

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

Form 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
or
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021.
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
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:

Commission file number: 001-38328

LexinFintech Holdings Ltd.

(Exact name of registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

27/F CES Tower
No. 3099 Keyuan South Road
Nanshan District, Shenzhen 518057
The People's Republic of China

(Address of principal executive offices)

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The People's Republic of China

(Name, Telephone, Email 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(s)	Name of Each Exchange on Which Registered
American depositary shares (one American depositary share representing two Class A ordinary shares, par value US\$0.0001 per share)	LX	The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)
Class A ordinary shares, par value US\$0.0001 per share*		The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)

* Not for trading, but only in connection with the listing on The Nasdaq Global Select Market of American depositary shares.

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2021, there were 367,735,793 ordinary shares issued and outstanding, consisting of 273,270,100 Class A ordinary shares (excluding the 13,160,846 Class A ordinary shares issued to the depositary bank for bulk issuance of ADSs reserved for future issuances upon the

exercise or vesting of awards granted under the Share Incentive Plan and the 2017 Share Incentive Plan), par value US\$0.0001 per share, and 94,465,693 Class B ordinary shares, par value US\$0.0001 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.

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

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

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

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

Indicate by check mark which basis of accounting the 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 Standards 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, all information in this annual report reflects the following:

- “ABS” refers to asset-backed securities;
- “active users” refer to, for a specified period, users who made at least one transaction during that period through our platform or through our third-party partners’ platforms using credit line granted by us;
- “ADSs” refer to our American depositary shares, each of which represents two Class A ordinary shares, par value US\$0.0001 per share;
- “APR” in relation to a loan refers to the annualized percentage rate of all-in interest costs and fees charged to a borrower over the net proceeds received by the borrower; “nominal APR” refers to all-in interest costs and fees to the borrower over the net proceeds received by the borrower as a percentage of the total loan originations of both on- and off-balance sheet loans;
- “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 ratio” refers to outstanding principal balance of loans that were past due (for certain calendar days, if specified) as a percentage of the total outstanding principal balance of the loans on our platform as of a specific date; for example, “30 days+ delinquency ratio” and “90 days+ delinquency ratio” refers to outstanding principal balance of loans that was over 30 and 90 calendar days past due as the total outstanding principal loans on our platform as of a specific date;
- “Fenqile” or “our platform” refers to our online consumer finance platform;
- “institutional funding partners” refer to third-party commercial banks, consumer finance companies and other licensed financial institutions as well as consolidated trusts and investors of our asset-backed securitized debts, and our microcredit company who fund the loans originated to our users on our platform.
- “New City Youth” refer to the young working population in cities;
- “Maiya” refers to our buy-now and pay-later service that allows shoppers to buy products and pay for them over time;
- “originations” refer to the total principal amount of the loans we originate during the relevant period. The amount borrowed by users using flexible repayment options to finance the repayment of certain principal amount of an original loan is calculated as a new loan principal amount. We treat off-balance sheet loans as part of our originations;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “shares” or “ordinary shares” refers to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares, par value US\$0.0001 per share;
- “the variable interest entities” or “VIEs” refer to Shenzhen Xinjie Investment Co., Ltd., or Shenzhen Xinjie, Shenzhen Fenqile Network Technology Co., Ltd., or Shenzhen Fenqile, Beijing Lejiixin Network Technology Co., Ltd., or Beijing Lejiixin, Shenzhen Qianhai Dingsheng Data Technology Co., Ltd., or Qianhai Dingsheng, Shenzhen Mengtian Technology Co., Ltd., or Mengtian Technology, and Beihai Super Egg E-Commerce Co., Ltd., or Beihai Super Egg, and others, collectively;
- “users” refer to users with an approved credit line on our online consumer finance platform and shoppers on our *Maiya* and e-commerce platforms;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- “US\$,” “U.S. dollars,” “\$,” or “dollars” refers to the legal currency of the United States;
- “Vintage charge-off rate” refers to, with respect to on- and off-balance sheet loans originated during a specified time period, which we refer to as a vintage, the total outstanding principal balance of the loans that are charged off or assumed charged off during a specified period divided by the total initial principal of the loans originated in such vintage; and
- “we,” “us,” “our company,” “our,” or “Lexin” refers to LexinFintech Holdings Ltd., its subsidiaries, and, in the context of describing our operations and consolidated financial information, the variable interest entities and their subsidiaries in China.

Our reporting currency is Renminbi, or RMB. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report are made at a rate of US\$1.00=RMB6.3726, the exchange rate in effect as of December 30, 2021 as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- the expected growth of the online and offline consumption market in China;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with users, funding sources, third-party guarantee companies and other business partners;
- competition in our industry;
- general economic and business conditions in China and elsewhere;
- relevant government policies, laws and regulations relating to our industry; and
- the outcome of any current and future legal or administrative proceedings.

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3. Key Information—D. Risk Factors.” Those risks are not exhaustive. We operate in a rapidly evolving environment.

New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law. You should read this annual report, including the documents incorporated by reference herein, completely, and with the understanding that our actual future results may be materially different from what we expect.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected financial data

Our Holding Company Structure and Contractual Arrangements with the Variable Interest Entities and Their Shareholders

LexinFintech Holdings Ltd. is not a Chinese operating company but a Cayman Islands holding company with no equity ownership in its variable interest entities and their subsidiaries. We conduct our operations in China through (i) our PRC subsidiaries, and (ii) the variable interest entities, with which we have maintained contractual arrangements, and their subsidiaries. PRC laws and regulations restrict and impose conditions on foreign investment in value-added telecommunication service and certain other businesses. Accordingly, we operate these businesses in China through the variable interest entities, and rely on contractual arrangements among our PRC subsidiaries, the variable interest entities and their nominee shareholders to control the business operations of the variable interest entities. Revenues contributed by the variable interest entities accounted for 100%, 99.4% and 97.5% of our total revenues in 2019, 2020 and 2021, respectively. As used in this annual report, “we,” “us,” “our company,” “our,” or “Lexin” refers to LexinFintech Holdings Ltd., its subsidiaries, and, in the context of describing our operations and consolidated financial information, the variable interest entities and their subsidiaries in China, including Shenzhen Xinjie Investment Co., Ltd., or Shenzhen Xinjie, Shenzhen Fenqile Network Technology Co., Ltd., or Shenzhen Fenqile, Beijing Lejiixin Network Technology Co., Ltd., or Beijing Lejiixin, Shenzhen Qianhai Dingsheng Data Technology Co., Ltd., or Qianhai Dingsheng, Shenzhen Mengtian Technology Co., Ltd., or Mengtian Technology, and Beihai Super Egg E-Commerce Co., Ltd., or Beihai Super Egg, and others. Investors in our ADSs are not purchasing equity interest in the variable interest entities in China but instead are purchasing equity interest in a holding company incorporated in the Cayman Islands.

A series of contractual agreements have been entered into by and among our subsidiaries, the variable interest entities and their respective shareholders, which include exclusive option agreements, power of attorney, exclusive business cooperation agreements, loan agreements and equity pledge agreements. Terms contained in each set of contractual arrangements with the variable interest entities and their respective shareholders are substantially similar. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Variable Interest Entities.”

However, the contractual arrangements may not be as effective as direct ownership in providing us with control over the variable interest entities and we may incur substantial costs to enforce the terms of the arrangements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with the variable interest entities and their shareholders, for a significant portion of our business operations, which may not be as effective as direct ownership in providing operational control” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by the variable interest entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.”

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 variable interest entities and its nominee shareholders. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the 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 variable interest entities and their subsidiaries do not comply with PRC regulatory restrictions on foreign investment in the relevant industries,

or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations,” and “Item 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.”

Our corporate structure is subject to risks associated with our contractual arrangements with the variable interest entities. If the PRC government deems that our contractual arrangements with the 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 and 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 variable interest entities and, consequently, significantly affect the financial performance of the variable interest entities and our company as a whole. 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 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, anti-monopoly regulatory actions, and oversight on cybersecurity and data privacy, as well as the lack of inspection by the Public Company Accounting Oversight Board, or the PCAOB, on our auditors, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a stock exchange in the United States or other foreign country. 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, “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 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 you and us.”

The Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act, or the HFCAA, was enacted on December 18, 2020. The HFCAA states that if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC should prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter market in the United States. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB, which may impact our ability to remain listed on a stock exchange in the United States. The related risks and uncertainties could cause the value of our ADSs to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our ADSs will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our 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

We conduct our business primarily through our subsidiaries, the variable interest entities and their subsidiaries in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries and variable interest entities have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company, the variable interest entities in China, including, among others, certain value-added telecommunications service license for the operation of domestic call center service and content service (excluding internet content service), value-added telecommunications service license for online data processing and transaction processing, value-added telecommunications service license for the operations of internet content service, network microcredit license and financing guarantee business permit. Given 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 more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.”

Furthermore, in connection with our issuance of securities to foreign investors, under current PRC laws, regulations, and rules, as of the date of this annual report, we, our PRC subsidiaries and the 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 been asked to obtain or denied such permissions by any PRC authority.

In addition, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of 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.”

