>(Loss) income from operations</b>	<b>1,583,670</b>	<b>1,068,548</b>	<b>(391,368)</b>
Other income, net	100,830	93,674	158,724
<b>(Loss) profit before income tax expense</b>	<b>1,684,500</b>	<b>1,162,222</b>	<b>(232,644)</b>
Income tax expenses	(319,700)	(144,463)	(23,242)
<b>Net (loss) profit</b>	<b>1,364,800</b>	<b>1,017,759</b>	<b>(255,886)</b>

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(c) Principle of consolidation (continued)**

	For the years ended December 31,		
	2020 RMB	2021 RMB	2022 RMB
Cash used in operating activities under service agreements for Inter-company	(2,143,205)	(2,313,224)	(3,598,761)
Cash provided by operating activities under service agreements for Inter-company	137,624	534,988	650,751
Net cash provided by operating activities for Third-party	2,415,649	1,412,435	1,298,627
<b>Net cash provided by (used in) operating activities</b>	<b>410,068</b>	<b>(365,801)</b>	<b>(1,649,383)</b>
Capital contribution to Group companies	—	(22,432)	(10,020)
Collection of loans from Group companies	—	389,043	72,373
Cash paid as loans extended to Group companies	—	(2,328,235)	(304,533)
Other investing activities	1,268,657	1,668,517	(756,382)
<b>Net cash provided by (used in) investing activities</b>	<b>1,268,657</b>	<b>(293,107)</b>	<b>(998,562)</b>
Repayment of loans to Group companies	—	(164,719)	(134,307)
Cash received as loans from Group companies	—	1,785,238	1,533,401
Other financing activities	(2,286,962)	69,454	(96,736)
<b>Net cash provided by (used in) financing activities</b>	<b>(2,286,962)</b>	<b>1,689,973</b>	<b>1,302,358</b>

Under the VIE Arrangements, the Company has the power to direct activities of the VIEs and can have assets transferred out of the VIEs. Therefore, the Company considers that there is no asset in the VIEs that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves, if any. As the VIEs are incorporated as limited liability company under the Company Law of the PRC, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the VIEs.

Currently there is no contractual arrangement which requires the Company to provide additional financial support to the VIEs. However, as the Company conducts its businesses primarily based on the licenses and approvals held by the VIEs and their subsidiaries, the Company has provided and will continue to provide financial support to the VIEs. VIEs' assets comprise both recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include leasehold improvements, computers and network equipment and purchased intangible assets which are recognized in the Company's consolidated balance sheet. The unrecognized revenue-producing assets mainly consist of copyrights, trademarks and operation licenses which are not recorded in the financial statements of VIEs as they did not meet the recognition criteria set in ASC 350-30-25.

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(d) Business combinations and noncontrolling interests**

The Company accounts for its business combinations using the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805 “Business Combinations.” The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities incurred by the Company to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total costs of acquisition, fair value of the noncontrolling 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 the consolidated income statements. During the measurement period, which can be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

In a business combination achieved in stages, the Company re-measures the previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in the consolidated income statements.

When there is a change in ownership interests that result in a loss of control of a subsidiary, the Company deconsolidates the subsidiary from the date control is lost. Any retained noncontrolling investment in the former subsidiary is measured at fair value and is included in the calculation of the gain or loss upon deconsolidation of the subsidiary.

For the Company’s majority-owned subsidiaries and the consolidated VIEs, a noncontrolling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company. Consolidated net income (loss) on the consolidated income statements includes the net income (loss) attributable to noncontrolling interests and mezzanine equity holders when applicable. Net income (loss) attributable to mezzanine equity holders is included in net income (loss) attributable to noncontrolling interests on the consolidated income statements, while it is excluded from the consolidated statements of changes in shareholders’ equity. The cumulative results of operations attributable to noncontrolling interests, along with adjustments for share-based compensation expense arising from outstanding share-based awards relating to subsidiaries’ shares, are also recorded as noncontrolling interests in the Company’s consolidated balance sheets. Cash flows related to transactions with noncontrolling interests are presented under financing activities in the consolidated statements of cash flows.

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(e) Use of estimates**

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes.

Financial statements amounts that reflect significant accounting estimates and assumptions include revenue recognition, measurement for provisions and liabilities in scope for ASC Topic 326 including credit loss provision for quality assurance receivables, loan receivables and accounts receivable and contract assets as well as liability from quality assurance commitment, valuation allowance for deferred tax assets and determination of uncertain tax positions. Such accounting estimates are impacted significantly by judgements and assumptions used in the preparation of the Group's consolidated financial statements, and actual results could differ materially from these estimates. Changes in estimates are recorded in the period they are identified.

**(f) Foreign currency and foreign currency translation**

The Group uses Renminbi ("RMB") as its reporting currency. The US\$ is the functional currency of the Group's entities incorporated in Cayman Islands and Hong Kong, and the RMB is the functional currency of the Group's PRC subsidiaries.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Financial assets and liabilities denominated in other than the functional currency are re-measured at the balance sheet date exchange rate. The resulting exchange differences are recorded in the consolidated statements of comprehensive income.

The financial statements of the Group are translated from the functional currency to the reporting currency, RMB. Assets and liabilities of the subsidiaries are translated into RMB using the exchange rate in effect at each balance sheet date. Income and expenses items are generally translated at the average exchange rates prevailing during the fiscal year. Foreign currency translation adjustments arising from these are accumulated as a separate component of shareholders' equity on the consolidated financial statements. The exchange rates used for translation on December 31, 2021 and 2022 were US\$1.00= RMB6.3757 and RMB 6.9646, respectively, representing the index rates stipulated by the People's Bank of China.

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(g) Convenience translation**

Translations of balances in the Group's consolidated balance sheet, consolidated statement of operations and comprehensive income and consolidated statement of cash flows from RMB into US\$ as of and for year ended December 31, 2022 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB 6.8972, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 30, 2022. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 30, 2022, or at any other rate.

**(h) Significant risks and uncertainties**

*Risk of concentration*

As of December 31, 2021 and 2022, substantially all of the Group's cash, term deposit and cash equivalents, restricted cash and short-term investments were held in financial institutions located in the PRC and in Hong Kong, which management considers to be of high credit quality. Accounts receivable and contract assets are generally unsecured and denominated in RMB, and are derived from revenues earned from operations arising primarily in the PRC. No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2020, 2021 and 2022. No individual customer accounted for more than 10% of accounts receivable and contract assets as of December 31, 2021 and 2022. As of December 31, 2022, approximately 98% of the Group's cash and cash equivalents, restricted cash and Short-term investments were held in the financial institutions in the PRC and the remaining cash and cash equivalents, restricted cash and restricted time deposits were held in financial institutions outside the PRC.

*Risk of uncertainties*

In October 2019, the China Banking and Insurance Regulatory Commission, together with eight other regulatory agencies jointly promulgated the Supplemental Rules to the Administration of Financing Guarantee Companies ("Circular 37"), which provides that any entity providing client referral or credit assessment services to the lending institutions may not provide financing guarantee services in a direct or a disguised form without the regulatory approval. If any entity operates financing guarantee business or provide financing guarantee services in a disguised form without appropriate approval, its business operations will be banned by the regulatory authorities and it will be required to properly settle existing business. Such entity might also subject to penalties including fines and confiscation of illegal gains if applicable. In the Group's collaboration with institutional funding partners, in order to attract and maintain such business relationship, the Group currently provides quality assurance commitment mainly through (i) repurchase of default loans from third-party guarantee companies which provide guarantee for the loans from institutional funding partners and (ii) setting aside security deposits with third-party guarantee companies to ensure the Group has enough cash to perform its repurchase obligation if the borrowers introduced by the Group default. Due to the lack of legal interpretation for financing guarantee in a disguised form, there is uncertainty related to whether such quality assurance commitment provided to institutional funding partners constitutes a financing guarantee in a disguised form. If the quality assurance commitment provided by the Group were determined to be a financing guarantee in a disguised form, the Group's business, financial condition, results of operations and liquidity will be materially and adversely affected.

In order to reduce the compliance risk under Circular 37, the Group incorporated three licensed financial guarantee companies since 2019, which, since the incorporation, provide direct guarantees for certain loans funded by the institutional funding partners to replace existing quality assurance commitment. In 2021, The Group increased the registered capital of the guarantee subsidiaries from RMB1.9 billion as of December 31, 2020, to RMB2.4 billion as of December 31, 2021. The amount of outstanding loan principal under the quality assurance commitment increased as a result of the Group's expansion of the business size in 2022. However, the Group will continue its effort to increase its guarantee capability by increasing the capital of its financial guarantee subsidiaries to continue reducing its risk of noncompliance.

**FINVOLUTION GROUP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of significant accounting policies (continued)**

**(i) Cash and cash equivalents**

Cash and cash equivalents represent cash on hand, demand deposits, term deposits and highly liquid investments placed with banks or other financial institutions, which have original maturities less than three months.

**(j) Restricted cash**

Restricted cash represents:

- (i) Cash in quality assurance is cash managed by the Group through designated bank accounts under the new quality assurance program. There is no other use of these funds except for making payments to institutional funding partners for default loans that are subject to quality assurance protection. As of December 31, 2021 and 2022, the restricted cash related to quality assurance obligations were RMB2,042,084 and RMB1,394,870, respectively.
- (ii) Cash held in escrow accounts that is jointly managed by the Group and institutional funding partners. As of December 31, 2021 and 2022, the restricted cash managed by the Group and institutional funding partners amounted to RMB1,281,869 and RMB558,520, respectively.
- (iii) Cash received via consolidated trusts that has not yet been distributed. As of December 31, 2021 and 2022, the restricted cash related to cash not yet distributed amounted to RMB341,397 and RMB449,337, respectively.
- (iv) Cash received from borrowers that has not yet been disbursed to institutional funding partners. As of December 31, 2021 and 2022, the restricted cash held as related to cash not yet disbursed amounted to RMB326,914 and RMB361,214, respectively.
- (v) Cash received from individual investors or borrowers that has not yet been disbursed, due to a settlement time lag. As of December 31, 2021 and 2022, the restricted cash related to cash not yet disbursed amounted to RMB81,150 and RMB78,766, respectively.

**(k) Short-term Investments**

Short-term investments consist of investments in time deposits and wealth management products. Time deposits can be withdrawn at any time in full before maturity, and the interest rate would be different from the original agreed rate. The wealth management products are certain financial products with variable interest rates and principal not guaranteed with certain financial institutions. As of December 31, 2021 and 2022, the balance of short-term investments are RMB1,204,901 and RMB3,427,020, respectively.

Realized and unrealized gain related to the short-term investments is recorded as other income in the consolidated statements of comprehensive income. RMB33,189, RMB91,686 and RMB101,153 was recognized for the years ended December 31, 2020, 2021 and 2022, respectively.

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**2. Summary of significant accounting policies (continued)**

**(l) Accounts receivable, contract assets and credit loss allowance**

Accounts receivable and contract assets is related to the facilitation and post-facilitation service in relation to loans facilitated by the Group. Contract assets represent the Group's right to consideration in exchange for services that the Group has transferred to the customer before payment is due. The Group only recognizes accounts receivable and contract assets to the extent that the Group believes it is probable that it will collect substantially all of the consideration to which it will be entitled to in exchange for the services transferred to the customer.

Accounts receivable and contract assets is stated at the historical carrying amount net of write-offs and credit risk allowance. Beginning in 2020, the Group establishes a credit loss allowance based on expectations of lifetime credit losses based on historical default experience, known or inherit risks in the portfolio, current economic conditions and macroeconomics forecasts as well as other factors surrounding the credit risk of borrowers (Note 2(b)).

**(m) Investments**

The Group has classified its investments into equity method investments and non-marketable equity investments.

The Group applies equity method in accounting for its investments in entities in which the Group has the ability to exercise significant influence but does not have control and the investments are in either common stock or in-substance common stock. Unrealized gains on transactions between the Group and an affiliated entity are eliminated to the extent of the Group's interest in the affiliated entity, unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group accounts for private equity funds using the equity method of accounting unless the Group's interest is so minor that the Group may have virtually no influence over partnership operating and financial policies.

Non-marketable equity investments are investments in privately held companies without readily determinable market values. They are measured at cost minus impairments, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or a similar investment of the same issuer. The changes in the fair value of non-marketable equity investments are recognized in the consolidated statement of comprehensive income.

The following table sets forth the investments the Group holds as of December 31, 2021 and 2022, respectively.

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2022</u>
Equity method investments	132,377	180,287
Non-marketable equity investments	838,740	903,797
	<u>971,117</u>	<u>1,084,084</u>

Equity method investments

For the years ended December 31, 2020, 2021 and 2022, the Group made investments in several private equity funds and accounted these investments as equity method investments as the Group has ability to significantly influence the operations or financial activities of the investees. For the years ended December 31, 2020, 2021 and 2022, the Group recognized an impairment loss of nil, RMB5,000, and RMB6,000 for equity method investments, respectively.



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**2. Summary of significant accounting policies (continued)**

**(m) Investments (continued)**

Non-marketable equity investments

For the years ended December 31, 2020, 2021 and 2022, the Group made investments of less than 10% of equity interest in several non-listed companies. These investments were accounted for as non-marketable equity investment using measurement alternative because these investments do not have readily determinable fair value and the Group does not have significant influence over the investees. For the years ended December 31, 2020, 2021 and 2022, the Group recognized an impairment loss of RMB33,600, nil and nil for non-marketable equity investments, respectively.

**(n) Fair value measurement**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs that may be used to measure fair value include:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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.

The Group does not have any non-financial assets or liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The Group's financial instruments consist principally of cash and cash equivalents, restricted cash, short-term investments, quality assurance receivable, loans receivable, accounts receivable, quality assurance payable, deferred guarantee income, liability from quality assurance commitment, short-term borrowings and other liabilities.

Short-term investments

The short-term investments consist of time deposits and wealth management products. The short-term investments are measured at fair value.

Other financial instruments

The carrying amounts of financial instruments other than short-term investments, approximate their fair values due to the short-term maturities of these instruments.

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**2. Summary of significant accounting policies (continued)**

**(n) Fair value measurement (continued)**

*Assets and liabilities measured at fair value on a recurring basis*

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

**December 31, 2021**

	<u>Level 1 Inputs</u> RMB	<u>Level 2 Inputs</u> RMB	<u>Level 3 Inputs</u> RMB	<u>Balance at Fair value</u> RMB
<b>Assets</b>				
Short-term investments	<u>—</u>	<u>1,204,901</u>	<u>—</u>	<u>1,204,901</u>

**December 31, 2022**

	<u>Level 1 Inputs</u> RMB	<u>Level 2 Inputs</u> RMB	<u>Level 3 Inputs</u> RMB	<u>Balance at Fair value</u> RMB
<b>Assets</b>				
Short-term investments	<u>—</u>	<u>3,427,020</u>	<u>—</u>	<u>3,427,020</u>

The Group values its short-term investments held in certain banks using quoted rate of return or quoted subscription/redemption prices published by the banks for these products, and accordingly, the Group classifies such short-term investments as Level 2 within the fair value hierarchy based on the nature of the fair value inputs.

*Assets and liabilities measured at fair value on a non-recurring basis*

Non-marketable equity investments are measured at fair value on a non-recurring basis. The following table sets forth the unrealized gains and losses from remeasurement (referred to as upward or downward adjustments) recorded as adjustments to the carrying value of non-marketable equity investments held as of December 31, 2020, 2021 and 2022 based on the observable price in an orderly transaction for the same or similar security of the same issuers:

	<u>For the years ended December 31,</u>		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
Upward adjustments	<u>—</u>	<u>—</u>	<u>—</u>
Downward adjustments (including impairment)	<u>(36,600)</u>	<u>—</u>	<u>—</u>
Total unrealized gain (losses)	<u>(36,600)</u>	<u>—</u>	<u>—</u>

The following table sets forth the total carrying value of the Group's non-marketable equity investments at fair value on a non-recurring basis held as of December 31, 2021 and 2022 including cumulative unrealized upward and downward adjustments made to the initial cost basis of the securities:

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2022</u>
Initial cost basis	<u>872,021</u>	<u>937,078</u>
Upward adjustments	<u>3,319</u>	<u>3,319</u>
Downward adjustments (including impairment)	<u>(36,600)</u>	<u>(36,600)</u>
Total carrying value at the end of the period	<u>838,740</u>	<u>903,797</u>

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**2. Summary of significant accounting policies (continued)****(o) Net interest income**

The Group, through consolidated trust plans (See Note 3), WOFEs and subsidiaries of VIEs, originate and hold loans.

Interest on loans receivable is accrued based on the contractual interest rates of the loan as earned. Accrual of interest is generally discontinued when reasonable doubt exists as to the full, timely collection of interest or principal. When a loan is discontinued from interest accrual, the Group stops accruing interest and reverses all accrued but unpaid interest as of such date.

As the primary beneficiary of the trusts, the consolidated trust plans and recorded return of the other trust parties into interest expense. The interest expense is accrued based on the expected rate of return during the contractual term of the trusts.

The net interest income recorded in the consolidated statement of comprehensive income related to the loans originated by the Group recorded for the years ended December 31, 2020, 2021 and 2022 are as follows:

	For the years ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Interest income	1,341,657	1,290,016	1,320,510
Less: Interest expense	(228,320)	(73,846)	(146,306)
Net interest income	<u>1,113,337</u>	<u>1,216,170</u>	<u>1,174,204</u>

**(p) Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation and amortization. Property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method taking into account the estimated residual value, if any. The following table sets forth the estimated useful life and residual value:

Category	Estimated useful life	Residual value
Office furniture and equipment	3-5 years	5%
Computer and electronic equipment	3-5 years	5%
Leasehold improvements	shorter of remaining lease period or estimated useful life	Nil
Software	1-5 years	Nil

Expenditures for maintenance and repairs are expensed as incurred. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation amortization are removed from the accounts and any resulting gain or loss is recognized in consolidated statement of comprehensive income.

**(q) Intangible assets**

As of December 31, 2022, the intangible assets held by the Group includes micro-lending license, factoring license, financial leasing license and insurance brokerage license which have indefinite useful life. The Group evaluates these 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.

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**2. Summary of significant accounting policies (continued)**

**(r) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed of the acquired entity as a result of the Company's acquisitions of interests in its subsidiaries and the consolidated VIEs. Goodwill is not amortized but is tested for impairment in accordance with ASC Subtopic 350-20 ("ASC 350-20"), Intangibles - Goodwill and Other: Goodwill on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. The guidance provides option that the Company may first assess qualitative factors to determine whether it is necessary to perform quantitative goodwill impairment test. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, the quantitative impairment test is performed.

The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss equal to the difference between the fair value and the carrying value is recognized. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

**(s) Impairment of long-lived assets**

The Group evaluates its long-lived assets other than goodwill and intangible assets with indefinite useful life for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amounts to the expected future undiscounted cash flows attributable to these assets. If it is determined that an asset is not recoverable, an impairment loss is recorded in the amount by which the carrying amount of the assets exceeds the expected discounted cash flows arising from those assets. Impairment losses of long-lived assets related to intangible assets recognized for the years ended December 31, 2020, 2021 and 2022 were nil, nil and RMB255, respectively.

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**2. Summary of significant accounting policies (continued)**

**(t) Quality assurance obligations**

For off-balance sheet loans funded by institutional funding partners, the Group provides quality assurance commitment to compensate them in the event of borrowers' default in the form of 1) guarantee provided by third-party financial guarantee companies or financial guarantee company within the Group; or 2) insurance provided by third-party insurance company, if the insurance coverage is exhausted, a third party guarantee company will repay the institutional funding partner in full. In either case, after the third-party guarantee companies repay the overdue amount, the Group is obligated to compensate the third-party guarantee companies at an amount equal to the repayment made to the institutional funding partners. In certain cases, the Group is also required to provide a security deposit at an amount equal to a certain percentage of the outstanding balance of loans the institutional funding partners funded to the borrowers referred by the Group. The Group might also be required to replenish such security deposit in the event the security deposit is used by the institutional funding partners to make up for the loss they incurred.

*Deferred guarantee income and liability from quality assurance commitment*

Upon adoption of ASC Topic 326 as described in Note 2(b), deferred guarantee income represents the stand ready component of the guarantee contracts that are determined in accordance with ASC Topic 460. At initial recognition, deferred guarantee income is recorded at the fair value of the guarantee contract. Subsequent to initial recognition, deferred guarantee income is released systematically as guarantee income in revenue in the consolidated statement of comprehensive income as the Group is released from the underlying risk.

Liability from quality assurance commitment represents the expected lifetime credit losses of the guarantee contract that are determined in accordance with ASC Topic 326, which are initially recorded separate from and in addition to deferred guarantee income at the amount equal to the expected lifetime credit losses of the underlying loans covered by the quality assurance obligation. The expected credit losses are determined based on historical default experience, known and inherent risks in the portfolio, current economic conditions and future macroeconomic forecasts as well as other factors surrounding the credit risk of borrowers. The liability is calculated at portfolio-level since the loan portfolio is typically of smaller balance homogenous loans and is collectively evaluated for impairment. Subsequent to initial recognition, the expected credit losses are adjusted for changes in expected lifetime credit losses. The initial recognition and adjustments made to liability from quality assurance commitment are recorded as provision for quality assurance commitment in the consolidated statement of comprehensive income. The table below sets forth the movement of deferred guarantee income and liability from quality assurance commitment for the years ended December 31, 2020, 2021 and 2022:

	For the years ended December 31,		
	2020	2021	2022
Deferred guarantee income:			
Opening balance	1,873,254	1,259,396	1,089,503
Newly written quality assurance obligations	2,838,707	2,423,619	3,780,101
Release of quality assurance obligations upon repayment	(3,386,032)	(2,593,512)	(3,064,440)
Termination of P2P quality assurance obligations*	(66,533)	—	—
Ending balance	<u>1,259,396</u>	<u>1,089,503</u>	<u>1,805,164</u>
Liability from quality assurance commitment:			
Opening balance	3,593,021	2,390,501	3,188,561
Provision for credit losses of quality assurance obligations	2,057,558	1,904,473	3,018,912
Payouts during the year	(8,297,516)	(7,227,869)	(9,301,920)
Recoveries during the year	5,199,893	6,121,456	6,650,065
Termination of P2P quality assurance obligations*	(162,455)	—	—
Ending balance	<u>2,390,501</u>	<u>3,188,561</u>	<u>3,555,618</u>

\* In March 2020, the Company early repaid all outstanding loan balance before their maturity for one P2P funding partner as a result of the Group's decision to discontinue business relationship with online lending information intermediary, which resulted in decrease in guarantee related receivables and liabilities. The overall impact on gain or loss is immaterial.

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**2. Summary of significant accounting policies (continued)**

**(t) Quality assurance obligations (continued)**

As of December 31, 2022, the maximum potential future payments, including all outstanding principal and interests covered by the quality assurance obligations were RMB58,929,353.

*Quality assurance receivable*

A quality assurance receivable is recognized at loan inception at its fair value on a loan-by-loan basis. Beginning in 2020, the Group establishes a credit loss allowance primarily based on expectations of lifetime credit losses based on historical default experience, known or inherent risks in the portfolio, current economic conditions and macroeconomics forecasts as well as other factors surrounding the credit risk of borrowers (Note 2(b)).

The following table presents the Group's quality assurance receivable as of December 31, 2021 and 2022:

	For the years ended December 31,	
	2021	2022
Quality assurance receivable	1,171,304	2,044,159
Allowance for credit losses for quality assurance receivable	(239,506)	(374,304)
Quality assurance receivable, net	<u>931,798</u>	<u>1,669,855</u>

The Group evaluates expected credit losses of quality assurance receivable by on a collective basis based on the type of borrowers and delinquency pattern. Credit quality indicators are updated quarterly, and the credit quality of any given customer can change during the life of the portfolio. The following table presents quality assurance receivables based on type of borrowers and delinquency as of December 31, 2021 and 2022:

	1-89 days past due	90-119 days past due	120-149 days past due	150-179 days past due	Total past due	Current	Total quality assurance receivable
<b>December 31, 2021</b>							
New borrowers	9,094	2,340	2,004	1,931	15,369	269,919	285,288
Repeat borrowers	27,695	6,771	5,935	5,616	46,017	839,999	886,016
Total	<u>36,789</u>	<u>9,111</u>	<u>7,939</u>	<u>7,547</u>	<u>61,386</u>	<u>1,109,918</u>	<u>1,171,304</u>
<b>December 31, 2022</b>							
New borrowers	8,505	1,601	1,377	1,350	12,833	315,988	328,821
Repeat borrowers	41,302	8,988	7,638	7,014	64,942	1,650,396	1,715,338
Total	<u>49,807</u>	<u>10,589</u>	<u>9,015</u>	<u>8,364</u>	<u>77,775</u>	<u>1,966,384</u>	<u>2,044,159</u>

As the average tenor of loans facilitated on the Group's platform are around 8.7 months, substantially all of the quality assurance receivable balance as of December 31, 2022 are originated in 2022.

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**2. Summary of significant accounting policies (continued)****(t) Quality assurance obligations (continued)**

The following table sets forth the movement in the allowance for credit losses for quality assurance receivable as of December 31, 2021 and 2022, respectively:

	For the years ended December 31,		
	2020	2021	2022
Beginning balance	809,503	223,514	239,506
Impact of adoption of ASC 326 (Note 2(b))	34,998	—	—
Provision/(reversal) for credit losses	(49,590)	59,136	176,310
Write-offs	(571,397)	(43,144)	(41,512)
Ending balance	<u>223,514</u>	<u>239,506</u>	<u>374,304</u>

**(u) Revenue recognition**

The Group engages primarily in operating an online consumer finance marketplace by providing an online platform which matches borrowers with institutional funding partners, and assisting facilitation of loans to institutional funding partners on certain third-party online platforms. The Group determines that it is not the legal lender or legal borrower in the above process. Therefore, the Group generally does not record loan receivable and payable arising from the loans between institutional funding partners and borrowers on its balance sheets other than consolidated trusts (Note 3). Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities and is recorded net of value-added tax ("VAT").

Revenue recognition policies for each type of services under ASC Topic 606 are discussed as follows:

Revenue from Single Loans

In accordance with a series contracts entered into among the borrowers, institutional funding partners and the Group, the Group generally provides the following services to the borrowers and institutional funding partners:

- The Group operates a platform that enables borrowers and institutional funding partners to exchange information;
- The Group collects information from borrowers, conduct credit assessment and match borrowers with institutional funding partners;
- Once borrowers and institutional funding partners are matched, the Group is responsible for collect and transfer funds between borrowers and institutional funding partners;
- The Group will also provide institutional funding partners with collection services upon borrowers' default;
- On monthly basis, the borrowers are obligated to pay transaction service fee and quality assurance contribution/guarantee fee on top of the principal and interest payment. In the event of prepayment, borrowers are obligated to pay the outstanding unpaid transaction service fee and quality assurance contribution in full. Starting from 2021 in the event of early payment, some borrowers are not obligated to pay full contractual service fee and quality assurance contribution amount, and the service fee and quality assurance contribution is collected on a pro-rata basis upon early loan termination.