Cash and Asset Flows through Our Organization

LexinFintech Holdings Ltd. is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and the variable interest entities in China. As a result, although other means are available for us to obtain financing at the holding company level, LexinFintech Holding Ltd.'s ability to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and service fees paid by the variable interest entities. If any of our subsidiaries incurs debt on its own behalf, the instruments governing such debt may restrict its ability to pay dividends to LexinFintech Holdings Ltd. In addition, our PRC subsidiaries are permitted to pay dividends to LexinFintech Holdings Ltd. only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries and 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—B. Liquidity and Capital Resources—Holding Company Structure.”

Under PRC laws and regulations, our PRC subsidiaries and variable interest entities and their subsidiaries are subject to certain restrictions with respect to payment of dividends or otherwise transfers of 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 the PRC State Administration of Foreign Exchange, or SAFE. These restrictions are benchmarked against the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of the variable interest entities in which we have no legal ownership. As of December 31, 2019, 2020 and 2021, the total amount of such restriction to which our PRC subsidiaries and variable interest entities and their subsidiaries are subject was RMB3,493 million, RMB3,772 million, and RMB4,190 million (US\$657 million), respectively. For risks relating to the fund flows of our operations in China, see “Item 3. Key Information—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.”

Under PRC laws, LexinFintech Holdings Ltd. may fund our PRC subsidiaries only through capital contributions or loans, and fund the variable interest entities or their subsidiaries only through loans, subject to satisfaction of applicable government registration and approval requirements. As of December 31, 2020 and 2021, the aggregate amount of capital

contribution by LexinFintech Holdings Ltd. to our intermediate holding companies and PRC subsidiaries was RMB3,428 million and RMB3,354 million (US\$526 million), respectively.

As of December 31, 2020 and 2021, the outstanding balance of amounts due from Group companies of the variable interest entities and their subsidiaries was RMB219.8 million and RMB58.1 million (US\$9.1 million), respectively. As of December 31, 2020 and 2021, the outstanding balance of amounts due to Group companies of the variable interest entities and their subsidiaries was RMB4.9 billion, and RMB6.5 billion (US\$1.0 billion), respectively. The consolidated VIEs may transfer cash to the relevant WFOE by paying service fees according to the business cooperation agreements. For the years ended December 31, 2019, 2020 and 2021, the total amount of service fees that the VIEs paid to the relevant WFOE under the technical services agreements was RMB1,140 million, RMB2,422 million and RMB4,140 million, respectively.

In 2019, 2020, and 2021, no assets other than cash were transferred through our organization.

Taxation on Dividends or Distributions

LexinFintech Holdings Ltd. has not declared or paid any cash dividends, nor does it have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We intend to indefinitely reinvest all the undistributed earnings of our subsidiaries and the consolidated VIEs in China to operate and expand our business. 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.”

Under the current laws of the Cayman Islands, LexinFintech Holdings Ltd. is not subject to tax on income or capital gains. Upon payments of dividends to our shareholders, no Cayman Islands withholding tax will be imposed. For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid in Mainland China and Hong Kong, assuming that: (i) we have taxable earnings in the VIE, and (ii) we determine to pay a dividend in the future:

	Tax calculation ⁽¹⁾
Hypothetical pre-tax earnings ⁽²⁾	100.0%
Tax on earnings at statutory rate of 25% ⁽³⁾	(25.0)%
Net earnings available for distribution	75.0%
Withholding tax at standard rate of 10% ⁽⁴⁾	(7.5)%
Net distribution to Parent/Shareholders	67.5%

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount is assumed to equal Chinese taxable income;
- (2) Certain of our subsidiaries and the VIE 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;
- (3) China’s 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 Mainland 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 Mainland China, subject to a qualification review at the time of the distribution. There is no incremental tax at Hong Kong level for any dividend distribution to LexinFintech Holdings;
- (4) If a 10% withholding income tax rate is imposed, the withholding tax will be 7.5% and the amount to be distributed as dividend at Hong Kong level and net distribution to LexinFintech Holdings will be 67.5%.

The table above has been prepared under the assumption that all profits of the consolidated VIEs will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the consolidated VIEs exceed the service fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the inter-group entities is determined to be non substantive and disallowed by Chinese tax authorities), the consolidated VIEs could make a non-deductible transfer to our PRC subsidiaries for the amounts of the stranded cash in the consolidated VIEs. This would result in such transfer being non-deductible expenses for the consolidated VIEs 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.

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. The financial information of the consolidated trusts and asset-backed securities (“ABS”) were included in the financial position for VIEs and the VIEs' subsidiaries, as the consolidated VIE companies are considered the primary beneficiary of these trusts and ABS plans.

Selected Condensed Consolidated Statements of Income Information

	For the Year Ended December 31, 2021					Consolidated totals
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	
(RMB in thousands)						
Condensed Consolidating Schedule of Results of Operations						
Operating revenue:						
Third-party revenues	—	1,527	287,020	11,091,978	—	11,380,525
Inter-group revenues ⁽¹⁾	—	68,500	2,980,763	11,429	(3,060,692)	—
Total Operating revenue	—	70,027	3,267,783	11,103,407	(3,060,692)	11,380,525
Operating cost:						
Third-party costs	—	1,945	(112,202)	(5,520,994)	—	(5,631,251)
Inter-group costs ⁽¹⁾	—	—	—	(1,636)	1,636	—
Total operating cost	—	1,945	(112,202)	(5,522,630)	1,636	(5,631,251)
Gross profit	—	71,972	3,155,581	5,580,777	(3,059,056)	5,749,274
Operating expense:						
Third-party expenses	(19,109)	(40,298)	(930,293)	(1,689,151)	—	(2,678,851)
Inter-group expenses ⁽¹⁾	—	—	(11,429)	(3,047,627)	3,059,056	—
Total operating expenses	(19,109)	(40,298)	(941,722)	(4,736,778)	3,059,056	(2,678,851)
Income from subsidiaries and the VIEs ⁽²⁾	2,395,789	2,333,912	332,405	—	(5,062,106)	—
Others	(35,606)	38,281	65,636	(369,200)	—	(300,889)
Income before income tax	2,341,074	2,403,867	2,611,900	474,799	(5,062,106)	2,769,534
Income tax expenses	(7,151)	(8,078)	(277,988)	(142,201)	—	(435,418)
Net income	2,333,923	2,395,789	2,333,912	332,598	(5,062,106)	2,334,116
Less: net income attributable to non-controlling interests	—	—	—	193	—	193
Net income attributable to ordinary shareholders	2,333,923	2,395,789	2,333,912	332,405	(5,062,106)	2,333,923

	For the Year Ended December 31, 2020					Consolidated totals
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	
(RMB in thousands)						
Condensed Consolidating Schedule of Results of Operations						
Operating revenue:						
Third-party revenues	—	1,440	63,823	11,579,992	—	11,645,255
Inter-group revenues ⁽¹⁾	—	—	2,408,993	449	(2,409,442)	—
Total Operating revenue	—	1,440	2,472,816	11,580,441	(2,409,442)	11,645,255
Operating cost:						
Third-party costs	—	(3,684)	(49,408)	(7,959,095)	—	(8,012,187)
Inter-group costs ⁽¹⁾	—	—	—	(21,817)	21,817	—
Total operating cost	—	(3,684)	(49,408)	(7,980,912)	21,817	(8,012,187)
Gross profit	—	(2,244)	2,423,408	3,599,529	(2,387,625)	3,633,068
Operating expense:						
Third-party expenses	(15,707)	(14,714)	(808,555)	(1,360,975)	—	(2,199,951)
Inter-group expenses ⁽¹⁾	—	—	(449)	(2,387,176)	2,387,625	—
Total operating expenses	(15,707)	(14,714)	(809,004)	(3,748,151)	2,387,625	(2,199,951)
Income/(Loss) from subsidiaries and the VIEs ⁽²⁾	626,877	584,348	(816,113)	—	(395,112)	—
Others	(16,190)	58,329	9,086	(798,733)	—	(747,508)
Income/(loss) before income tax	594,980	625,719	807,377	(947,355)	(395,112)	685,609
Income tax benefits/(expenses)	—	1,158	(223,029)	131,242	—	(90,629)
Net income/(loss)	594,980	626,877	584,348	(816,113)	(395,112)	594,980

	For the Year Ended December 31, 2019					
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	Consolidated totals
	(RMB in thousands)					
Condensed Consolidating Schedule of Results of Operations						
Operating revenue:						
Third-party revenues	—	—	—	10,603,507	—	10,603,507
Inter-group revenues ⁽¹⁾	—	—	1,344,196	5,210	(1,349,406)	—
Total Operating revenue	—	—	1,344,196	10,608,717	(1,349,406)	10,603,507
Operating cost:						
Third-party costs	—	—	(34,160)	(5,575,251)	—	(5,609,411)
Inter-group costs ⁽¹⁾	—	—	—	(58,469)	58,469	—
Total operating cost	—	—	(34,160)	(5,633,720)	58,469	(5,609,411)
Gross profit	—	—	1,310,036	4,974,997	(1,290,937)	4,994,096
Operating expense:						
Third-party expenses	(18,514)	(7,081)	(648,423)	(1,692,792)	—	(2,366,810)
Inter-group expenses ⁽¹⁾	—	—	(5,210)	(1,285,727)	1,290,937	—
Total operating expenses	(18,514)	(7,081)	(653,633)	(2,978,519)	1,290,937	(2,366,810)
Income from subsidiaries and the VIEs ⁽²⁾	2,260,115	2,251,676	1,691,019	—	(6,202,810)	—
Others	52,951	15,520	(448)	11,202	—	79,225
Income before income tax	2,294,552	2,260,115	2,346,974	2,007,680	(6,202,810)	2,706,511
Income tax expenses	—	—	(95,298)	(316,661)	—	(411,959)
Net income	2,294,552	2,260,115	2,251,676	1,691,019	(6,202,810)	2,294,552