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**2. Summary of significant accounting policies (continued)**

**(u) Revenue recognition (continued)**

The Group determines its customers to be both institutional funding partners and borrowers. The Group charges the transaction service fee as part of the borrowers' monthly repayment. In accordance with the relevant guidance in ASC Topic 606, the amounts associated with the quality assurance obligation is within the scope of ASC Topic 460 and should be accounted for in accordance with the provisions of that Topic. The services not within the scope of other Topics should be accounted for in accordance with the remaining provisions of ASC Topic 606 and the applicable revenue recognition guidance. The Group considers loan facilitation services (covering matching of institutional funding partners to borrowers and facilitating the execution of loan agreement between institutional funding partners and borrowers) and post-facilitation services (covering cash processing services and collection services) as two distinctive performance obligations in accordance with ASC Topic 606. The transaction price is first allocated to the quality assurance commitment and quality assurance program, if any, which is recorded at fair value in accordance with ASC Topic 460. Then the remaining considerations are allocated to the loan facilitation and post-facilitation services using their relative standalone selling prices. When estimating total consideration, the Group considers early termination scenarios based on historical early payment and other termination scenarios as the Group can not receive the full contractual service fee amount under early termination, given the service fee is collected on a pro-rata basis upon early loan termination. Such service fee is determined to be variable consideration that meets the "probable of not reversing" threshold. As such, the Group recognizes revenue related to early termination based on its best estimate and true up adjustments are made from time to time. The Group does not have observable standalone selling price for the loan facilitation services or post-facilitation services because it does not provide loan facilitation services or post-facilitation services on a standalone basis in similar circumstances to similar customers. There is no direct observable standalone selling price for similar services in the market that is reasonably available to the Group. As a result, the estimation of standalone selling price involves significant judgment. The Group uses an expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post facilitation services as the basis of revenue allocation. When estimating the selling prices, the Group makes certain assumptions mainly including estimates of the cost of providing the services.

The transaction price allocated to loan facilitation is recognized as revenue upon execution of loan agreements between institutional funding partners and borrowers; the consideration allocated to post-facilitation services is recognized over the period of the loan on a straight-line method, which approximates the pattern of when the underlying services are performed.

In addition to transaction service fee, the Group also receives fees on future events, such as collection fees. For loans with quality assurance obligation, as the quality assurance will compensate the institutional funding partners should the borrowers are delinquent, the collection fee is considered a variable consideration for the loan facilitation and post-facilitation performance obligations and therefore is included in the total transaction price which is allocated to these two performance obligation based on their relative standalone selling price. The collection fee is only probable of not reserving upon successful collection and as such is not included in the transaction price until then.

For the off-balance sheet loans funded by certain other institutional funding partners, where the Group does not provide credit enhancement to the institutional funding partners for the borrowers referred by the Group and takes no credit risks of borrowers in respect of principal and interests, the Group charges the service fees for loan facilitation at predetermined rates based on the performance of the underlying off-balance sheet loans. Such service fee is determined to be variable consideration that meets the "probable of not reversing" threshold. As such, the Group recognizes revenue related to such services based on its best estimate and true up adjustments are made when service fee amounts are confirmed by institutional funding partners.



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**2. Summary of significant accounting policies (continued)****(u) Revenue recognition (continued)**Other revenue

Other revenue primarily includes borrower referral fees. The Group refers borrowers that do not meet the Group's risk appetite to other lending platforms, and charges a referral fee based on the loan origination volume, cost per-click or other performance based criteria. Such fee is recognized as other revenue upon loan origination, each click or other performance obligation is satisfied.

Revenue disaggregation analysis

The following table sets forth the Group's operating revenue from different service types:

	For the years ended December 31,					
	2020		2021		2022	
	With quality assurance obligation	Without quality assurance obligation	With quality assurance obligation	Without quality assurance obligation	With quality assurance obligation	Without quality assurance obligation
Loan facilitation service fees	1,908,851	—	3,604,019	190,163	4,106,467	324,311
Post-facilitation service fees	672,981	—	1,287,760	21,805	1,798,815	131,098
Other revenue						
-borrowers referral fee	—	290,337	—	239,070	—	168,430
-investment management fee	31,767	—	—	—	—	—
-others	95,286	64,496	105,758	211,871	110,244	256,194
	<u>2,708,885</u>	<u>354,833</u>	<u>4,997,537</u>	<u>662,909</u>	<u>6,015,526</u>	<u>880,033</u>

Interest income (Note 2(o)) and guarantee income (Note 2(t)) is not included in the table above as it is not accounted for under ASC Topic 606.

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**2. Summary of significant accounting policies (continued)**

**(u) Revenue recognition (continued)**

Contract balances

Contract assets represent the Group's right to consideration in exchange for facilitation and post-facilitation service that the Company has transferred to the customer before payment is due. Contract liabilities represent the Group's obligation to transfer facilitation and post-facilitation service to the customer due to received payment. The timing of revenue recognition, scheduled payments, and cash collections results in contract assets and contract liabilities.

Practical expedient and exemptions

The Group generally expenses sales commission when incurred for loans with a term for one year or less. These costs are recorded within sales and marketing expenses.

The Group does not disclose the value of unsatisfied performance obligation as most of the loans facilitated through its platform with an original term of one year or less.

**(v) Origination, servicing expenses and other cost of revenue**

Origination, servicing expenses and other cost of revenue primarily consist of salaries and benefits of employees who facilitate loan origination, perform risk pricing, debt-collection service, customer service, data processing, data analysis and other cost of revenue.

Origination, servicing expenses and other cost of revenue-related party consist of expenses for data collection service provided by PPrecredit, a related party of the Group (See Note 10).

**(w) Sales and marketing expenses**

Sales and marketing expenses consist primarily of advertising and online marketing promotion expenses. Advertising and online marketing expenses, amounting to approximately RMB470,243, RMB1,569,167 and RMB1,675,488 for the years ended December 31, 2020, 2021 and 2022, respectively, are charged to the consolidated statements of comprehensive income as incurred.

**(x) General and administrative expenses**

General and administrative expenses consist primarily of salaries and benefits for general management, finance and administrative personnel, share-based compensation expenses, rental, professional service fees and other expenses.

**(y) Research and development expenses**

Research and development expenses consist primarily of payroll and related expenses for IT professionals involved in developing technology platform and website, server and other equipment depreciation, bandwidth and data center costs. All research and development costs have been expensed as incurred as the costs qualifying for capitalization have been insignificant.

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**2. Summary of significant accounting policies (continued)**

**(z) Share-based compensation**

The Group follows ASC Topic 718, which requires all share-based payments to employees and directors, including grants of employee stock options, to be recognized as compensation expense in the financial statements over the vesting period of the award based on the fair value of the award determined at the grant date. Under ASC Topic 718, the number of share-based awards for which the service is not expected to be rendered for the requisite period should be estimated, and the related compensation cost is not recorded for that number of awards.

In accordance with ASC Topic 718, the Group recognize share-based compensation expenses, net of a forfeiture rate, using the straight-line method for awards with services conditions only, and using the graded-vesting attribution method for awards with graded vesting features and performance conditions. Compensation cost is accrued if it is probable that a performance condition will be achieved.

**(aa) Leases**

The Group determines if an arrangement is a lease or contains a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities, in the Group’s consolidated balance sheets. The Group does not have any finance leases for the years ended December 31, 2020, 2021 and 2022.

ROU assets represent the Group’s right to use an underlying asset for the lease term and lease liabilities represent the Group’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. When determining the lease term, the Group includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. As the Group’s leases do not provide an implicit rate, the Group uses its incremental borrowing rate, which it calculates based on the credit quality of the Group and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease.

The Group has elected to adopt the following lease practical expedients in conjunction with the adoption of ASU 2016-02: (i) elect for each lease to not separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component; (ii) for leases that have lease terms of 12 months or less and does not include a purchase option that is reasonably certain to exercise, the Group elected not to apply ASC 842 recognition requirements; and (iii) the Group elected to apply the package of practical expedients for existing arrangements entered into prior to January 1, 2019 to not reassess (a) whether an arrangement is or contains a lease, (b) the lease classification applied to existing leases, and (c) initial direct costs.

**(ab) Government grants and subsidy income**

The Group receives government grants and subsidies in the PRC from various levels of local governments from time to time which are granted for general corporate purposes and to support its ongoing operations in the region. The grants are determined at the discretion of the relevant government authority and there are no restrictions on their use. The government subsidies are recorded as other income in the consolidated statement of comprehensive income in the period the cash is received. The government grants received by the Group amounting to RMB74,104, RMB30,596 and RMB84,957 for the years ended December 31, 2020, 2021 and 2022, respectively.

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**2. Summary of significant accounting policies (continued)**

**(ac) Taxation**

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions.

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carry forwards and credits. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided in accordance with the laws of the relevant taxing authorities. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in which temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the statement of comprehensive income in the period of the enactment of the change.

The Group considers positive and negative evidence when determining whether a portion or all of its deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods, its experience with tax attributes expiring unused, and its tax planning strategies. The ultimate realization of deferred tax assets is dependent upon its ability to generate sufficient future taxable income within the carry-forward periods provided for in the tax law and during the periods in which the temporary differences become deductible. When assessing the realization of deferred tax assets, the Group has considered possible sources of taxable income including (i) future reversals of existing taxable temporary differences, (ii) future taxable income exclusive of reversing temporary differences and carry-forwards, (iii) future taxable income arising from implementing tax planning strategies, and (iv) specific known trend of profits expected to be reflected within the industry.

The Group recognizes a tax benefit associated with an uncertain tax position when, in its judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, the Group initially and subsequently measures the tax benefit as the largest amount that the Group judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The Group's liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The Group's effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management. The Group classifies interest and penalties recognized on the liability for unrecognized tax benefits as income tax expenses.

**(ad) Net profit per share**

Basic net profit per share is computed by dividing net profit attributable to FinVolution Group's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net profit is allocated between ordinary shares and other participating securities based on their participating rights. Net loss is not allocated to other participating securities if based on their contractual terms they are not obligated to share in the losses. Diluted net profit per share is calculated by dividing net profit attributable to FinVolution Group's ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of shares issuable upon the conversion of the preferred shares using the if-converted method and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive.

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**2. Summary of significant accounting policies (continued)**

**(ae) Segment reporting**

The Group's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and therefore, the Group only has one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. Most of the Group's long-lived assets are located in the PRC and most of the Group's revenues are derived from within the PRC. Therefore, no geographical segments are presented.

**(af) Treasury shares**

The Group 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 in the consolidated balance sheets. At retirement, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings. In the event that treasury shares are reissued at an amount different from the cost the Company paid to repurchase the treasury shares, the Company will recognize the difference in additional paid-in capital by using first-in, first-out method. The treasury shares account includes 116,279,765 and 136,874,400 ordinary shares mainly for the purpose of exercise of share-based compensation plans as of December 31, 2021 and 2022, respectively.

**(ag) Statutory reserves**

In accordance with the relevant regulations and their articles of association, subsidiaries of the Company incorporated in the PRC are required to allocate at least 10% of their after-tax profit determined based on the PRC accounting standards and regulations to the general reserve until such reserve has reached 50% of the relevant subsidiary's registered capital. 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. During the years ended December 31, 2020, 2021 and 2022, appropriations to the general reserve amounted to RMB140,860, RMB152,345 and RMB87,998, respectively.

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**2. Summary of significant accounting policies (continued)**

**(ah) Recently issued accounting standards**

**Adoption of new accounting standards**

In May 2021, the FASB issued ASU No. 2021-04, Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40) to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity classified written call options (for example, warrants) that remain equity classified after modification or exchange. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption of the amendments is permitted. The adoption of ASC 260 did not have a material impact on the Group's consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance. This update requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. This update is effective for annual periods beginning after December 15, 2021, and early application is permitted. The adoption of ASC 832 did not have a material impact on the Group's consolidated financial statements.

**New accounting standards not yet adopted**

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (ASU 2021-08), which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. The new amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments—Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. This update eliminates the accounting guidance for troubled debt restructurings (TDRs) for creditors, requires new disclosures for creditors for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty and requires inclusion of current-period gross writeoffs in the vintage disclosure tables. The amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

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**3. Loans receivable, net**

Loans receivable originated and retained by the Group consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Loans	2,410,149	2,430,787
Credit loss allowance for loans receivable	(427,873)	(294,355)
Loans receivable, net	<u>1,982,276</u>	<u>2,136,432</u>

As of December 31, 2022 and 2021, the entire loans receivable balance represents the outstanding loans made to the borrowers from consolidated trusts and subsidiaries of the Group. As part of the Group's efforts to develop new product offerings for institutional funding partners, a series of trusts were established and administrated by third-party trust companies. These trusts make loans solely to borrowers referred the Group to provide returns to the trust beneficiaries. As such, the Group has power to direct the activities of the trusts. In addition, the Group has the obligation to absorb losses or the right to receive residual benefits from certain trusts that could potentially be significant to these trusts. As a result, the Group is considered the primary beneficiary of the trusts and their assets, liabilities, results of operations and cash flows are consolidated accordingly.

The following table sets forth the activity in the allowance for loan losses for the years ended December 31, 2020, 2021 and 2022.

	For the years ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Beginning balance	316,124	382,012	427,873
Impact of adoption of ASC 326 (Note 2(b))	303,291	—	—
Provision for loans receivable	463,175	374,243	415,902
Current period write off	(700,578)	(328,382)	(549,420)
Ending balance	<u>382,012</u>	<u>427,873</u>	<u>294,355</u>

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**3. Loans receivable, net (continued)**

The Group evaluates expected credit losses of loans receivable by on a collective basis based on the type of borrowers and delinquency pattern. Credit quality indicators are updated quarterly, and the credit quality of any given customer can change during the life of the portfolio. The following table presents loans receivable based on type of borrowers and delinquency as of December 31, 2021 and December 31, 2022:

	1-89 days past due	90-119 days past due	120-149 days past due	150-179 days past due	Total past due	Current	Total loans receivable
<b>December 31, 2021</b>							
New borrowers	31,036	8,658	9,771	7,181	56,646	251,554	308,200
Repeat borrowers	93,254	25,998	26,061	21,617	166,930	1,935,019	2,101,949
Total	<u>124,290</u>	<u>34,656</u>	<u>35,832</u>	<u>28,798</u>	<u>223,576</u>	<u>2,186,573</u>	<u>2,410,149</u>
<b>December 31, 2022</b>							
New borrowers	20,171	1,294	1,215	1,057	23,737	293,416	317,153
Repeat borrowers	67,249	10,514	10,537	10,113	98,413	2,015,221	2,113,634
Total	<u>87,420</u>	<u>11,808</u>	<u>11,752</u>	<u>11,170</u>	<u>122,150</u>	<u>2,308,637</u>	<u>2,430,787</u>

As the average tenor of loans facilitated on the Group's platform are around 8.7 months, substantially all of the loans receivable balance as of December 31, 2022 are originated in 2022.

As of December 31, 2021 and 2022, loans receivable amounting to RMB109,303 and RMB34,730 were in non-accrual status with no loans receivable accruing interest 90 days past due. Interest income for non-accrual loans receivable is recognized on a cash basis. For the years ended December 31, 2020, 2021 and 2022, interest income earned from non-accrual loans receivable were not material.

Management performs a quarterly evaluation of the adequacy of credit loss allowance for loan receivables primarily based on expectations of lifetime credit losses based on historical default experience, known or inherit risks in the portfolio, current economic conditions and macroeconomic forecasts as well as other factors surrounding the credit risk of borrowers (Note 2(b)). When forecasting macroeconomic factors, management primarily considered gross domestic product, consumer price index and other pertinent factors such as money supply wherein M1 money supply was determined to be the most relevant to the Group's business. The allowance is calculated at portfolio-level since the loan portfolio is typically of smaller balance homogenous loans and is collectively evaluated for impairment.



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**4. Prepaid expenses and other assets**

Receivables, prepayments and other assets consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Security deposits and other deposits <sup>1</sup>	1,666,713	2,762,191
Deductible value-added taxes	105,002	51,024
Prepaid online marketing expenses	33,709	18,347
Advances	15,715	16,880
Others	78,299	118,309
	<u>1,899,438</u>	<u>2,966,751</u>

- <sup>1</sup> Security deposits and other deposits primarily includes security deposits and rental deposits. Security deposits were set aside as requested by certain institutional funding partners, held in deposit accounts with the institutional funding partners. As of December 31, 2021 and 2022, security deposits set aside by the Group amounted to RMB1,654,989 and RMB2,678,269, respectively.

**5. Property, equipment and software, net**

Property, equipment and software, net consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Computer and electronic equipment	231,196	286,108
Office furniture and equipment	22,279	22,314
Leasehold improvement	39,266	32,418
Software	46,752	51,426
Total	339,493	392,266
Less: Accumulated depreciation and amortization <sup>1</sup>	(227,096)	(250,921)
Property, equipment and software, net	<u>112,397</u>	<u>141,345</u>

- <sup>1</sup> Depreciation and amortization expenses for the years ended December 31, 2020, 2021 and 2022 was RMB51,780, RMB37,277 and RMB23,825 respectively.

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**6. Intangible assets**

Intangible assets consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Micro-Lending License	63,760	63,760
Factoring License	265	265
Financial Leasing License <sup>1</sup>	255	—
Insurance Brokerage License	34,667	34,667
<b>Intangible assets</b>	<b>98,947</b>	<b>98,692</b>

1 In 2022, the Financial Leasing License related to Zhongyu Zhuhai Financial Leasing Co., Ltd. was revoked and therefore full impairment was provided and provision for intangible assets was written off at the end of the year.

**7. Accounts receivable and contract assets**

The following table presents the accounts receivable and contract assets as of December 31, 2021 and 2022:

	As of December 31,	
	2021	2022
	RMB	RMB
Accounts receivable and contract assets	2,141,542	2,714,363
Credit loss allowance for accounts receivable and contract assets	(250,696)	(496,918)
<b>Accounts receivable and contract assets, net</b>	<b>1,890,846</b>	<b>2,217,445</b>

The Group evaluates expected credit losses of accounts receivable and contract assets on a collective basis based on the type of borrowers and delinquency pattern. Credit quality indicators are updated quarterly, and the credit quality of any given customer can change during the life of the portfolio. The following table presents accounts receivable and contract assets based on type of borrowers and delinquency as of December 31, 2021 and 2022:

	1-89 days past due	90-119 days past due	120-149 days past due	150-179 days past due	Total past due	Current	Total accounts receivable and contract assets
<b>December 31, 2021</b>							
New borrowers	16,964	3,626	2,863	2,491	25,944	451,127	477,071
Repeat borrowers	50,589	10,409	8,207	6,811	76,016	1,365,710	1,441,726
Other	—	—	—	—	—	222,745	222,745
<b>Total</b>	<b>67,553</b>	<b>14,035</b>	<b>11,070</b>	<b>9,302</b>	<b>101,960</b>	<b>2,039,582</b>	<b>2,141,542</b>
<b>December 31, 2022</b>							
New borrowers	30,579	7,622	6,864	6,911	51,976	332,988	384,964
Repeat borrowers	107,109	26,115	23,335	22,319	178,878	1,528,893	1,707,771
Other	—	—	—	—	—	621,628	621,628
<b>Total</b>	<b>137,688</b>	<b>33,737</b>	<b>30,199</b>	<b>29,230</b>	<b>230,854</b>	<b>2,483,509</b>	<b>2,714,363</b>

As the average tenor of loans facilitated on the Group's platform are around 8.7 months, substantially all of the accounts receivable and contract assets balance as of December 31, 2022 are originated in 2022.

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**7. Accounts receivable and contract assets (continued)**

As disclosed in note 2(1), the Company writes-off the accounts receivable and contract assets and the related allowance when the accounts receivables and contract assets are delinquent for 180 days or more.

The following table sets forth the movement of credit loss allowance for accounts receivable and contract assets as of December 31, 2021 and 2022, respectively:

	For the years ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Beginning balance	145,699	188,725	250,696
Impact of adoption of ASC 326 (Note 2(b))	142,077	—	—
Provision for accounts receivable and contract assets	144,661	139,226	390,882
Current period write-off	(243,712)	(77,255)	(144,660)
Ending balance	<u>188,725</u>	<u>250,696</u>	<u>496,918</u>

**8. Employee benefits**

The full time employees of the Group are entitled to staff welfare benefits, including medical insurance, basic pensions, unemployment insurance, work injury insurance, maternity insurance and housing funds. The Group is required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant regulations and to make contribution to the state-sponsored pension and medical plans. The total amounts charged to the consolidated statements of comprehensive income for such employee benefits amounted to approximately RMB80,505, RMB140,135 and RMB199,411 for the years ended December 31, 2020, 2021 and 2022, respectively.

**9. Accrued expenses and other liabilities**

Accrued expenses and other liabilities consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Funds payable to institutional funding partners <sup>1</sup>	326,914	361,214
Accrued marketing expense	133,399	262,016
Accrued collection service fee	41,654	41,213
Accrued technical services expense	25,988	58,460
Accrued payment channel expenses	21,055	33,872
Accrued professional service fee	25,074	28,734
Payable to platform users	81,150	78,766
Others	64,748	44,433
	<u>719,982</u>	<u>908,708</u>

<sup>1</sup> The balance of payable mainly includes funds received from borrowers but not yet transferred to the institutional funding partners due to the settlement time lag.

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**10. Related party balances and transactions**

Transaction with PPcredit

Amounts incurred by the Group

	<u>For the years ended December 31,</u>		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
	RMB	RMB	RMB
Data collection service expense <sup>1</sup>	10,104	7,503	37

1 PPcredit Data Service (Shanghai) Co., Ltd. (“PPcredit”) was founded in April 2016 by the founders of the Group to provide data collection services. The Group mainly uses PPcredit as a data provider since PPcredit was established. The price for the service is determined based on the price charged by other market participants.

Amounts due to related parties

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2022</u>
	RMB	RMB
PPcredit	2,265	1,000

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**11. Taxation**

***Cayman Islands***

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends to the shareholders, no Cayman Islands withholding tax will be imposed.

***Hong Kong***

Under the current Hong Kong Inland Revenue Ordinance, the Company's subsidiaries incorporated in Hong Kong are subject to 16.5% income tax on their taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax. Commencing from the year of assessment of 2018, the first HK\$2 million of profits earned by the Company's subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e. 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate. No Hong Kong profits tax was provided for as there was no estimated assessable profits tax during the relevant periods.

***Indonesia***

Under the current laws of Indonesia, the Company's subsidiaries incorporated in Indonesia are subject to 22% income tax on their taxable income generated from operations in Indonesia.

***The PRC***

On March 16, 2007, the National People's Congress of the PRC enacted an Enterprise Income Tax Law ("EIT Law"), under which Foreign Investment Enterprises ("FIEs") and domestic companies would be subject to EIT at a uniform rate of 25%. The EIT law became effective on January 1, 2008. On April 14, 2008, relevant governmental regulatory authorities released qualification criteria, application procedures and assessment processes for "high and new technology enterprises" ("HNTE"), which will be entitled to a favorable statutory tax rate of 15%. An enterprise's qualification as a HNTE is reassessed by the relevant PRC governmental authorities every three years. In January 2018, Shanghai Shanghu was approved the Software Enterprise Status. In accordance with PRC EIT Law, Shanghai Shanghu was entitled to enjoy full income tax exemption for 2017 and 2018, and a preferential income tax rate of 12.5% for 2019 to 2021. In November 2021, Shanghai Shanghu was qualified as HNTE and was entitled to a preferential income tax rate of 15% from 2021 to 2023. In 2020, Hainan Shanghu applied for Software Enterprise Status and obtained Software Enterprise Status in 2021. In accordance with PRC EIT Law, Hainan Shanghu is entitled to enjoy full exemption from EIT for two years beginning from 2020 to 2021, and a 50% reduction for the subsequent three years.

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located." Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its entities registered outside of the PRC should be considered as resident enterprises for the PRC tax purposes.

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**11. Taxation (continued)***The PRC (continued)*

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes. All FIEs are subject to the withholding tax from January 1, 2008. Under U.S. GAAP, undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes.

Starting from 2020, the Company decided to remit certain percentage of the annual profits of its PRC subsidiaries to their overseas parent company for dividend distribution purposes. The Group accrued RMB58 million and RMB74 million withholding tax liabilities based on a 10% tax rate for certain percentage of the PRC subsidiaries' profits to be distributed in 2021 and 2022, respectively. As of December 31, 2021 and 2022, there were approximately RMB4,604 million and RMB6,466 million accumulated undistributed profits of PRC subsidiaries that no deferred tax liabilities were provided, respectively. The Group still intends to indefinitely reinvest these remaining undistributed earnings in its PRC subsidiaries.

The Group has not accrued any tax for the outside basis difference represented by the accumulated undistributed profits of the consolidated VIEs, which amounted to RMB4,806 million at December 31, 2022 as, after review, it was determined that relevant tax laws and regulations provide for tax-free transfer of such amounts to the Group's PRC subsidiaries.

*Composition of income tax expenses*

The current and deferred portions of income tax expenses included in the consolidated statements of comprehensive income during the years ended December 31, 2020, 2021 and 2022 are as follows:

	For the years ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Current income tax expenses	298,096	503,139	823,839
Deferred income tax expense	157,325	(262,321)	(369,064)
Total	<u>455,421</u>	<u>240,818</u>	<u>454,775</u>

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**11. Taxation (continued)*****Reconciliation of the differences between statutory tax rate and the effective tax rate***

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2020, 2021 and 2022 and does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2022.

The following table sets forth reconciliation between the computed expected tax expenses (benefit) rate and the effective income tax rate:

	For the years ended December 31,		
	2020 RMB	2021 RMB	2022 RMB
Statutory tax rate	25%	25%	25%
Research and development tax credit	(2)%	(3)%	(3)%
Effect of tax holiday <sup>1</sup>	(7)%	(17)%	(10)%
Change in valuation allowance	1%	1%	1%
Non-deductible expenses	1%	1%	1%
Withholding tax	1%	2%	3%
Effective income tax rate	<u>19%</u>	<u>9%</u>	<u>17%</u>

- <sup>1</sup> As Hainan Shanghu obtained software enterprise status in the fourth quarter of 2021, the Group reversed a total of RMB220.2 million tax expenses in the fourth quarter of 2021 including RMB76.1 million related to 2020 and RMB144.1 million related to for the first three quarters of 2021. As Shanghai Shanghu obtained Key Software Enterprise Status in 2020, the Group reversed a total of RMB33.8 million tax expenses related to 2019 in 2020.