Selected Condensed Consolidated Balance Sheets Information

	As of December 31, 2021					
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	Consolidated totals
	(RMB in thousands)					
Consolidating Schedule of Financial Position						
ASSETS						
Cash and cash equivalents	1,845	212,191	317,694	2,132,402	—	2,664,132
Restricted cash	—	20	31,429	1,423,233	—	1,454,682
Restricted time deposits	—	1,271,220	50,000	424,678	—	1,745,898
Financing receivables, net	—	—	—	4,014,102	—	4,014,102
Loan at fair value	—	—	—	252,970	—	252,970
Amounts due from Group companies ⁽³⁾	354,241	1,090,779	5,401,561	58,050	(6,904,631)	—
Deposits to insurance companies and guarantee companies	—	—	—	1,378,489	—	1,378,489
Contract assets, service fees receivable and guarantee receivables	—	—	171,480	4,661,403	—	4,832,883
Property, equipment and software, net	—	4,768	60,793	129,769	—	195,330
Land use rights, net and right of use assets	—	—	62,350	1,096,579	—	1,158,929
Long-term investments	—	20,178	—	448,886	—	469,064
Investments in subsidiaries, the VIEs and the VIEs' subsidiaries ⁽²⁾	9,563,708	7,209,384	1,726,848	—	(18,499,940)	—
Other assets	28,642	32,852	122,832	2,675,389	—	2,859,715
TOTAL ASSETS	9,948,436	9,841,392	7,944,987	18,695,950	(25,404,571)	21,026,194
LIABILITIES						
Amounts due to Group companies ⁽³⁾	17,887	260,100	174,268	6,452,376	(6,904,631)	—
Short-term borrowings	—	—	63,810	1,735,931	—	1,799,741
Funding debts	—	—	—	3,798,233	—	3,798,233
Deferred guarantee income	—	—	—	419,843	—	419,843
Contingent guarantee liabilities	—	—	—	928,840	—	928,840
Convertible notes	1,882,689	—	—	—	—	1,882,689
Other liabilities	20,244	17,584	497,525	3,593,686	—	4,129,039
TOTAL LIABILITIES	1,920,820	277,684	735,603	16,928,909	(6,904,631)	12,958,385
Total equity attributable to owners of the company	8,027,616	9,563,708	7,209,384	1,726,848	(18,499,940)	8,027,616
Non-controlling interests	—	—	—	40,193	—	40,193
TOTAL SHAREHOLDERS' EQUITY ⁽²⁾	8,027,616	9,563,708	7,209,384	1,767,041	(18,499,940)	8,067,809
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,948,436	9,841,392	7,944,987	18,695,950	(25,404,571)	21,026,194

	As of December 31, 2020					
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	Consolidated totals
	(RMB in thousands)					
Consolidating Schedule of Financial Position						
ASSETS						
Cash and cash equivalents	846	238,806	23,883	1,300,220	—	1,563,755
Restricted cash	—	1,113	320	1,274,718	—	1,276,151
Restricted time deposits	—	1,269,858	—	509,600	—	1,779,458
Financing receivables, net	—	—	—	5,123,309	—	5,123,309
Loan at fair value	—	—	—	381,393	—	381,393
Amounts due from Group companies ⁽³⁾	371,814	1,051,861	3,898,737	219,807	(5,542,219)	—
Deposits to insurance companies and guarantee companies	—	—	—	1,066,281	—	1,066,281
Contract assets, service fees receivable and guarantee receivables	—	—	61,243	5,103,246	—	5,164,489
Property, equipment and software, net	—	4,201	62,681	58,812	—	125,694
Land use rights, net and right of use assets	—	—	16,319	1,056,444	—	1,072,763
Long-term investments	68,151	17,861	—	435,790	—	521,802
Investments in subsidiaries, the VIEs and the VIEs' subsidiaries ⁽²⁾	7,004,849	4,688,694	1,327,568	—	(13,021,111)	—
Other assets	6,272	10,823	33,762	2,219,213	—	2,270,070
TOTAL ASSETS	7,451,932	7,283,217	5,424,513	18,748,833	(18,563,330)	20,345,165
LIABILITIES						
Amounts due to Group companies ⁽³⁾	18,264	276,916	316,625	4,930,414	(5,542,219)	—
Short-term borrowings	—	—	75,430	1,751,633	—	1,827,063
Funding debts	—	—	—	5,511,749	—	5,511,749
Deferred guarantee income	—	—	—	694,582	—	694,582
Contingent guarantee liabilities	—	—	—	1,738,787	—	1,738,787
Convertible notes	1,920,227	—	—	—	—	1,920,227
Other liabilities	22,703	1,452	343,764	2,754,100	—	3,122,019
TOTAL LIABILITIES	1,961,194	278,368	735,819	17,381,265	(5,542,219)	14,814,427
Total equity attributable to owners of the company	5,490,738	7,004,849	4,688,694	1,327,568	(13,021,111)	5,490,738
Non-controlling interests	—	—	—	40,000	—	40,000
TOTAL SHAREHOLDERS' EQUITY ⁽²⁾	5,490,738	7,004,849	4,688,694	1,367,568	(13,021,111)	5,530,738
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,451,932	7,283,217	5,424,513	18,748,833	(18,563,330)	20,345,165

Selected Condensed Consolidated Cash Flows Information

	For the Year Ended December 31, 2021					
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	Consolidated totals
	(RMB in thousands)					
Net cash provided by/(used in) operating activities	14,196	(45,084)	2,996,575	(298,268)	—	2,667,419
Net cash provided by/(used in) transactions with external parties	14,196	(114,057)	(1,071,974)	3,839,254	—	2,667,419
Net cash provided by/(used in) transactions with inter-group entities for technical service charges and others ⁽⁴⁾	—	68,973	4,068,549	(4,137,522)	—	—
Net cash provided by/(used in) investing activities	9,089	(3,931)	(2,509,341)	622,696	2,296,102	414,615
Net cash provided by/(used in) transactions with external parties	24,352	(3,831)	(78,134)	472,228	—	414,615
Net cash (used in)/ provided by funds to Group companies ⁽⁵⁾	(15,263)	(100)	(2,431,207)	150,468	2,296,102	—
Net cash provided by/(used in) financing activities	7,124	15,489	(162,314)	656,269	(2,296,102)	(1,779,534)
Net cash provided by/(used in) transactions with external parties	7,124	—	(11,620)	(1,775,038)	—	(1,779,534)
Net cash provided by/(used in) funds from Group companies ⁽⁶⁾	—	15,489	(150,694)	2,431,307	(2,296,102)	—

	For the Year Ended December 31, 2020					
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	Consolidated totals
	(RMB in thousands)					
Net cash (used in)/provided by operating activities	(53,626)	38,370	1,554,848	(1,750,611)	—	(211,019)
Net cash (used in)/provided by transactions with external parties	(53,626)	38,370	(866,470)	670,707	—	(211,019)
Net cash provided by/(used in) transactions with inter-group entities for technical service charges and others ⁽⁴⁾	—	—	2,421,318	(2,421,318)	—	—
Net cash (used in)/provided by investing activities	(79,692)	(572,780)	(1,739,492)	(2,190,303)	2,445,838	(2,136,429)
Net cash provided by/(used in) transactions with external parties	27,754	276,473	(50,913)	(2,389,743)	—	(2,136,429)
Net cash (used in)/provided by funds to Group companies ⁽⁵⁾	(107,446)	(849,253)	(1,688,579)	199,440	2,445,838	—
Net cash provided by/(used in) financing activities	7,970	107,446	(156,940)	3,720,373	(2,445,838)	1,233,011
Net cash provided by transactions with external parties	7,970	—	21,431	1,203,610	—	1,233,011
Net cash provided by/(used in) funds from Group companies ⁽⁶⁾	—	107,446	(178,371)	2,516,763	(2,445,838)	—

	For the Year Ended December 31, 2019					
	Parent	Other Subsidiaries	Primary Beneficiary of the VIEs	The VIEs and the VIEs' subsidiaries	Eliminating adjustments	Consolidated totals
	(RMB in thousands)					
Net cash (used in)/provided by operating activities	(6,596)	(33,198)	511,670	(1,250,380)	—	(778,504)
Net cash used in transactions with external parties	(6,596)	(33,198)	(620,104)	(118,606)	—	(778,504)
Net cash provided by/(used in) transactions with inter-group entities for technical service charges and others ⁽⁴⁾	—	—	1,131,774	(1,131,774)	—	—
Net cash (used in)/provided by investing activities	(2,281,814)	(1,571,894)	(479,497)	579,207	2,970,419	(783,579)
Net cash provided by/(used in) transactions with external parties	9,000	(1,510,094)	(45,880)	763,395	—	(783,579)
Net cash used in funds to Group companies ⁽⁵⁾	(2,290,814)	(61,800)	(433,617)	(184,188)	2,970,419	—
Net cash provided by financing activities	2,431,592	2,290,622	300,182	1,006,844	(2,970,419)	3,058,821
Net cash provided by transactions with external parties	2,431,592	—	54,002	573,227	—	3,058,821
Net cash provided by funds from Group companies ⁽⁶⁾	—	2,290,622	246,180	433,617	(2,970,419)	—

- (1) The inter-group revenues and inter-group costs recognized by the consolidated VIEs were related to the goods and services between the consolidated VIEs and WFOEs;

The inter-group revenues generated by other subsidiaries and primary beneficiaries of VIEs represent the technical service charges to the consolidated VIEs, which were recognized as inter-group expenses by the consolidated VIEs.