***The aggregate amount and per share effect of the tax holidays are as follows***

	For the years ended December 31,		
	2020 RMB	2021 RMB	2022 RMB
Tax holiday effect	168,677	471,798	279,033
Net profit per share effect			
- Basic	<u>0.11</u>	<u>0.33</u>	<u>0.20</u>
- Diluted	<u>0.11</u>	<u>0.32</u>	<u>0.19</u>

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**11. Taxation (continued)***Deferred tax assets*

The following table sets forth the significant components of the deferred tax assets:

	As of December 31,	
	2021	2022
	RMB	RMB
Deferred tax assets:		
Timing difference in revenue recognition	244,215	582,404
Provision for accounts receivable and contract assets and loans receivable	168,398	259,608
Net accumulated losses-carry forward	117,850	142,609
Payroll and welfare payable and other temporary difference	12,379	16,578
Quality assurance obligations	2,016	33,916
Less: Valuation allowance	(89,117)	(115,754)
Total deferred tax assets	<u>455,741</u>	<u>919,361</u>
Deferred tax liabilities:		
Intangible assets arisen from business combination and asset acquisition	(24,607)	(24,607)
Unrealized gain in consolidated trusts	(36,989)	(57,675)
Withholding tax for undistributed earnings	(76,036)	(149,906)
Total deferred tax liabilities	<u>(137,632)</u>	<u>(232,188)</u>

*Movement of valuation allowances*

	For the years ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
At beginning of year	6,245	42,233	89,117
Current year additions	40,054	50,925	42,322
Current year reversals	(4,066)	(4,041)	(15,685)
At end of year	<u>42,233</u>	<u>89,117</u>	<u>115,754</u>

Valuation allowances have been provided on deferred tax assets due to the uncertainty surrounding their realization. As of December 31, 2021 and 2022, valuation allowances on deferred tax assets mainly arising from tax loss carry forwards were provided because it was more likely than not that the Group will not be able to utilize tax loss carry forwards and certain deductible expenses generated by certain unprofitable subsidiaries.

As of December 31, 2022, total tax loss carry forwards of the Company's subsidiaries in the PRC of approximately RMB589,661, will expire if not used between 2023 and 2027. The applicable carry-forward limitation period is 5 years under the PRC EIT law.

*Uncertain tax positions*

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2021 and 2022, the Group did not have any significant unrecognized uncertain tax positions.



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**12. Ordinary shares and treasury stock**

FinVolution Group adopted a dual class share structure. For the years ended December 31, 2020, 2021 and 2022, the Company repurchased 139,954,870, 4,171,000 and 59,088,885 Class A ordinary shares on the open market for an aggregate cash consideration of US\$55.4 million (RMB384.9 million), US\$2.5 million (RMB16.2 million) and US\$51.0 million (RMB343.8 million). The weighted average price of these shares repurchased were US\$0.40, US\$0.60 and US\$0.86 per share. These issued and repurchased shares are considered not outstanding and therefore were accounted for under the cost method and includes such treasury stock as a component of the shareholder's equity.

For the years ended December 31, 2020, 2021 and 2022, certain Class B ordinary shareholders sold 5,000,000, 1,800,000 and 10,000,000 Class B ordinary shares on the open market which were automatically transferred into Class A ordinary shares upon completion of the transaction.

As of December 31, 2022, 1,550,071,169 ordinary shares have been issued at par value of US\$0.00001, including (i) 980,871,169 Class A ordinary shares and (ii) 569,200,000 Class B ordinary shares.

**13. Share-based compensation**

The Group recognizes share-based compensation, net of estimated forfeitures, on a straight-line basis over the vesting term of the awards. All the share-based awards granted by the Group are service conditions only. There was no income tax benefit recognized on the Consolidated Statements of Operations for share-based compensation and the Group did not capitalize any of the share-based compensation as part of the cost of any asset in the years ended December 31, 2020, 2021 and 2022.

In June 2013 and October 2017, the Group adopted 2013 Share Incentive Plan (the "2013 plan") and 2017 Share Incentive Plan (the "2017 plan"), which allows the Group to offer share-based incentive awards to employees, officers, directors and individual consultants who render services to the Group by granting options, restricted shares or restricted share units. Awards granted under 2013 plan or 2017 plan are generally subject to a four-year vesting schedule as determined by the administrator of the plans.

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**13. Share-based compensation (continued)***Share Options*

The following table sets forth the stock option shares activities under all the option plans for the years ended December 31, 2020, 2021 and 2022:

	Options Outstanding	Weighted Average Exercise Price US\$	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value US\$
Outstanding at December 31, 2020	26,029,630	0.3708	1.31	5,581
Canceled/Forfeited	(1,300,000)	0.5876	—	—
Expired	(40,835)	0.1260	—	—
Exercised	(17,614,760)	0.2915	—	—
Outstanding at December 31, 2021	7,074,035	0.5331	1.24	3,607
Expired	(57,505)	0.3200	—	—
Exercised	(3,925,830)	0.3211	—	—
Outstanding at December 31, 2022	3,090,700	0.8064	1.07	836
Vested and expected to vest at December 31, 2022	3,069,896	0.8069	1.07	830
Exercisable as of December 31, 2022	1,730,780	1.039	0.58	268

For the years ended December 31, 2020, 2021 and 2022, total share-based compensation expenses recognized related to the share options were RMB6,218, RMB774 and RMB365, respectively. As of December 31, 2022, the unrecognized compensation cost was RMB 519. These amounts are expected to be recognized over a weighted average period of 0.81 years. Total compensation cost may be adjusted for future changes in estimated forfeitures.

The aggregate intrinsic value is calculated as the difference between the exercise prices of the options and the per-share fair value of ordinary shares of the Group of US\$0.52, US\$0.99 and US\$0.99 as of December 31, 2020, 2021 and 2022, respectively.

The weighted average grant-date per-share fair value of options granted during the years ended December 31, 2020, 2021 and 2022 was US\$0.13, nil and nil, respectively.

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**13. Share-based compensation (continued)**

*Share Options (continued)*

The fair value of each option granted under the Company's Incentive Shares plan was estimated on the date of grant using the binomial model that uses the assumption noted in the following table:

	Options Granted in 2020 RMB
Risk-free interest rate	0.6%
Expected life (in years)	5
Expected dividend yield	0%
Expected volatility	48.61%
Exercise multiple	2.8

*RSUs*

The following table sets forth the Company's RSUs activities under all incentive plans for the years ended December 31, 2020, 2021 and 2022:

	Number of RSUs	Weighted-average grant date fair value US\$
Unvested at December 31, 2020	75,830,495	0.4290
Granted	22,322,425	0.7675
Vested	(15,183,045)	0.4803
Canceled/Forfeited	(10,052,130)	0.4644
Unvested at December 31, 2021	<u>72,917,745</u>	0.5452
Granted	18,899,005	0.7949
Vested	(34,568,420)	0.4956
Canceled/Forfeited	(3,954,590)	0.7580
Unvested at December 31, 2022	<u>53,293,740</u>	0.6510

Total share-based compensation cost for the RSUs amounted to RMB35,951, RMB94,439 and RMB88,665 for the years ended December 31, 2020, 2021 and 2022, respectively. As of December 31, 2022, there was RMB194,932 unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted shares, which are to be recognized over a weighted average vesting period of 2.08 years. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. The Company determined the fair value of RSUs based on its stock price on the date of grant.

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**14. Net profit per share**

Basic net profit per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net profit 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.

Basic net profit per share and diluted net profit per share have been calculated in accordance with ASC Topic 260 on computation of earnings per share for the years ended December 31, 2020, 2021 and 2022 as follows:

	For the years ended December 31,		
	2020 RMB	2021 RMB	2022 RMB
<b>Basic net profit per share calculation:</b>			
<b>Numerator:</b>			
Net profit attributable to FinVolution Group's ordinary shareholders	1,972,700	2,508,947	2,266,382
<b>Denominator:</b>			
Weighted average number of ordinary shares outstanding—basic	1,477,162,991	1,420,870,790	1,412,648,862
<b>Net profit per share attributable to FinVolution Group's ordinary shareholders — basic</b>	1.34	1.77	1.60
<b>Dilute net profit per share calculation:</b>			
<b>Numerator:</b>			
Net profit attributable to FinVolution Group's ordinary shareholders	1,972,700	2,508,947	2,266,382
<b>Denominator:</b>			
Weighted average number of ordinary shares outstanding—basic	1,477,162,991	1,420,870,790	1,412,648,862
Ordinary shares issuable upon the exercise of outstanding stock options using the treasury stock method	9,801,862	8,495,974	2,330,707
Ordinary shares issuable upon the vesting of outstanding restricted share units using the treasury stock method	4,360,567	53,135,068	39,311,747
Weighted average number of ordinary shares outstanding—diluted	1,491,325,420	1,482,501,832	1,454,291,316
<b>Net profit per share attributable to FinVolution Group's ordinary shareholders — diluted</b>	1.32	1.69	1.56

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**15. Leases**

The Company leases facilities under non-cancellable operating leases expiring on different dates. The terms of substantially all of these leases are four years or less. When determining the lease term, the Group includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. All of the Group's leases qualify as operating leases. With the adoption of the new leasing standard, the Group has recorded a right-of-use asset and corresponding lease liability, by calculating the present value of future lease payments, discounted at additional borrowing rate.

(a) The following table sets forth the breakdown of leasing expenses:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2022</u>
	RMB	RMB
<b>Lease cost:</b>		
Amortization of right-of-use assets	30,261	36,094
Interest of lease liabilities	1,695	5,087
Expenses for short-term leases within 12 months	5,911	5,461
<b>Total lease cost</b>	<u>37,867</u>	<u>46,642</u>

(b) The following table sets forth the supplemental cash flow information related to leases:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2022</u>
	RMB	RMB
<b>Other information:</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating lease payments	<u>36,066</u>	<u>40,837</u>

(c) The following table sets forth the weighted-average remaining lease term and discount rate:

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2022</u>
<b>Weighted-average remaining lease term</b>		
Operating leases	3.30 years	5.31 years
<b>Weighted-average discount rate</b>		
Operating leases	<u>4.75%</u>	<u>4.84%</u>

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**15. Leases (continued)**

(d) The following table sets forth the movement of right of use assets for the years ended December 31, 2021 and 2022:

	For the years ended December 31,	
	2021	2022
	RMB	RMB
Beginning balance	54,968	49,138
Recognition of additional leasing contract	24,431	179,384
Amortization of right of use assets	(30,261)	(36,094)
Ending balance	<u>49,138</u>	<u>192,428</u>

(e) The following table sets forth the movement of leasing liabilities for the years ended December 31, 2021 and 2022:

	For the years ended December 31,	
	2021	2022
	RMB	RMB
Beginning balance	43,296	33,356
Recognition of additional leasing contract	24,431	179,384
Interest of lease liabilities	1,695	5,087
Leasing payment	(36,066)	(40,837)
Ending balance	<u>33,356</u>	<u>176,990</u>

(f) The following table sets forth the maturities of lease liabilities:

	As of December 31, 2022
	RMB
2023	44,083
2024	35,475
2025	37,446
2026	38,414
2027	34,502
2028	16,976
Total undiscounted lease payments	206,896
Less: Imputed interest	(29,906)
Total lease liabilities	<u>176,990</u>

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**16. Commitments and contingencies**

**(a) Capital and other commitments**

The Group did not have capital and other significant commitments, long-term obligations, or guarantees as of December 31, 2022.

**(b) Contingencies**

***i) VIE Arrangements***

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually and in the aggregate, is likely to have a material adverse effect on the Group's financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Group's financial position, results of operations and cash flows for the periods in which the unfavorable outcome occurs.

The Group accounts for loss contingencies in accordance with ASC Topic 450 "Contingencies" and other related guidance. Set forth below is a description of certain loss contingencies as well as the opinion of management as to the likelihood of loss.

Current PRC laws and regulations include limitations on foreign ownership in PRC companies that conduct online business. Specifically, foreign investors are not allowed to own any equity interests in any entity conducting online business. Since the Company is incorporated in the Cayman Islands, neither the Company nor its PRC subsidiary is eligible to conduct online business in China. To comply with PRC laws and regulations, the Company conducts its operations in China through a series of contractual arrangements entered into among its wholly owned PRC subsidiaries, the WOFEs, its affiliated PRC entities, the VIEs and the VIEs' shareholders.

The VIEs and their subsidiaries hold the licenses that are essential to the operation of the Group's business. In the opinion of management and the Company's PRC legal counsel, (i) the ownership structure of the Company, the WOFE and the VIEs are in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIEs and their shareholders are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Group's business operations are in compliance with existing PRC laws and regulations in all material respects. However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and its contractual arrangements with the VIEs were found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its ownership structure and operations in the PRC to comply with the changing and new PRC laws and regulations.

Under PRC Ministry of Commerce ("MOFCOM") security review rules promulgated in September 2011, a national security review is required for certain mergers and acquisitions by foreign investors raising concerns regarding national defense and security. Foreign investors are prohibited from circumventing the national security review requirements by structuring transactions through proxies, trusts, indirect investment, leases, loans, control through contractual arrangements, or offshore transactions. Management, in conjunction with its PRC legal counsel, has concluded there is no need to submit the existing contractual arrangements with consolidated VIEs and its shareholders to the MOFCOM for national security review based upon analysis of the rules. However, there are substantial uncertainties regarding the interpretation and application of the MOFCOM security review rules, and any new laws, rules, regulations or detailed implementation measures in any form relating to such rules. Therefore, the Company cannot be assured that the relevant PRC regulatory authorities, such as the MOFCOM, would not ultimately take a contrary view to the opinion of management and the Company's PRC legal counsel. If the MOFCOM or other PRC regulatory authority determines that the Company needs to submit the existing contractual arrangements with the VIEs and its shareholders for national security review, the Company may face sanctions by the MOFCOM or other PRC regulatory authority, which may include, among others, requiring the Company to restructure its ownership structure, discontinuation or restriction of operations in the PRC, or invalidation of the agreements that the VIEs have entered into with the VIEs and its shareholders.