- (2) It represents the equity method accounting treatment with regards to consolidated entities included in other columns in the condensed consolidating schedules. These amounts are eliminated in consolidation.
- (3) The inter-group balances represent the funds provided among Parent, other subsidiaries, primary beneficiary of the VIEs, and the consolidated VIEs, as well as the operating receivables and payables resulting from the provision of goods and services among the group companies.
- (4) For the years ended December 31, 2019, 2020 and 2021, cash paid by the VIEs to WFOEs for technical service fees were RMB1,140 million, RMB2,422 million and RMB4,140 million, respectively. Cash received by the VIEs from WFOEs for the provision of goods and services were RMB8.3 million, RMB0.7 million and RMB2.5 million, respectively.
- (5) Net cash (used in)/provided by funds to Group companies represent the funds provided among Parent, other subsidiaries, primary beneficiary of the VIEs, and the consolidated VIEs, and the collections received for the funds previously provided.
- (6) Net cash provided by/(used in) funds from Group companies represent the funds received among Parent, other subsidiaries, primary beneficiary of the VIEs, and the consolidated VIEs.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

An investment in our ADSs involves significant risks. Below is a summary of material risks we face, organized under relevant headings.

Risks Related to Our Business and Industry

- We have a limited operating history in China's online and offline consumption market, an emerging and evolving industry, which makes it difficult to evaluate our future prospects;
- The laws and regulations governing the online consumer finance industry in China are developing and evolving rapidly, and our business operations have been and may need to continue to be modified to ensure full compliance with relevant laws and regulations. We also cooperate with institutional funding partners, whose compliance with PRC laws and regulations may affect our business;
- Changes in PRC regulations relating to interest rates and fees for online consumer finance platforms and microcredit lending could have a material adverse effect on our business;
- If we are unable to retain existing users or attract new users, or if we fail to meet the financial needs of our users as they evolve and are therefore unable to capture their long-term growth potential, our business and results of operations will be materially and adversely affected;
- If our current investor protection measures for institutional funding partners are deemed to violate the relevant laws and regulations, or if we are deemed to have operated financial guarantee business by the PRC regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected;
- If our current collaboration with trust companies is deemed to violate the relevant laws and regulations, our business, financial condition and results of operations would be materially and adversely affected;
- We may be required to segregate our own assets from the assets of our institutional funding partners and borrowers;
- Our business is subject to complex and evolving Chinese and international laws and regulations regarding cybersecurity, information security, privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation, and any failure or perceived failure to comply with these laws and regulations could result in claims, changes to our business practices, negative publicity, legal proceedings, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business;
- If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operations may be materially and adversely affected; and
- We need adequate funding at a reasonable cost to successfully operate our business, and access to adequate funding at a reasonable cost cannot be assured.

Risks Related to Our Corporate Structure

- We are a Cayman Islands holding company with no equity ownership in the variable interest entities and we conduct our operations in China through (i) our PRC subsidiaries and (ii) the variable interest entities, with which we have maintained contractual arrangements, and their subsidiaries. Investors in our ADSs thus are not purchasing equity interest in the variable interest entities in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government deems that the contractual arrangements in relation to the variable interest entities and their subsidiaries 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 holding company in the Cayman Islands, the 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 variable interest entities and, consequently, significantly affect the financial performance of the variable interest entities and our company as a group;

- We rely on contractual arrangements with the variable interest entities and their shareholders, for a significant portion of our business operations, which may not be as effective as direct ownership in providing operational control; and
- Any failure by the variable interest entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

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;
- Recent litigation and negative publicity surrounding China-based companies listed in the U.S. may result in increased regulatory scrutiny of us and negatively impact the trading price of our ADSs;
- The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections.
- Our ADSs will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.
- Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to us.
- 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; and
- Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

Risks Related to the American Depositary Shares

- The market price for our ADSs may be volatile;
- We cannot guarantee that any share repurchase program will be fully consummated or that any share repurchase program will enhance our long-term shareholder value, and share repurchase could increase the volatility of the price of our ADSs and diminish our cash reserves; and
- 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 the ADSs may view as beneficial.

Risks Related to Our Business and Industry

We have a limited operating history in China's online and offline consumption market, an emerging and evolving industry, which makes it difficult to evaluate our future prospects.

China's online and offline consumption market in general, including the online consumer finance market, remains at a relatively preliminary stage of development and may not develop at the anticipated growth rate. Online consumer finance is a new industry, and there are few established players with business models that we can follow or build upon. In particular, there are a limited number of comparable online consumer finance platforms with e-commerce business. Potential users and investors may not be familiar with this new industry and may have difficulty distinguishing our services from those of our competitors. Attracting and retaining users, investors and institutional funding partners are critical to increasing the loan originations on our platform.

The emerging and evolving online and offline consumption 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.

The regulatory framework for this industry is also evolving and may remain uncertain for the foreseeable future. It is possible that the PRC laws and regulations may change in ways that do not favor our development. In particular, the PRC laws and regulations may impose more stringent requirements and regulatory burdens relating to certain of our target users. If that happens, our business, financial condition and results of operations may be materially and adversely affected.

We launched our online consumer finance platform *Fenqile* in 2013, and have a limited operating history. As our business develops, or in response to competition, we have introduced, and may continue to introduce, new products and services or make adjustments to our existing products and services, or make adjustments to our business model. In connection with the introduction of new products or in response to general economic conditions, we may impose more stringent user qualifications to ensure the quality of loans on *Fenqile*, which may negatively affect the growth of our business. It is therefore difficult to effectively assess our future prospects. You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this developing and rapidly evolving market. These risks and challenges include our ability to, among other things:

- navigate an evolving regulatory environment;
- expand our user base for our various products and services;
- enhance our risk management capabilities;
- diversify our funding sources;
- maintain and enhance our relationships with our other business partners, including merchandise suppliers, data providers and financial service providers that participate on our platforms;
- improve our operational efficiency;
- continue to scale our technology infrastructure to support the growth of our platforms and higher transaction volume;
- broaden our product and service offerings;
- operate without being adversely affected by the negative publicity about the industry in general and our company in particular, if any;
- maintain the security of our platforms and the confidentiality of the information provided and utilized across our platforms;
- cultivate a vibrant consumer finance ecosystem;
- attract, retain and motivate talented employees to support our business growth;
- navigate microeconomic conditions and fluctuations; and
- defend ourselves in litigation, and against regulatory, intellectual property, privacy or other claims.

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

The laws and regulations governing the online consumer finance industry in China are developing and evolving rapidly, and our business operations have been and may need to continue to be modified to ensure full compliance with relevant laws and regulations. We also cooperate with institutional funding partners, whose compliance with PRC laws and regulations may affect our business.

The online consumer financing industry in China is heavily regulated. Since mid-2015, the PRC government and relevant regulatory authorities have issued various laws and regulations governing the online consumer finance industry, including, among others, the Guidelines on Promoting the Healthy Development of the Internet Finance, or the Guidelines, the Notice on Regulating and Rectifying “Cash Loan” Business in December 2017, or the Circular 141, the Interim Measures for the Administration of Commercial Banks on Online Lending issued in July 2020, and amended in June 2021 or the Commercial Banks Online Lending Measures, the Notice on Further Regulating Commercial Banks Online Lending issued in February 2021, or the Circular 24, the Notice on Further Strengthening the Regulation and Management Work of Internet Consumer Loan for College Students in February 2021, or the Notice on Internet Consumer Loan for College Students, and the Announcement No. 3 issued by the PBOC on March 2021. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Online Consumer Finance Services.”

As we rely primarily on our funding partners for our loan products, our collaboration with institutional funding partners has exposed us to and may continue to expose us to additional regulatory uncertainties faced by such institutional funding partners whose businesses are highly regulated. To comply with such guidance, we may need to adjust our business model and our institutional funding partners, such as banks and consumer finance companies, may need to adopt changes to the cooperation model with their business partners, including us, which may adversely affect our business and results of operations. For example, the Circular 141 provides a series of guidance on the “cash loan” business of financial institutions, including, among others, (i) requiring financial institutions that participate in the “cash loan” business not to accept any credit enhancement services or other similar services from third parties without qualification to provide guarantee and to ensure that no third parties will charge borrowers any interests or fees; (ii) requiring network microcredit companies to suspend the funding of micro loans with no specific consumption scenario or designated use of loan proceeds, and (iii) prohibiting banking financial institutions from providing loans with no designated use of loan proceeds under the relevant PRC laws and regulations. For another example, the Commercial Banks Online Lending Measures provide a series of guidance on the online lending business of commercial banks, which stipulate that commercial banks shall manage and control the payment of loan and shall not outsource their core businesses (including the funding and settlement of loans and the credit approval) to third-party institutions, unless the commercial banks extend loans jointly with a third-party institution that has obtained governmental approval for operating lending business. In addition, the Circular of the General Office of the China Banking and Insurance Regulatory Commission on Further Regulating the Internet Loan Business of Commercial Banks, or the Circular 24 stipulates that Commercial banks shall strengthen their role as the responsible party for risk control, independently manage internet loan risks, complete on their own the parts of the risk control process that have important influences on loan risk assessment and loan risk control, and refrain from outsourcing key parts of their pre-loan, mid-loan or post-loan management to external parties. To ensure compliance with the requirements of the Circular 141, the Commercial Banks Online Lending Measures, the Circular 24 and other applicable laws and regulations, we adjusted our practice to cease charging borrowers any interests or fees and currently conduct a part of the investor protection program through our own qualified financial guarantee companies and charge guarantee fees directly to users. Due to the restriction on the outstanding guarantee liabilities of our own financing guarantee companies, we also cooperate with other third-party financing guarantee companies or commercial insurance companies, which provide guarantee or insurance services for the users on our platform. We have further adjusted our cooperation model with certain institutional funding partners by having them charge fees directly to users and pay a certain percentage of such fees to us. We cannot assure you that such changes in our business model would not materially and adversely affect our business and prospects, or that our efforts would ensure full compliance to the Circular 141 and other applicable laws and regulations.