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**16. Commitments and contingencies (continued)**

**(b) Contingencies (continued)**

*i) VIE Arrangements (continued)*

In such case, the Company may not be able to operate or control business in the same manner as it currently does, and therefore, may not be able to consolidate the VIEs and their subsidiaries. In addition, the relevant regulatory authorities would have broad discretion in dealing with such violations which may adversely impact the financial statements, operations and cash flows of the Company (including restrictions on the Company to carry out business).

If the VIEs and their respective shareholders fail to perform their respective obligations under the current contractual arrangements, the Company may have to incur substantial costs and expend significant resources to enforce those arrangements and rely on legal remedies under PRC laws. The PRC laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve substantial uncertainties. These uncertainties may impede the ability of the Company to enforce these contractual arrangements or suffer significant delay or other obstacles in the process of enforcing these contractual arrangements and may materially and adversely affect the results of operations and the financial position of the Company.

In the opinion of management, the likelihood of loss in respect of the Company's contractual arrangements with the VIEs is remote.

In accordance with the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries (Interim Measures) jointly issued by China Banking Regulatory Commission, or the CBRC, together with three other PRC regulatory agencies in August 2016, a record-filing and licensing regime is introduced. It requires online lending information intermediaries to register with the local financial regulatory authority, update their industrial and commercial registration with the local commercial registration authority to include "online lending information intermediary" in their business scope, and obtain telecommunication business license from the relevant telecommunication regulatory authority. As of the date of this report, the local financial regulatory authorities are still in the process of making detailed implementation rules regarding the filing procedures and the Company has not been permitted to submit such filing application.

*ii) VIE Enforceability*

In the opinion of management and the Company's PRC legal counsel, (i) the ownership structure of the Company, the WOFEs and the VIEs are in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIEs and their shareholders are valid and binding and enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. In addition, shareholders of certain VIEs are founders of the Group, who collectively controls more than 50% of total voting power. Therefore, the enforceability of the contractual agreements between VIEs and their shareholders depends on whether shareholders or their PRC holding entities will fulfill these contractual agreements. As a result, the Company may be unable to consolidate the VIE and VIE's subsidiaries in the consolidated financial statements.



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**17. Restricted net assets**

Relevant PRC laws and regulations permit PRC companies to pay dividends only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Additionally, the Company's PRC subsidiaries can only distribute dividends upon approval of the shareholders after they have met the PRC requirements for appropriation to statutory reserves. The statutory general reserve fund requires annual appropriations of 10% of net after-tax income prior to payment of any dividends. Furthermore, registered share capital and capital reserve accounts are also restricted from distribution. As a result of these and other restrictions under PRC laws and regulations, the PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion amounted to approximately RMB 7,947,578 or 63.9% of the consolidated net assets of the Group as of December 31, 2022. Even though the Company currently does not require any such dividends, loans or advances from the PRC subsidiaries and affiliates for working capital and other funding purposes, the Company may in the future require additional cash resources from its PRC subsidiaries and affiliates due to changes in business conditions, to fund future acquisitions and developments, or merely declare and pay dividends or distributions to the Company's shareholders. Furthermore, cash transfers from the Group's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may temporarily delay the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Group, or otherwise satisfy their foreign currency denominated obligations.

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**18. Condensed financial information of the parent company**

The Company performed a test on the restricted net assets of consolidated subsidiaries in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), “General Notes to Financial Statements” and concluded that it was applicable for the Company to disclose the financial statements for the parent company.

The subsidiaries did not pay any dividend to the Company for the years presented. For the purpose of presenting parent only financial information, the Company records its investments in its subsidiaries under the equity method of accounting. Such investments are presented on the separate condensed balance sheets of the Company as “Investments in subsidiaries” and the profit of the subsidiaries is presented as “share of profit of subsidiaries”. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. These statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company did not have significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2021 and 2022.

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$ Note2(f)
<b>Assets</b>			
Cash and cash equivalents	38,231	21,990	3,188
Short-term investments	—	48,752	7,068
Prepaid expenses and other assets	2,795	13,582	1,969
Amounts due from Group companies	694,123	641,549	93,016
Investment in subsidiaries <sup>1</sup>	10,574,557	13,049,302	1,891,971
<b>Total assets</b>	<u>11,309,706</u>	<u>13,775,175</u>	<u>1,997,212</u>
<b>Liabilities and Shareholders' Equity</b>			
Accrued expenses and other liabilities	5,647	3,291	476
Contract liability	1,610	—	—
Amounts due to Group companies	647,199	1,400,183	203,007
<b>Total liabilities</b>	<u>654,456</u>	<u>1,403,474</u>	<u>203,483</u>
<b>Shareholders' equity:</b>			
Class A ordinary shares (US\$0.00001 par value; 10,000,000,000 shares authorized as of December 31, 2021 and 2022; 970,871,169 and 980,871,169 issued as of December 31, 2021 and 2022; 854,591,404 and 843,996,769 outstanding as of December 31, 2021 and 2022)	64	64	9
Class B ordinary shares (US\$0.00001 par value; 10,000,000,000 shares authorized as of December 31, 2021 and 2022; 579,200,000 and 569,200,000 issued and outstanding as of December 31, 2021 and 2022)	39	39	6
Additional paid-in capital	5,694,733	5,692,703	825,364
Treasury stock (116,279,765 and 136,874,400 shares as of December 31, 2021 and 2022)	(324,171)	(568,595)	(82,439)
Statutory reserves	610,403	698,401	101,259
Accumulated other comprehensive income	(16,769)	52,237	7,575
Retained earnings	4,690,951	6,496,852	941,955
<b>Total shareholders' equity</b>	<u>10,655,250</u>	<u>12,371,701</u>	<u>1,793,729</u>
<b>Total liabilities and shareholders' equity</b>	<u>11,309,706</u>	<u>13,775,175</u>	<u>1,997,212</u>

<sup>1</sup> The subsidiaries consolidate the VIEs and their subsidiaries (including the consolidated trusts).

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**18. Condensed financial information of the parent company (continued)**

**Statements of comprehensive income**

	For the years ended December 31,			
	2020	2021	2022	US\$ Note 2(f)
	RMB	RMB	RMB	
<b>Operating expenses</b>				
General and administrative expenses	(20,720)	(18,617)	(20,027)	(2,904)
<b>Profits from operations</b>				
Other income, net	2,158	1,502	(1,100)	(159)
Income from subsidiaries <sup>1</sup>	1,991,262	2,526,062	2,287,509	331,658
<b>Net profit</b>	1,972,700	2,508,947	2,266,382	328,595
<b>Net profit attributable to ordinary shareholders</b>	1,972,700	2,508,947	2,266,382	328,595

<sup>1</sup> Income from subsidiaries includes income from the consolidated VIEs and their subsidiaries (including the consolidated trusts).

**Statements of cash flows**

	For the years ended December 31,			
	2020	2021	2022	US\$ Note 2(f)
	RMB	RMB	RMB	
Net cash used in operating activities for Third-party	(6,282)	(45,587)	(36,357)	(5,271)
<b>Net cash used in operating activities</b>	(6,282)	(45,587)	(36,357)	(5,271)
Collection of loans from Group companies	557,936	846,737	455,144	65,990
Cash paid as loans extended to Group companies	—	(238,254)	(402,570)	(58,367)
Other investing activities	—	—	(48,275)	(6,999)
<b>Net cash provided by investing activities</b>	557,936	608,483	4,299	624
Repayment of loans to Group companies	—	(839,719)	(487,333)	(70,657)
Cash received as loans from Group companies	—	603,955	1,240,317	179,829
Other financing activities	(636,936)	(310,221)	(702,674)	(101,878)
<b>Net cash provided by (used in) financing activities</b>	(636,936)	(545,985)	50,310	7,294

**19. Subsequent events**

On March 14, 2023, the Board of Directors of the Company unanimously approved a cash dividend of US\$ 0.215 (RMB1.48) per ADS, and is expected to be distributed on or around May 5, 2023 to shareholders of record as of the close of business on April 13, 2023.

### Description of Rights of Each Class of Securities Registered under Section 12 of the Securities Exchange Act of 1934

As of December 31, 2022, FinVolution Group, (or “FinVolution,” “we,” “us,” “our company” and “our”) had the following series of securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
American depositary shares (one American depositary share representing five Class A ordinary shares, par value US\$0.00001 per share)	FINV	New York Stock Exchange
Class A ordinary shares, par value US\$0.00001 per share*		New York Stock Exchange

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

### Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective fourth amended and restated memorandum and articles of association (the “Memorandum and Articles of Association”), as well as the Companies Act (As Revised) of the Cayman Islands (the “Companies Act”) insofar as they relate to the material terms of the Class A ordinary shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the Securities and Exchange Commission (the “SEC”) as an exhibit to our Registration Statement on Form F-1 (File No. 333-220954), as amended, initially filed with the SEC on October 13, 2017.

#### *Type and Class of Securities (Item 9.A.5 of Form 20-F)*

Each Class A ordinary share has par value of US\$0.00001. The number of Class A ordinary shares that have been issued as of the last day of the fiscal year ended December 31, 2022 is provided on the cover of the annual report on Form 20-F filed on April 25, 2023 (the “Form 20-F”). Our Class A ordinary shares may be held in either certified or uncertified form.

#### *Preemptive Rights (Item 9.A.3 of Form 20-F)*

Our shareholders do not have preemptive right.

#### *Limitations or Qualifications (Item 9.A.6 of Form 20-F)*

We have adopted a dual-class share structure. Our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to twenty votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Due to the super voting powers attached to the Class B ordinary shares, the voting power of holders of the Class A ordinary shares may be materially limited.

***Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)***

Not applicable.

***Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)***

***General***

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights (as described in more details below). Our ordinary shares are issued in registered form, and are issued when registered in our register of members (shareholders). Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

***Dividends***

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, our company may declare and pay a dividend only out of funds legally available therefor, namely out of either profit or our share premium account, provided that in no circumstances may we pay a dividend if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

***Voting Rights***

In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary share is entitled to one vote for each Class A ordinary share registered in his or her name on our register of members, and each holder of Class B ordinary share is entitled to twenty votes for each Class B ordinary share registered in his or her name on our register of members. Holders of Class A ordinary shares and Class B ordinary shares shall, at all times, vote together on all resolutions submitted to a vote of the members. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholders present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present and holding shares which represent, in aggregate, not less than one-third of the votes attaching to the issued and outstanding voting shares in our company. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders' meetings may be convened by the chairman of our board of directors or a majority of our directors or upon a request to the directors by shareholders holding shares which represent, in aggregate, no less than one-third of the votes attaching to the issued and outstanding shares that as at the date of the deposit of the shareholder's requisition carry the right to vote at general meetings of our company. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attached to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attached to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our amended and restated memorandum and articles of association. Holders of the ordinary shares may, among other things, divide or combine their shares by ordinary resolution.

***Conversion***

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. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder to any person who is not an affiliate of such shareholder, or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person who is not an affiliate of the registered shareholder of such share, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

### ***Transfer of Ordinary Shares***

Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the NYSE may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the NYSE, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

### ***Liquidation***

On a winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them. We are a "limited liability" company registered under the Companies Act, and under the Companies Act, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our memorandum of association contains a declaration that the liability of our members is so limited.

### ***Calls on Shares and Forfeiture of Shares***

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

### ***Redemption, Repurchase and Surrender of Ordinary Shares***

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our memorandum and articles of association. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

### ***Issuance of Additional Shares***

Our currently effective memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our currently effective memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

### ***Inspection of Books and Records***

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than the memorandum and articles of association and any special resolutions passed by our shareholders, and our registers of mortgages and charges). However, we will provide our shareholders with annual audited financial statements.

### ***Anti-Takeover Provisions***

Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

## ***General Meetings of Shareholders and Shareholder Proposals***

Our shareholders' general meetings may be held in such place within or outside the Cayman Islands as our board of directors considers appropriate.

As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our currently effective memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of our shareholders may be convened by a majority of our board of directors or our chairman. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for a general meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of the votes attaching to the issued and outstanding shares in our company entitled to vote at general meetings.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our currently effective memorandum and articles of association allow our shareholders holding shares representing in aggregate not less than one-third of the votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our currently effective memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

### ***Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)***

#### ***Variations of Rights of Shares***

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

### ***Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)***

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of shareholders who are non-residents of the Cayman Islands in holding or voting their Class A ordinary shares.

### ***Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)***

#### ***Anti-Takeover Provisions in the Memorandum and Articles of Association***

Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders and limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

### ***Ownership Threshold (Item 10.B.8 of Form 20-F)***

There are no provisions under Cayman Islands law applicable to the Company, or under the Memorandum and Articles of Association that require our company to disclose shareholder ownership above any particular ownership threshold.



## *Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)*

The Companies Act is modeled after that of the English companies legislation but does not follow recent English law statutory enactments, and accordingly there are significant differences between the Companies Act and the current Companies Act of England. In addition, the Companies Act differs from laws applicable to Delaware corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to Delaware corporations and their shareholders.