In addition, to comply with the requirement in the Commercial Banks Online Lending Measures issued in July 2020 that commercial banks must include a mandatory process for the borrower to read the loan contract in the online loan application and set up reasonable mandatory reading time, we adjusted the user interface on our platform. In March 2021, the PBOC released the Announcement No. 3 to require all lending institutions to display the annualized rate of each loan product prominently on the website, mobile app, poster and any other channels where the product is marketed, and specify the annualized rate in the loan contract. In light of this, we further updated the interface on our platform as requested by certain funding partners, but we cannot assure you that our display of information is in full compliance with such requirements. We may need to make further changes to our platform to comply with potential additional requirements in the loan application process.

For another example, the Notice on Internet Consumer Loan for College Students sets forth several requirements on the banking financial institutions participating in internet consumer loans for college students, including that the banking financial institutions shall strictly check credit qualifications and the identities of college students and their use of loans, conduct comprehensive credit assessment, and receive the written confirmations from second sources of repayment (such as parents, guardians, or other administrator of the college students) who acknowledge such internet consumer loan provided to such college student and agree that they will guarantee the repayment of the loan. We need to comply with the policies of our funding partners on identifying certain restricted borrowers, including college students. We rely on the external source of information and self-confirmation of our consumers to make the identification, the failure of which may negatively affect our compliance efforts and subject us to liabilities. In addition, we may be required to incur additional costs on identifying college students among our potential users, or to even further implement rectification measures to ensure the facilitation of loans to college students on our platform is terminated.

In addition, we cannot assure you that the business operations of our institutional funding partners currently are, or will continue to be, in compliance with the relevant PRC laws and regulations. In the event that our institutional funding partners do not operate their businesses in accordance with the relevant PRC laws and regulations, they will be exposed to various regulatory risks, and as a result, our business, results of operations, financial condition and prospects would be materially and adversely affected. For example, the Implementation Measures of the PBOC for Protecting Rights and Interests of Financial Consumers, or the Measures for Financial Consumer Protection, require that banks and payment institutions shall follow the principles of voluntariness, equality, fairness and good faith, and protect the legitimate rights and interests of consumers of financial products and services when providing financial products or services to such consumers. The Measures for Financial Consumer Protection also specify various requirements on banks and payment institutions to protect consumers' financial information, including the collection, disclosure, notification, use, management, storage and confidentiality of such information. In the event our funding partners violate the provisions in the measures, they could become subject to penalties, including warnings, fines, suspension of business and revocation of required licenses, and as a result, we may need to adjust our business operations and our business, results of operations, financial condition and prospects would be materially and adversely affected.

Further, on December 31, 2021, the PBOC issued the Regulations for Local Financial Supervision and Administration (Draft), which emphasizes that a local financial organization shall operate business within the area approved by the local financial regulatory authority, in adherence to the principle of serving the local area, and shall not conduct business across provincial administrative area in principle. On December 31, 2021, the PBOC, the MIIT, the Cyberspace Administration of China, the CBIRC, the CSRC, the SAFE and the China National Intellectual Property Administration jointly issued the Administrative Measures for Online Marketing of Financial Products (Draft), or the Online Marketing Draft, which prohibits any institution or individual from providing online marketing services for any illegal financial activities and provides for a code of conduct for marketing cooperation between financial institutions and third party internet platform operators, which includes, among other things, a pre-assessment of qualifications and responsibilities of each party, necessary security measures to ensure the confidentiality and integrity of data transmission, and measures to prevent other institutions from accessing, intercepting, and storing relevant data. As of the date of this annual report, these draft regulations have not been adopted, and there exist uncertainties as to the interpretation of such regulations and their applicability to our business.

To comply with existing laws, regulations, rules and governmental policies relating to the online consumer finance industry, we have implemented and will continue to implement various policies and procedures to conduct our business. 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, due to the lack of detailed rules and the expectation that the relevant laws, regulations and rules may continue to evolve, we cannot be certain that our existing practices would not be deemed to violate any existing or future laws, regulations and rules. The laws and regulations governing the online consumer finance industry in the PRC are still at a nascent stage and subject to further changes and interpretations. It is possible that new laws and regulations may be adopted, or that existing ones may be interpreted in other ways, which could require us to further modify our business or operations. The cost to comply with such laws or regulations would force us to incur increased operating expenses, and modifications of our business may have a material and adverse impact on our business, financial condition and results of operations. If our business practices or the business practices of our institutional funding partners are deemed to violate any PRC laws or regulations, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Changes in PRC regulations relating to interest rates and fees for online consumer finance platforms and microcredit lending could have a material adverse effect on our business.

The interest rate permitted to be charged on loans originated on our platform is subject to evolving PRC laws and regulations. For example, in August 2015, the PRC Supreme People's Court issued the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases, or the Private Lending Judicial Interpretations (2015 version), which provide that (i) when the private lending interest rate agreed between the borrower and lender does not exceed an annual interest rate of 24%, the people's court will uphold the interest rate charged by the lender, and (ii) when the private lending interest rate agreed between the borrower and lender exceeds an annual interest rate of 36%, the portion in excess of 36% is void and the people's court will uphold the borrower's claim for return of the excess portion to the borrower. For loans with annual interest rates between 24% and 36%, if the interest on the loans has already been paid, and so long as such payment has not damaged the interest of the state, the community or any third parties, the courts will likely not enforce the borrower's demand for the return of such interest payment.

Certain Opinions Regarding Further Strengthening the Financial Judgment Work issued by the Supreme People's Court in August 2017, or the Opinions for Financial Judgment Work, provide more detailed rules on the legal limits of interest and fees charged in connection with a loan and specify that if the borrower claims that the interest, compound interest, default interest, liquidated damages and other fees alleged by the financial institution lender are obviously higher than the losses actually suffered by the financial institution lender and the damages in excess of the amount calculated at the 24% annual interest rate should be invalid, such claims shall be upheld.

On August 20, 2020, the Supreme People's Court implemented a revised judicial interpretation, or the Private Lending Judicial Interpretations (2020 version), to amend and replace the Private Lending Judicial Interpretations (2015 version), pursuant to which the cap for the private lending interest rate was lowered such that any total annual interest rate (inclusive of any default rate, default penalty and any other fee) exceeding four times that of China's benchmark one-year loan prime rate (the "LPR") as published on the 20th of each month will not be legally protected. For example, based on the LPR of 3.7% as published on January 21, 2022, such cap was 14.8%. The Private Lending Judicial Interpretations (2020 version) shall apply to the first-instance cases involving private lending disputes accepted by the people's courts after the implementation of such revised judicial interpretation. While the Private Lending Judicial Interpretations (2020 version) stipulates that it does not apply to licensed financial institutions, the Supreme People's Court's prior rulings were inconsistent as to whether microcredit companies would qualify as licensed financial institutions. In December 2020, the Supreme People's Court issued the Official Reply to Issues on the Application of the Interpretations of the Supreme People's Court of New Private Lending, which confirms that the interpretations shall not be applied to any disputes arising from the relevant financial business conducted by the microcredit companies, financing guarantee companies, regional equity market, pawn enterprises, financial leasing companies, commercial factoring companies and local assets management companies that are supervised by the local financial supervision governmental authorities. Meanwhile, pursuant to Commercial Banks Online Lending Measures, commercial banks shall clearly require in relevant written cooperation agreements that no cooperative institution, other than the insurance companies or institutions with guarantee qualifications, may charge borrowers any interest or fee in any form.

To further clarify the exact way of calculating "total annual interest rate," the PBOC issued the Announcement No. 3 on March 2021, which confirms that the annualized rate of a loan should be calculated as the annualized ratio of total costs (to borrower) to outstanding principal amount. The costs include interest and other fees and charges directly related to the loan. The amount of principal should be specified in the loan contract or other loan certificates. If the loan is repaid in installments, the outstanding principal amount should be the balance after each repayment. The calculation of the annualized interest rate may be based on compound interest or simple interest. The calculation based on compound interest is equivalent to that of the internal rate of return, and the simple-interest approach should be specified as such.