### *Mergers and Similar Arrangements*

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertakings, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertakings, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies in the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a declaration as to the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the due majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a takeover offer. When a takeover offer is made and accepted by holders of 90% of the shares affected (within four months), the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction by way of scheme of arrangement is thus approved, or if a takeover offer is made and accepted, in accordance with the foregoing statutory procedures, the dissenting shareholder would have no rights comparable to appraisal rights, save that objectors to a takeover offer may apply to the Grand Court of the Cayman Islands for various orders that the Grand Court of the Cayman Islands has a broad discretion to make, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

### ***Shareholders’ Suits***

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

### ***Indemnification of Directors and Executive Officers and Limitation of Liability***

The ability of Cayman Islands companies to provide in their articles of association for indemnification of officers and directors is not limited, except that any indemnity would not be effective if it were held by the Cayman Islands courts to be contrary to public policy, which would include any attempt to provide indemnification against civil fraud or the consequences of committing a crime. The Memorandum and Articles of Association provide that our directors and officers shall be indemnified against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such director or officer, other than by reason of such person’s own dishonesty, willful default or fraud, in or about the conduct of our company’s business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with each of our directors and executive officers that will provide such persons with additional indemnification beyond that provided in the Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## ***Directors' Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components, the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director must act in a manner he or she reasonably believes to be in the best interests of the corporation. A director must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interests of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company, and therefore it is considered that he or she owes the following duties to the company including a duty to act bona fide in the best interests of the company, a duty not to make a personal profit out of his or her position as director (unless the company permits him or her to do so), a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interests or his or her duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, there are indications that the English and commonwealth courts are moving towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Under the Memorandum and Articles of Association, directors who are in any way, whether directly or indirectly, interested in a contract or proposed contract with our company must declare the nature of their interest at a meeting of the board of directors. Following such declaration, a director may vote in respect of any contract or proposed contract notwithstanding his interest.

## ***Shareholder Proposals***

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided that it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allow any one or more of our shareholders who together hold shares which carry in aggregate not less than one-third of the total number of votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board of directors is obliged to convene an extraordinary general meeting and to put the proposals so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, the Memorandum and Articles of Association do not provide our shareholders with any other right to put proposals before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

## ***Cumulative Voting***

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled for a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but the Memorandum and Articles of Association do not provide for cumulative voting.

### ***Removal of Directors***

Under the Delaware General Corporation Law, a director of a corporation may be removed with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Memorandum and Articles of Association, directors may be removed with or without cause, by an ordinary resolution of our shareholders. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing to the company; (iv) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated or; (v) is removed from office pursuant to any other provisions of the Memorandum and Articles of Association.

### ***Transactions with Interested Shareholders***

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date on which such person becomes an interested shareholder. An interested shareholder generally is one which owns or owned 15% or more of the target's outstanding voting shares within the past three years. This has the effect of limiting the ability of a potential acquiror to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquiror of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions entered into must be bona fide in the best interests of the company, for a proper corporate purpose and not with the effect of perpetrating a fraud on the minority shareholders.

### ***Dissolution; Winding Up***

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. The Delaware General Corporation Law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board of directors. Under the Companies Act, our company may be dissolved, liquidated or wound up by a special resolution, or by an ordinary resolution on the basis that our company is unable to pay its debts as they fall due. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

### ***Variation of Rights of Shares***

If at any time, our share capital is divided into different classes of shares, under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under the Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

### ***Amendment of Governing Documents***

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Companies Act, the Memorandum and Articles of Association may only be amended by a special resolution of our shareholders.

### ***Anti-takeover Provisions***

Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including a provision that authorizes our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders and limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

### ***Rights of Non-Resident or Foreign Shareholders***

There are no limitations imposed by foreign law or by the Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our ordinary shares. In addition, there are no provisions in the Memorandum and Articles of Association that require our company to disclose shareholder ownership above any particular ownership threshold.

### ***Directors' Power to Issue Shares***

Under the Memorandum and Articles of Association, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

### ***Exempted Company***

The Companies Act in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not required to be open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder’s shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

***Changes in Capital (Item 10.B.10 of Form 20-F)***

Our shareholders may from time to time by ordinary resolutions:

- consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- convert all or any of its paid up shares into stock and reconvert that stock into paid up shares of any denomination;
- subdivide its existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the Companies Act, our shareholders may by special resolution reduce our share capital and any capital redemption reserve in any manner authorized by law.

***Debt Securities (Item 12.A of Form 20-F)***

Not applicable.

***Warrants and Rights (Item 12.B of Form 20-F)***

Not applicable.

***Other Securities (Item 12.C of Form 20-F)***

Not applicable.

***American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)***

Citibank, N.A., as depositary, registers and delivers the ADSs. Each ADS represents ownership of five Class A ordinary shares, deposited with Citibank, N.A.—Hong Kong, as custodian for the depositary. Each ADS also represents ownership of any other securities, cash or other property which may be held by the depositary. The office of the custodian is located at 9/F., Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. The principal executive office of the depositary is located at 388 Greenwich Street, New York, New York, 10013.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We do not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, do not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary is the holder of the Class A ordinary shares underlying your ADSs. As a holder of ADSs, you have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. This summary description assumes you have opted to own the ADSs directly by means of an ADS registered in your name and, as such, we will refer to you as the “holder.” When we refer to “you,” we assume the reader owns ADSs and will own ADSs at the relevant time. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt (“ADR”) which contains the terms of your ADSs. The deposit agreement has been filed with the SEC as an exhibit to a Registration Statement on Form S-8 (File No. 333-224011) for our company on March 29, 2018. The form of ADR is on file with the SEC (as a prospectus) and was filed on November 13, 2017.

### ***Holding the ADSs***

Each ADS represents the right to receive, and to exercise the beneficial ownership interests in, five Class A ordinary shares that is on deposit with the depositary bank and/or custodian. An ADS also represents the right to receive, and to exercise the beneficial interests in, any other property received by the depositary bank or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations. We and the depositary bank may agree to change the ADS-to-Class A ordinary share ratio by amending the deposit agreement. This amendment may give rise to, or change, the depositary fees payable by ADS owners. The custodian, the depositary bank and their respective nominees will hold all deposited property for the benefit of the holders and beneficial owners of ADSs. The deposited property does not constitute the proprietary assets of the depositary bank, the custodian or their nominees. Beneficial ownership in the deposited property will under the terms of the deposit agreement be vested in the beneficial owners of the ADSs. The depositary bank, the custodian and their respective nominees will be the record holders of the deposited property represented by the ADSs for the benefit of the holders and beneficial owners of the corresponding ADSs. A beneficial owner of ADSs may or may not be the holder of ADSs. Beneficial owners of ADSs will be able to receive, and to exercise beneficial ownership interests in, the deposited property only through the registered holders of the ADSs, the registered holders of the ADSs (on behalf of the applicable ADS owners) only through the depositary bank, and the depositary bank (on behalf of the owners of the corresponding ADSs) directly, or indirectly, through the custodian or their respective nominees, in each case upon the terms of the deposit agreement.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and to the terms of any ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the depositary bank. As an ADS holder you appoint the depositary bank to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of Class A ordinary shares will continue to be governed by the laws of the Cayman Islands, which may be different from the laws in the United States.

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. Neither the depositary bank, the custodian, us or any of their or our respective agents or affiliates shall be required to take any actions whatsoever on your behalf to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

As an owner of ADSs, we will not treat you as one of our shareholders and you will not have direct shareholder rights. The depositary bank will hold on your behalf the shareholder rights attached to the Class A ordinary shares underlying your ADSs. As an owner of ADSs you will be able to exercise the shareholders rights for the Class A ordinary shares represented by your ADSs through the depositary bank only to the extent contemplated in the deposit agreement. To exercise any shareholder rights not contemplated in the deposit agreement you will, as an ADS owner, need to arrange for the cancellation of your ADSs and become a direct shareholder.

The manner in which you own the ADSs (e.g., in a brokerage account vs. as registered holder, or as holder of certificated vs. uncertificated ADSs) may affect your rights and obligations, and the manner in which, and extent to which, the depository bank's services are made available to you. As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage or safekeeping account, or through an account established by the depository bank in your name reflecting the registration of uncertificated ADSs directly on the books of the depository bank (commonly referred to as the "direct registration system" or "DRS"). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depository bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depository bank to the holders of the ADSs. The direct registration system includes automated transfers between the depository bank and The Depository Trust Company ("DTC"), the central book-entry clearing and settlement system for equity securities in the United States. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit your ability to exercise your rights as an owner of ADSs. Please consult with your broker or bank if you have any questions concerning these limitations and procedures. All ADSs held through DTC will be registered in the name of a nominee of DTC. This summary description assumes you have opted to own the ADSs directly by means of an ADS registered in your name and, as such, we will refer to you as the "holder." When we refer to "you," we assume the reader owns ADSs and will own ADSs at the relevant time.

The registration of the Class A ordinary shares in the name of the depository bank or the custodian shall, to the maximum extent permitted by applicable law, vest in the depository bank or the custodian the record ownership in the applicable Class A ordinary shares with the beneficial ownership rights and interests in such Class A ordinary shares being at all times vested with the beneficial owners of the ADSs representing the Class A ordinary shares. The depository bank or the custodian shall at all times be entitled to exercise the beneficial ownership rights in all deposited property, in each case only on behalf of the holders and beneficial owners of the ADSs representing the deposited property.

### ***Dividends and Distributions***

As a holder of ADSs, you generally have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders of ADSs will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of the specified record date, after deduction of the applicable fees, taxes and expenses.

### ***Distributions of Cash***

Whenever we make a cash distribution for the securities on deposit with the custodian, we will deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depository bank will arrange for the funds received in a currency other than U.S. dollars to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws and regulations of the Cayman Islands.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The depository bank will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depository bank will hold any cash amounts it is unable to distribute in a non-interest bearing account for the benefit of the applicable holders and beneficial owners of ADSs until the distribution can be effected or the funds that the depository bank holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States.

### ***Distributions of Class A Ordinary Shares***

Whenever we make a free distribution of Class A ordinary shares for the securities on deposit with the custodian, we will deposit the applicable number of Class A ordinary shares with the custodian. Upon receipt of confirmation of such deposit, the depository bank will either distribute to holders new ADSs representing the Class A ordinary shares deposited or modify the ADS-to-Class A ordinary share ratio, in which case each ADS you hold will represent rights and interests in the additional Class A ordinary shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.



The distribution of new ADSs or the modification of the ADS-to-Class A ordinary share ratio upon a distribution of Class A ordinary shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depositary bank may sell all or a portion of the new Class A ordinary shares so distributed.

No such distribution of new ADSs will be made if it would violate a law (e.g., the U.S. securities laws) or if it is not operationally practicable. If the depositary bank does not distribute new ADSs as described above, it may sell the Class A ordinary shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

### ***Distributions of Rights***

Whenever we intend to distribute rights to subscribe for additional Class A ordinary shares, we will give prior notice to the depositary bank and we will assist the depositary bank in determining whether it is lawful and reasonably practicable to distribute rights to subscribe for additional ADSs to holders.

The depositary bank will establish procedures to distribute rights to subscribe for additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to subscribe for new Class A ordinary shares other than in the form of ADSs.

The depositary bank will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or
- We fail to deliver satisfactory documents to the depositary bank; or
- It is not reasonably practicable to distribute the rights.

The depositary bank will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

### ***Elective Distributions***

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give prior notice thereof to the depositary bank and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the depositary bank in determining whether such distribution is lawful and reasonably practicable.

The depositary bank will make the election available to you only if we timely request it to do so, if it is reasonably practicable and if we have provided all of the documentation contemplated in the deposit agreement. In such case, the depositary bank will establish procedures to enable you to elect to receive either cash or additional ADSs, in each case as described in the deposit agreement. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of elective distributions to subscribe for new Class A ordinary shares other than in the form of ADSs.

If the election is not made available to you, you will receive either cash or additional ADSs, depending on what a shareholder in the Cayman Islands would receive upon failing to make an election, as more fully described in the deposit agreement.

### ***Other Distributions***

Whenever we intend to distribute property other than cash, Class A ordinary shares or rights to subscribe for additional Class A ordinary shares we will notify the depositary bank in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the depositary bank in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you, if we timely request the depository bank to do so and if we provide to the depository bank all of the documentation contemplated in the deposit agreement, the depository bank will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depository bank may sell all or a portion of the property received.

The depository bank will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we request that the property not be distributed to you; or
- We do not deliver satisfactory documents to the depository bank; or
- The depository bank determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

### ***Redemption***

Whenever we decide to redeem any of the securities on deposit with the custodian, we will notify the depository bank in advance. If it is practicable and if we provide all of the documentation contemplated in the deposit agreement, the depository bank will provide notice of the redemption to the holders.

The custodian will be instructed to surrender the shares being redeemed against payment of the applicable redemption price. The depository bank will convert into U.S. dollars upon the terms of the deposit agreement the redemption funds received in a currency other than U.S. dollars and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their ADSs to the depository bank. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your ADSs. If less than all ADSs are being redeemed, the ADSs to be retired will be selected by lot or on a pro rata basis, as the depository bank may determine.

### ***Changes Affecting Class A Ordinary Shares***

The Class A ordinary shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of such Class A ordinary shares or a recapitalization, reorganization, merger, consolidation or sale of assets of the Company.

If any such change were to occur, your ADSs would, to the extent permitted by law and the deposit agreement, represent the right to receive the property received or exchanged in respect of the Class A ordinary shares held on deposit. The depository bank may in such circumstances deliver new ADSs to you, amend the deposit agreement, the ADRs and the applicable Registration Statement(s) on Form F-6, call for the exchange of your existing ADSs for new ADSs and take any other actions that are appropriate to reflect as to the ADSs the change affecting the Class A ordinary shares. You may have to pay fees, expenses, taxes and other governmental charges in connection with such actions. If the depository bank may not lawfully distribute such property to you, the depository bank may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

### ***Issuance of ADSs Upon Deposit of Class A Ordinary Shares***

After the completion of this offering, the Class A ordinary shares that are being offered for sale by us and by the selling shareholders pursuant to this prospectus will be deposited with the custodian. Upon receipt of confirmation of such deposit, the depository bank will issue ADSs to the underwriters named in this prospectus.

After the closing of this offer, the depositary bank may create ADSs on your behalf if you or your broker deposit Class A ordinary shares with the custodian. The depositary bank will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Class A ordinary shares to the custodian. Your ability to deposit Class A ordinary shares and receive ADSs is subject to your provision of certain documentation, as described in the deposit agreement, and may be limited by U.S. and Cayman Islands legal considerations applicable at the time of deposit. Further, we have instructed the depositary bank not to accept deposits of Class A ordinary shares for the purpose of issuance of ADSs without our prior written consent.

The issuance of ADSs may be delayed until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the Class A ordinary shares have been duly transferred to the custodian. The depositary bank will only issue ADSs in whole numbers.

When you make a deposit of Class A ordinary shares, you will be responsible for transferring good and valid title to the depositary bank. As such, you will be deemed to represent and warrant that:

- The Class A ordinary shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All preemptive (and similar) rights, if any, with respect to such Class A ordinary shares have been validly waived or exercised.
- You are duly authorized to deposit the Class A ordinary shares.
- The Class A ordinary shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon such deposit will not be, “restricted securities” (as defined in the deposit agreement).
- The Class A ordinary shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depositary bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

#### ***Transfer, Combination and Split Up of ADRs***

As an ADR holder, you will be entitled to transfer, combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADRs, you will have to surrender the ADRs to be transferred to the depositary bank and also must:

- ensure that the surrendered ADR is properly endorsed or otherwise in proper form for transfer;
- provide such proof of identity and genuineness of signatures as the depositary bank deems appropriate;
- provide any transfer stamps required by the State of New York or the United States; and
- pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement, upon the transfer of ADRs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary bank with your request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

### ***Withdrawal of Class A Ordinary Shares Upon Cancellation of ADSs***

As a holder, you will be entitled to present your ADSs to the depository bank for cancellation and then receive the corresponding number of underlying Class A ordinary shares at the custodian's offices. Your ability to withdraw the Class A ordinary shares held in respect of the ADSs may be limited by U.S. and Cayman Islands considerations applicable at the time of withdrawal. In order to withdraw the Class A ordinary shares represented by your ADSs, you will be required to pay to the depository bank the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the Class A ordinary shares. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold ADSs registered in your name, the depository bank may ask you to provide proof of identity and genuineness of any signature and such other documents as the depository bank may deem appropriate before it will cancel your ADSs. The withdrawal of the Class A ordinary shares represented by your ADSs may be delayed until the depository bank receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depository bank will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

- Temporary delays that may arise because (i) the transfer books for the Class A ordinary shares or ADSs are closed, or (ii) Class A ordinary shares are immobilized on account of a shareholders' meeting or a payment of dividends.
- Obligations to pay fees, taxes and similar charges.
- Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

### ***Voting Rights***

As a holder, you generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the Class A ordinary shares represented by your ADSs. The voting rights of holders of Class A ordinary shares are described in "Description of Share Capital."

At our request, the depository bank will distribute to you any notice of shareholders' meeting received from us together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs.

If the depository bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities (in person or by proxy) represented by the holder's ADSs in accordance with such voting instructions as follows:

- In the event of voting by show of hands, the depository bank will vote (or cause the custodian to vote) all Class A ordinary shares held on deposit at that time, including those represented by ADSs for which no timely voting instructions are received, in accordance with the voting instructions received from a majority of holders of ADSs who provide timely voting instructions.
- In the event of voting by poll, the depository bank will vote (or cause the Custodian to vote) the Class A ordinary shares held on deposit in accordance with the voting instructions received from the holders of ADSs.

In the event of voting by poll, holders of ADSs in respect of which no timely voting instructions have been received shall be deemed to have instructed the depository bank to give a discretionary proxy to a person designated by us to vote the Class A ordinary shares represented by such holders' ADSs; provided, that no such instructions shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which we inform the depository bank that we do not wish such proxy to be given; provided, further, that no such discretionary proxy shall be given (x) with respect to any matter as to which we inform the depository that (i) there exists substantial opposition, or (ii) the rights of holders of ADSs or the shareholders of our company will be materially adversely affected, and (y) in the event that the vote is on a show of hands.

Please note that the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner.

The depositary bank will not join in demanding a vote by poll. A holder of ADSs will not be able to exercise any rights that may attach to the Class A ordinary shares represented by such ADSs to requisition a shareholder meeting or propose resolutions for a shareholder vote. At our request, the depositary bank will represent deposited Class A ordinary shares for the purpose of establishing a quorum regardless of whether voting instructions have been provided with respect thereto.

### ***Fees and Charges***

As an ADS holder, you will be required to pay the following fees under the terms of the deposit agreement:

Service	Fees
• 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
• 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 payable upon (i) the issuance of ADSs, and (ii) the cancellation of ADSs are charged to the person to whom the ADSs are issued (in the case of ADS issuances) and to the person whose 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.

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 of the 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.

#### ***Amendments and Termination***

We may agree with the depositary bank to modify the deposit agreement at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the Class A ordinary shares represented by your ADSs (except as permitted by law).

We have the right to direct the depository bank to terminate the deposit agreement. Similarly, the depository bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depository bank must give notice to the holders at least 30 days before termination. Until termination, your rights under the deposit agreement will be unaffected.

After termination, the depository bank will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your ADSs) and may sell the securities held on deposit. After the sale, the depository bank will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depository bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding (after deduction of applicable fees, taxes and expenses).

### ***Books of Depository***

The depository bank will maintain ADS holder records at its depository office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depository bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADSs. These facilities may be closed from time to time, to the extent not prohibited by law.

### ***Limitations on Obligations and Liabilities***

The deposit agreement limits our obligations and the depository bank's obligations to you. Please note the following:

- We and the depository bank are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith. Without limiting the foregoing, neither we nor the depository bank is obligated to participate in any action, suit or other proceeding relating to deposited property or the ADSs without satisfactory indemnity.
- The depository bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement.
- The depository bank disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Class A ordinary shares, for the validity or worth of the Class A ordinary shares, for any tax consequences that result from the ownership of ADSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any of our notices or for our failure to give notice, for acts or omissions of any successor or predecessor depository bank, so long as the potential liability did not arise out of the depository bank's negligence or bad faith, or for any action of or failure to act by, or any information provided or not provided by, DTC or any DTC Participant.
- We and the depository bank will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement.
- We and the depository bank disclaim any liability if we or the depository bank are prevented or forbidden from or subject to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement, by reason of any provision, present or future of any law or regulation, or by reason of present or future provision of any provision of our Articles of Association, or any provision of or governing the securities on deposit, or by reason of any act of God or war or other circumstances beyond our control.

- We and the depository bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our Articles of Association or in any provisions of or governing the securities on deposit.
- We and the depository bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Class A ordinary shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the depository bank also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit that is made available to holders of Class A ordinary shares but is not, under the terms of the deposit agreement, made available to you.
- We and the depository bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the depository bank also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.
- No disclaimer of any Securities Act liability is intended by any provision of the deposit agreement.
- Nothing in the deposit agreement gives rise to a partnership or joint venture, or establishes a fiduciary relationship, among us, the depository bank and you as ADS holder.
- Nothing in the deposit agreement precludes the depository bank (or its affiliates) from engaging in transactions in which parties adverse to us or the ADS owners have interests, and nothing in the deposit agreement obligates the depository bank to disclose those transactions, or any information obtained in the course of those transactions, to us or to the ADS owners, or to account for any payment received as part of those transactions.

### ***Pre-Release Transactions***

Subject to the terms and conditions of the deposit agreement, the depository bank may issue to broker/dealers ADSs before receiving a deposit of Class A ordinary shares or release Class A ordinary shares to broker/dealers before receiving ADSs for cancellation. These transactions are commonly referred to as “pre-release transactions,” and are entered into between the depository bank and the applicable broker/dealer. The deposit agreement limits the aggregate size of pre-release transactions (not to exceed 30% of the Class A ordinary shares on deposit in the aggregate), which limit may be changed or disregarded by the depository bank, and imposes a number of conditions on such transactions (e.g., the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depository bank may retain the compensation received from the pre-release transactions.

### ***Taxes***

You will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the depository bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depository bank may refuse to issue ADSs, to deliver, transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depository bank and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depository bank and to the custodian proof of taxpayer status and residence and such other information as the depository bank and the custodian may require to fulfill legal obligations. You are required to indemnify us, the depository bank and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.



### ***Foreign Currency Conversion***

The depositary bank will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary bank may take the following actions in its discretion:

- Convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical.
- Distribute the foreign currency to holders for whom the distribution is lawful and practical.
- Hold the foreign currency (without liability for interest) for the applicable holders.

### ***Governing Law/Waiver of Jury Trial***

The deposit agreement and the ADRs will be interpreted in accordance with the laws of the State of New York. The rights of holders of Class A ordinary shares (including Class A ordinary shares represented by ADSs) are governed by the laws of the Cayman Islands.

By holding an ADS or an interest therein, you irrevocably agree that any legal suit, action or proceeding against or involving us or the Depositary, arising out of or based upon the deposit agreement, ADSs or ADRs, may only be instituted by you in a state or federal court in the City of New York, and you irrevocably waive any objection to the laying of venue in, and irrevocably submit to the exclusive jurisdiction of, such courts with respect to any such suit, action or proceeding instituted by any person.

As a party to the deposit agreement, you irrevocably waive your right to trial by jury in any legal proceeding arising out of the deposit agreement or the ADRs against us and/or the depositary bank.

**Principal Subsidiaries, Consolidated Variable Interest Entities and Subsidiaries of Consolidated Variable Interest Entities****Principal Subsidiaries:**

FinVolution (HK) Limited, a Hong Kong company  
Bluebottle Limited, a Hong Kong company  
Beijing Prosper Investment Consulting Co., Ltd., a PRC company  
Shanghai Guangjian Information Technology Co., Ltd., a PRC company  
Shanghai Shanghu Information Technology Co., Ltd., a PRC company  
Shanghai Manyin Information Technology Co., Ltd., a PRC company  
Hainan Shanghu Information Technology Co., Ltd., a PRC company  
PT Pembiayaan Digital Indonesia, an Indonesia company

**Consolidated Variable Interest Entities:**

Beijing Paipairongxin Investment Consulting Co., Ltd., a PRC company  
Shanghai Zihe Information Technology Group Co., Ltd., a PRC company  
Shanghai Ledao Technology Co., Ltd., a PRC company

**Subsidiaries of Consolidated Variable Interest Entities:**

Shanghai PPDai Financial Information Services Co., Ltd., a PRC company  
Hefei PPDai Information Technology Co., Ltd., a PRC company  
Fujian Zhiyun Financing Guarantee Co., Ltd., a PRC company  
Shanghai Erxu Information Technology Co., Ltd., a PRC company

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

I, Tiezheng Li, certify that:

1. I have reviewed this annual report on Form 20-F of FinVolution Group;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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(s) 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 25, 2023

By: /s/ Tiezheng Li  
Name: Tiezheng Li  
Title: Chief Executive Officer

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

I, Jiayuan Xu, certify that:

1. I have reviewed this annual report on Form 20-F of FinVolution Group;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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(s) 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 25, 2023

By: /s/ Jiayuan Xu  
Name: Jiayuan Xu  
Title: Chief Financial Officer

**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of FinVolution Group (the “Company”) on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tiezheng Li, Chief Executive Officer of the Company, hereby 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 25, 2023

By: /s/ Tiezheng Li  
Name: Tiezheng Li  
Title: Chief Executive Officer

**Certification by the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of FinVolution Group (the “Company”) on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jiayuan Xu, Chief Financial Officer of the Company, hereby 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 25, 2023

By: /s/ Jiayuan Xu  
Name: Jiayuan Xu  
Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-224011) of FinVolution Group of our report dated April 25, 2023 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, The People's Republic of China

April 25, 2023

April 25, 2023

FinVolution Group  
Building G1, No. 999 Dangui Road  
Pudong New District, Shanghai  
People's Republic of China

Dear Sirs,

**Re: The Annual Report of FinVolution Group**

We hereby consent to the references to our firm under the sections entitled “Item 3. Key Information—D. Risk Factors—Risks Related to our Corporate Structure”, “Item 3. Key Information—Permissions Required from the PRC Authorities for Our Operations” and “Item 4. Information on the Company—C. Organizational Structure” included in the Annual Report on Form 20-F for the year ended December 31, 2022 (the “Annual Report”), which is filed by FinVolution Group with the Securities and Exchange Commission (the “SEC”) on April 25, 2023 under the Securities Act of 1933, as amended, and further consent to the incorporation by reference of the summaries of our opinions under these headings into FinVolution Group’s registration statement on Form S-8 (No. 333-224011) that was filed on March 29, 2018. 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, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Shanghai Hui Ye Law Firm

Shanghai Hui Ye Law Firm



Our ref KKZ/722319-000001/25680693v2

FinVolution Group  
Building G1, No. 999 Dangui Road  
Pudong New District, Shanghai 201203  
The People's Republic of China

25 April 2023

Dear Sir or Madam

**FinVolution Group**

We have acted as legal advisers as to the laws of the Cayman Islands to FinVolution Group, an exempted company with limited liability incorporated in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2022 (the "**Annual Report**"), which will be filed with the SEC in the month of April 2023.

We consent to the reference to our firm under the heading "Item 3. Key Information—Enforceability of Civil Liabilities" in the Annual Report. We consent to the incorporation by reference of our opinion regarding the legality of certain ordinary shares being registered into the Company's registration statement on Form S-8 (File No. 333-224011) that was filed on 29 March 2018. 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/ Maples and Calder (Hong Kong) LLP

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Maples and Calder (Hong Kong) LLP