In addition, due to the fact that the laws and regulations are rapidly evolving, it is uncertain whether any new PRC laws, regulations or rules will be adopted so that the interest and/or fees charged by licensed financial institutions or microcredit companies will be subject to the cap provided by any newly adopted laws or regulations. If our microcredit company is subject to any newly adopted cap in the future, we may need to lower the pricing of loans funded by our microcredit company or modify our business model. As of December 31, 2021, less than 0.2% of the outstanding loans that we facilitate are funded by our microcredit company.

Consequently, PRC courts will not uphold our request to demand the payment of fees that exceed the limit from the borrower. If the borrower has already paid the fees that exceed the limit, the borrower may request that we refund the portion exceeding the limit and the PRC courts may uphold such requests. To ensure compliance with the caps, we may need to reduce the fees we charge to our institutional funding partners, subject to further negotiation with them. They may further lower the APR of their loans from time to time if the cap of aggregated borrowing costs charged by licensed financial institutions is further lowered by any newly adopted, or by the application of any existing, laws, regulations or ruling. If our funding partners or us are unable to comply with such regulatory requirements, supervision or guidance or are deemed to be charging above the limits permitted by the relevant laws and regulations, we could be subject to orders of suspension, cessation or rectification, cancellation of qualifications, or other penalties, and our business, financial condition, results of operations and our cooperation with our funding partners could be materially and adversely affected.

If we are unable to retain existing users or attract new users, or if we fail to meet the financial needs of our users as they evolve and are therefore unable to capture their long-term growth potential, our business and results of operations will be materially and adversely affected.

The volume of loans we originate has grown rapidly over the past few years. From our inception in August 2013 through December 31, 2021, we cumulatively originated RMB659 billion (US\$103 billion) in loans. In 2019, 2020 and 2021, we originated RMB126 billion, RMB177 billion and RMB214 billion (US\$33.6 billion) in loans, respectively, for approximately 9.9 million, 12.9 million and 14.2 million active users. We strategically focus on serving new generation consumers in China between the ages of 23 and 40, including Millennials, Generation Z and New City Youth, and seek to capture their long-term growth potential. To maintain the high growth momentum of our platform, we must continuously increase loan originations by retaining current users and attracting more users. If there is insufficient demand for our loan products, investors and institutional funding partners may not be able to deploy their funds in a timely or efficient manner, and may seek alternative investment opportunities. If there are insufficient commitments from institutional funding partners, users 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 users and sufficient commitments from institutional funding partners, we might not be able to increase our loan originations and operating revenue as we expect, and our business and results of operations may be adversely affected.

In addition, the success of our business depends on our ability to continue to serve our users' growing credit needs as their consumption requirements change and their ability to repay loans increases with their increasing income. Moreover, we depend on repeat borrowing to cultivate user loyalty, accumulate user data and credit history, grow with our users and offer them better products and services. Around 80% of all active users on our platform were repeat users who had made at least one transaction on our platform before in the same year or in the previous year. If we fail to retain our existing users by offering products and services that cater to their evolving consumption needs, or if we fail to maintain or increase repeat borrowing on our platform, we may not be able to capture their long-term growth potential, and our business and results of operations may be adversely affected. In addition, through our *Le Hua* Card, we attract customers by connecting their preferred payment tools directly to their credit line with us, allowing them to draw down directly from their credit line when they make each individual purchase. If our connection with these payment tools is founded to be not fully compliant with relevant PRC laws and regulations on consumer finance protection, or if our other efforts in retaining existing users and attracting new users are challenged by other relevant existing or future laws and regulations or more strict enforcement, our ability to retain and attract users at efficient cost level may be materially and adversely affected.

In 2021, we carried out changes to our online user acquisition model and introduced a more refined classification of our user cohorts to provide differentiated credit lines, pricing and billing terms. We have also expanded our offline sales force to focus more on serving regional users and small and micro enterprise (SME) owners. If the efforts in optimizing the online user acquisition model or the expansion of our offline sales team were to be unsuccessful, or efforts in creating synergy between the two channels were to fail, or the impact was unable to justify the costs, our ability to acquire users and manage user acquisition cost may be materially and adversely affected.

In addition, the Announcement No. 3 provides that all lending institutions are required to display the annualized rate of each loan product prominently on the website or other channels where the product is marketed, which complements the Interim Measures for Administration of Internet Advertising stipulating requirements for publishing advertisements online and/or offline. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Internet Advertising.” Although sufficient measures have been implemented by us to comply with these laws and regulations, we cannot assure you that all advertisements we display fully comply with the regulatory requirements. For example, our qualification of advertising or the authorization from our funding partners regarding our advertisements may be challenged, and the content of our advertisements is also subject to review and censorship of the government. If the relevant laws and regulations on internet advertising are strictly implemented, we may take additional measures to further modify the way we advertise and incur additional costs for consumer acquisition. Any failure to comply with such laws and regulations would materially and adversely affect our business, financial condition, results of operations and prospects.

If our current investor protection measures for institutional funding partners are deemed to violate the relevant laws and regulations, or if we are deemed to have operated financial guarantee business by the PRC regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected.

Certain investor protection measures shall be taken by us or our third-party service provider as required by the institutional funding partners. Historically, we provided our institutional funding partners a deposit using our own funds at an amount equal to a percentage of the total loans funded by the institutional funding partners and are required to replenish such deposit from time to time, in order to compensate them for the principal and interest repayment of loans in the event of a user default.

However, the Circular 141 requires financial institutions that participate in the “cash loan” business not to accept any credit enhancement services or other similar services from third parties without qualification to provide guarantee and to ensure that no third parties will charge borrowers any interest or fees to borrowers. The Circular 141 specifies the features of “cash loans” as not relying on consumption scenarios, with no specified use of loan proceeds, no qualification requirement on the part of users and no security to the loans, among others. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Online Consumer Finance Services.” It is unclear whether our personal installment loans would be viewed as the “cash loans” specified in the Circular 141 and thus be subject to the provisions thereunder. The Commercial Banks Online Lending Measures further clarify, among others, that the commercial banks and consumer finance companies shall not accept any credit enhancement services directly or in disguised form, from third parties without qualification to provide guarantee, credit insurance or guarantee insurance.

Meanwhile, our investor protection practice may also be deemed as providing guarantee services without proper qualification under the Regulations on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Regulations, which were promulgated by State Council on August 2, 2017 and became effective on October 1, 2017, and the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Supplementary Provisions, which were promulgated by the China Banking and Insurance Regulatory Commission, or the CBIRC, and eight other PRC regulatory agencies and became effective on October 9, 2019 and was amended in June 2021. Pursuant to these Financing Guarantee Regulations, “financing guarantee” refers to the activities in which guarantors provide guarantee to the guaranteed parties as to the debt financing (including but not limited to the extension of loans or issuance of bonds), and “financing guarantee companies” refer to companies legally established and operating financing guarantee business. According to the Financing Guarantee Regulations, the establishment of financing guarantee companies shall be subject to the approval by the competent government authorities, and, unless otherwise stipulated by the state, no entity may operate financing guarantee business without such approval. If any entity violates these regulations and operates financing guarantee business without approval, the entity may be subject to various penalties, including but not limited to suspension of operation, confiscation of illegal gains, fines of up to RMB1,000,000 and criminal liabilities.

In addition to the Financing Guarantee Regulations, the Financing Guarantee Supplementary Provisions further clarifies that institutions providing services such as client recommendation and credit assessment to various institutional funding partners shall not render any financing guarantee services, directly or in disguised form, without the competent approval. Otherwise, the penalties set forth in the Financing Guarantee Regulations may be imposed by the regulatory authorities, and the existing business shall be properly settled. In case an institution intends to continue the financing guarantee business, certain financing guarantee companies shall be established in accordance with the Financing Guarantee Regulations.

In an effort to ensure compliance with the requirements of those laws and regulations, we have proactively adjusted our practice and currently conduct a part of the investor protection program through our own financial guarantee companies which are qualified to provide financing guarantee for the users on our platform and charge guarantee fees directly to users. Due to the restriction on the outstanding guarantee liabilities of our own financing guarantee companies, we also cooperate with other third-party financing guarantee companies or commercial insurance companies, which provide guarantee or insurance services for the users on our platform, provided that for some of such cooperation, the variable interest entities without the financing guarantee qualification, has been required to provide the third-party financing guarantee companies and/or the commercial insurance companies with a back-to-back guarantee or a deposit to compensate them in the event that such financing guarantee company or commercial insurance companies performed its guarantee or insurance obligation upon the defaults of our users. We have further adjusted our cooperation model with certain institutional funding partners by having them charge fees directly to users and pay a certain percentage of such fees to us.

Due to the lack of interpretation and implementation rules and the fact that the laws and regulations are rapidly evolving, we cannot assure you that our current investor protection mechanisms on our platform will be in full compliance with Circular 141, Commercial Banks Online Lending Measures, Financing Guarantee Regulations, the Financing Guarantee Supplementary Provisions or other existing and future laws and regulations. For example, due to a lack of further interpretations, the exact definition and scope of “operating financing guarantee business” under the Financing Guarantee Regulations or “providing financing guarantee services in disguised form” under the Financing Guarantee Supplementary Provisions are still unclear. It is uncertain whether we would be deemed to have operated financing guarantee business or provided financing guarantee services in disguised form because of our current arrangements with institutional funding partners, third-party financing guarantee companies or commercial insurance companies. If our current investor protection mechanisms on our platform are deemed to be in violation of any applicable laws and regulations, we could be subject to penalties and/or be required to change our current business model and, as a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Moreover, if the assets of certain third-party guarantee companies were seized or implicated in legal or regulatory proceedings, and the loans we facilitated were not repaid in time, the funding partners may not be able to recover their funds and cease their cooperation with us, and we may fail to recoup our deposit paid to such third-party guarantee companies and lose our service fees. Should any of the foregoing occur, our competitive position as well as our results of operations could be materially and adversely affected.

In addition, due to the restriction on the outstanding guarantee liabilities and the minimum assets ratio of a financing guarantee company set forth in the applicable PRC laws and regulations, see “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Financing Guarantee,” we may not have sufficient capital to meet the required ratio and may be required to take measures such as increasing the registered capital of our own financial guarantee companies. Although we do not expect any difficulties of the required governmental approval, we cannot assure you that these measures will be successful and in the event that we do not have sufficient capital to meet the ratio requirement, our business prospects and results of operations may be adversely affected.

If our current collaboration with trust companies is deemed to violate the relevant laws and regulations, our business, financial condition and results of operations would be materially and adversely affected.

We have established trusts in collaboration with trust companies. As agreed with the trust company, we are designated as the service provider for such trusts. If a loan application is approved by us, the loans will be funded from the trusts to our users directly. Such trusts are funded from institutional funding partners and, in certain circumstance, from our own capital, as a result of which we may be deemed as a lender or a provider of financial services by the PRC regulatory authorities, and we may become subject to supervision and restrictions on lending under applicable laws and regulations. For example, the Circular 141 set forth that banking financial institutions (including the trust companies) shall not extend loans jointly with any third-party institution which has not obtained approvals for the lending business, and the Regulations on the Prevention and Disposition of Illegal Fund-raising Practices, promulgated by the State Council in January 2021, which took effect in May 2021, prohibit granting loans without authorization in accordance with the law or in violation of the provisions of the State on financial administration. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Online Consumer Finance Services.” There are uncertainties as to the interpretation of the relevant PRC laws and regulations and their applicability to our business. For example, if a regulatory authority considers a trust funded from our own capital as involving the use of our own capital in lending, we may be deemed as a lender or a provider of financial services. Funding loans without going through a network microcredit company or a trust may also render us to be deemed as a lender or a provider of financial services. In the event that we are subject to or be deemed to violate such PRC laws and regulations, we may be subject to certain administrative penalties, including the confiscation of illegal revenue, fines up to five times the amount of the illegal revenue and suspension of business operations. Furthermore, our current service fees and various other fees charged to our users might be fully or partially deemed as interest, which shall be subject to the restrictions on interest rate as specified in applicable rules on private lending. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Online Consumer Finance Services.”

In addition, in case that certain risk warning events set forth in the trust agreements occur, including, among others, when the utilization rate of funds in the trust has been less than a certain percentage for a period of time, the trust will no longer fund any loans and shall be dissolved in advance, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We may be required to segregate our own assets from the assets of our institutional funding partners and borrowers.

The Guidelines require that internet finance institutions segregate assets of their clients in a custodian bank from their own assets. However, other than the Guidelines to Regulate Funds Custodian for Online Lending Intermediaries, there is no clear implementation of such requirement applicable to internet finance institutions, and the scope of internet finance institutions that are subject to such assets segregation liabilities remains unclear.

On our platform, we use our best efforts to separate our own assets from those assets of the institutional funding partners and the borrowers, including, without limitation, by relying on clearing banks and payment companies for transferring funds between the institutional funding partners and borrowers. However, in certain situations, the funds may be transferred between the institutional funding partners and borrowers through bank accounts under our names. Due to the lack of clarity in the interpretation and implementation of the assets segregation requirements, we cannot assure you that our current arrangement would not be deemed as a violation of the applicable laws and regulations, or that we would not be required to change our business operations in the future. In addition, the clearing banks and payment companies we currently cooperate with are subject to changing local laws and regulations, and they may be required to change their cooperation arrangements with us or cease such arrangements entirely. If any of the foregoing were to occur, our business, financial condition and results of operations would be materially and adversely affected.

Our business is subject to complex and evolving Chinese and international laws and regulations regarding cybersecurity, information security, privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation, and any failure or perceived failure to comply with these laws and regulations could result in claims, changes to our business practices, negative publicity, legal proceedings, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

We are subject to complex and evolving statutory and regulatory requirements relating to cybersecurity, information security, privacy and data protection. Regulatory authorities in China have enhanced data protection and cybersecurity regulatory requirements. These laws continue to develop, and the PRC government may adopt other rules and restrictions in the future. Non-compliance could result in penalties or other significant legal liabilities.

The PRC Cybersecurity Law, which became effective in June 2017, created China’s first national-level data protection framework for “network operators.” It is relatively new and subject to interpretations by the regulator. It 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 address any issues caused by security failures.

In addition, numerous regulations, guidelines and other measures have been and are expected to be adopted under the PRC Cybersecurity Law. For example, the CAC, National Development and Reform Commission, or the NDRC, the Ministry of Industry and Information Technology, or the MIIT, the Ministry of Public Security, the Ministry of National Security, the Ministry of Finance, the Ministry of Commerce of the People's Republic of China, or the MOFCOM, the People’s Bank of China, the State Administration for Market Regulation, or the SAMR, the National Radio and Television Administration, the CSRC, the National Administration of State Secrets Protection and the State Cryptography Administration jointly promulgated the Cybersecurity Review Measures in December 2021, which took effect in February 2022. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators and the data processing activities carries out online platform operators must pass a cybersecurity review when purchasing network products and services which do or may affect national security; and online platform operators with personal information of over one million users shall apply with the Cybersecurity Review Office for a cybersecurity review before going to list abroad. The cybersecurity review will evaluate, among others, the risk of critical information infrastructure, core data, important data, or the risk of a large amount of personal information being influenced, controlled or maliciously used by foreign governments after going public, and cyber information security risk. Given the Cybersecurity Review Measures were recently promulgated, their interpretation, application and enforcement are subject to substantial uncertainties.

On August 17, 2021, the PRC State Council promulgated the Security Protection Regulations for Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to such regulations, “critical information infrastructure” shall mean any important network facilities or information systems of important industries or fields such as public communication and information service, energy, communications, water conservation, finance, public services, e-government affairs and national defense science, and any other important network facilities or information systems 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 for formulating eligibility criteria and determining the critical information infrastructure operator in the respective industry or field. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. As of the date hereof, no detailed rules or implementation has been issued by any Protection Departments, and we have not been informed as a critical information infrastructure operator by any governmental authorities. As this regulation was newly issued and the governmental authorities, including Protection Departments, may further formulate detailed rules or explanations with respect to the interpretation and implementation of this regulation, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC governmental 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. It also remains uncertain whether the future regulatory changes would impose additional restrictions on companies like us. If we are not able to comply with the cybersecurity and data privacy 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. As of the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the Cyberspace Administration of China on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect.

The PRC Personal Information Protection Law, or the PIPL, took effect in November 2021. The PIPL sets forth detailed rules on processing personal information, clarifies the relevant rights of the individuals and the obligations of the personal information processors, and further strengthens the liabilities for illegal process of personal information. In addition to other rules and principles of personal information processing, the PIPL specifically provides rules for processing sensitive personal information. Sensitive personal information refers to personal information that, once leaked or illegally used, could easily lead to the infringement of human dignity or harm to the personal or property safety of an individual, including biometric recognition, religious belief, specific identity, medical and health, financial account, personal whereabouts and other information of an individual, as well as any personal information of minors under the age of 14. Only where there is a specific purpose and sufficient necessity, and under circumstances where strict protection measures are taken, may personal

information processors process sensitive personal information. A personal information processor shall inform the individual of the necessity of processing such sensitive personal information and the impact thereof on the individual's rights and interests. Some information we collect, such as personal identity number and location, may be deemed to be sensitive personal information under the PIPL. The PIPL also strengthens the supervision of automatic decision making to protect the rights of individuals to obtain fair transaction terms and the supervision of mobile applications. As uncertainties remain regarding the interpretation and implementation of the PIPL, we cannot assure you that we will comply with the PIPL in all respects, or that regulatory authorities will not order us to rectify or terminate our current practice of collecting and processing sensitive personal information. We may also become subject to fines and other penalties which may have material adverse effect on our business, operations and financial condition.

On November 14, 2021, the CAC published a discussion draft of the Regulations for the Administration of Cyber Data Security, or the Draft Cyber Data Security Regulations, for public comments, which provides that data processors conducting the following activities shall apply for cybersecurity review: (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 interest affects or may affect national security; (ii) listing abroad of data processors processing 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. The Draft Cyber Data Security Regulations also provide that operators of large internet platforms that set up headquarters, operation centers or R&D centers overseas shall report to the national cyberspace administration and competent authorities. In addition, the Draft Cyber Data Security Regulations also require that data processors processing important data or going public overseas shall conduct an annual data security self-assessment or entrust a data security service institution to do so, and submit the data security assessment report of the previous year to the local branch of CAC before January 31 each year. As of the date of this annual report, this draft has not been formally adopted. Substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation.

In addition, internet information in the PRC is regulated from a national security standpoint. According to the PRC National Security Law, institutions and mechanisms for national security review and administration will be established to conduct national security review on key technologies and IT products and services that affect or may affect national security. The PRC Data Security Law took effect in September 2021 and provides for a security review procedure for the data activities that may affect national security. It also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interest, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The appropriate level of protection measures is required to be taken for each respective category of data. It is not clear under the Data Security Law what constitutes "important data" or "state critical data." If we are deemed to collect "important data" or "state critical data," we may need to adopt internal reforms in order to comply with the Data Security Law. While we take measures to comply with the applicable data privacy and protection laws and regulations, we cannot guarantee the effectiveness of the measures undertaken by us and our business partners. The activities of third parties such as our customers and business partners are beyond our control. If our business partners violate the PRC Cybersecurity Law and related laws and regulations, or fail to fully comply with the service agreements with us, or if any of our employees fails to comply with our internal control measures and misuses the information, we may be subject to penalties. Although we have adopted measures to comply with the requirements of the regulators to the best we can, we cannot guarantee that we will not be subject to more similar rectification requests from the governmental authorities or that we will fully comply with all applicable rules and regulations at all times. Any failure or perceived failure to comply with all applicable data privacy and protection laws and regulations, or any failure or perceived failure of our business partners to do so, or any failure or perceived failure of our employees to comply with our internal control measures, may prevent us from using or providing certain network products and services, resulting in fines and other penalties such as suspension of our related business, closure of our website and apps and suspension of new downloads of our apps, as well as subjecting us to negative publicity and legal proceedings or regulatory actions and discouraging current and potential users and customers from using our services, which could have a material adverse effect on our business and results of operations.

If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operations may be materially and adversely affected.

Our financial condition and results of operations are affected by our ability to effectively maintain the quality of our loan portfolio. There is no assurance that the quality of our loan portfolio will remain at the current level or improve. In 2019, 2020 and 2021, we originated RMB126 billion, RMB177 billion and RMB214 billion (US\$33.6 billion) in loans, respectively. As of December 31, 2019, 2020 and 2021, our outstanding principal balance of loans was approximately RMB60.6 billion, RMB76.5 billion and RMB85.9 billion (US\$13.5 billion), respectively. Our financing receivables, net amounted to RMB4,411 million, RMB5,123 million and RMB4,014 million (US\$630 million) as of December 31, 2019, 2020 and 2021, respectively. Our 90 day+ delinquency ratio was 1.56%, 1.95% and 1.92% as of December 31, 2019, 2020 and 2021. The quality of our loan portfolio may be negatively affected by a variety of factors, many of which are beyond our control. These factors include, among others, the impact of the COVID-19, the slowdown and structural reform of the PRC economy, adverse development in general economic conditions, an increase in unemployment rates among our target users, epidemics and natural disasters. See “—Our business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19 in China.” The quality of our loan portfolio may also deteriorate if we are not able to manage credit risks. In addition, we may experience an adverse change in user credit risk as we expand our user base and offer new product features and higher credit lines to users. For example, while we have set certain requirements for the use of flexible repayment options, such as requiring minimum monthly repayments and keeping the user’s credit line at the approved amount, the flexible repayment options may affect our loan delinquencies and charge-offs as the outstanding principal balance of the new loan borrowed by a user using the flexible repayment options will be considered as current, as long as the user meets the payment schedule of the new loan agreed to by the user and us. We may also experience an adverse change in user credit risk if our credit assessment and control process fail to effectively contain the credit exposures of higher-risk users in using our existing or new credit products.

Moreover, our risk management system and policies are subject to change from time to time. We use our proprietary *Hawkeye* engine to assess credit risks of our users. While we continually improve our risk management capabilities as we accumulate user data, the *Hawkeye* engine may inaccurately predict future credit losses under certain circumstances. For instance, after initial credit lines are granted, a user’s risk profile may change due to a variety of factors, such as deteriorating financial situations, and there is no assurance that such changes will be captured by the *Hawkeye* engine in a timely manner. The models and algorithms used by the *Hawkeye* engine may contain errors, flaws or other deficiencies that may lead to inaccurate credit assessment, and the data provided by users and external data sources may be incorrect or obsolete. If any of the foregoing were to occur in the future, our loan pricing and approval process could be negatively affected, resulting in misclassified loans or incorrect approvals or denials of credit applications. Our risk management capabilities also rely upon our anti-fraud detection, risk modeling, and refined operations of risk management, all of which involve certain risks in their effectiveness of managing the risk of our loan portfolio. We cannot assure you that our risk management system and policies have been, or will be, effective in managing our credit risks and hence the asset quality of our loan portfolio.

If we are unable to effectively maintain and manage the quality of our loan portfolio due to any reason, the delinquency rates and the charge-offs of our loan portfolio may increase. In some types of loans we facilitate, the service fees we would receive from institutional funding partners are related to the quality and performance of the loans. If we fail to identify the risks in such loans, we may receive reduced service fees or even no service fees. Moreover, if the quality of our loan portfolio were to deteriorate, institutional funding partners may be unwilling to offer favorable terms in our cooperation or even decide not to continue to cooperate with us, and users may seek to revise the terms of their loans or reduce the use of our platform for borrowing. If any of the foregoing were to occur, our business, competitive position, financial condition and results of operations may be materially and adversely affected.

We need adequate funding at a reasonable cost to successfully operate our business, and access to adequate funding at a reasonable cost cannot be assured.

The growth and success of our operations depend on the availability of adequate funding to meet user demand for loans on our platform. We derive our funding for our platform from a variety of sources and types of investors, including our institutional funding partners on our platform and investors of asset-backed securities. We have obtained the majority of our funding from institutional funding partners since 2018. Our ability to diversify funding sources is subject to the development of regulatory requirements. For example, the Circular 141 prohibits banking financial institutions from providing loans to persons without source of income or investing in asset-backed securities with underlying assets consisting of “cash loans” or “campus loans.” If college students are deemed as persons without source of income, the funding of loans to college students provided by financial institutions may need to be terminated. Although investors of asset-backed securities were not our major source of funding in historical periods, to the extent we intend to increase funds obtained through asset-back securities,

the foregoing requirement would affect the amount of funding that we could obtain through this channel. In addition, the Notice on Internet Consumer Loan for College Students issued in February 2021 sets forth several requirements on the banking financial institutions participating in internet consumer loans for college students, including that the banking financial institutions shall strictly check credit qualifications and the identities of college students and their use of loans, conduct comprehensive credit assessment, and receive the written confirmations from second sources of repayment (such as parents, guardians, or other administrator of the college students) who acknowledge such internet consumer loan provided to such college student and agree that they will guarantee the repayment of the loan. We have to comply with the policies of our funding partners on identifying certain restricted borrowers, including college students. Therefore, we may be required to incur additional costs on identifying college students among our potential users, which will increase our cost of attracting and retaining users. Moreover, to the extent there is insufficient funding from funding partners willing to accept the risk of default posed by potential users or the particular type of funding could be matched to only certain group of our users due to restrictions imposed by current or existing laws or regulations, our platform will be unable to fund certain loan originations. If adequate funds are not available to meet users' demand for loans, loan originations on our platform may be significantly impacted. Also, to the extent that risk-adjusted return requirements of our funding sources change, funding sources may choose not to fund loans originated on our platform. In addition, our growth strategy involves offering our users competitively priced financial products and services. As the online and offline consumption market is intensely competitive, we may attempt to further reduce our funding cost by modifying the investment products offered to our investors and the terms and conditions of cooperation agreements with our funding partners. To the extent that our funding sources find the risk-adjusted returns with us less attractive, we may not be able to obtain the requisite level of funding. As some of our funding partners require us to provide deposits and compensate them in case of default while others do not require such deposits but offer us less favorable terms, we have to adjust our funding model from time to time to balance the amount of deposits paid to funding sources and the commercial viability of funding terms. If our platform is unable to provide potential users with loans or fund the loans on a timely basis due to insufficient funding or less favorable pricing compared to that of our competitors, it would harm our business, financial condition and results of operations.

Our expansion into offering our users higher credit lines, new loan products and financial services, and new product categories on our e-commerce channel, and our expansion into serving an increased number of new generation consumers, may expose us to new challenges and more risks.

We have a limited operating history and have been rapidly expanding our products and services and our user base since our inception. For example, we started to offer personal installment loans to our users in addition to installment purchase loans in 2014. In 2015, we began to offer flexible repayment options, which allow users who meet our criteria to reschedule or postpone their current monthly payment. In recent years, we have expanded our product offerings to include a wide range of products including apparel and footwear, bags, fashion accessories, household goods, cosmetics, personal care products, baby and maternity products, food and beverages, and virtual goods. To serve our expanded user base and our users' evolving credit needs, we continuously offer new credit products and offer our users higher credit lines as they obtain higher incomes with greater ability to repay. In 2021, we launched the *Maiya* buy-now and pay-later service to allow shoppers to buy products and pay them over time under different consumption scenarios. We may also further launch new initiatives from time to time to expand our products and services offerings. Expansion into new products and service categories involves new risks and challenges. Our lack of familiarity with these new product and service offerings and lack of relevant user data may make it more difficult for us to anticipate user demand and preferences and manage credit risk. We may misjudge user demand, resulting in inventory buildup and possible inventory write-down. It may also make it more difficult for us to inspect and control quality and ensure proper handling, storage and delivery. We may experience higher return rates on new products, receive more customer complaints and become subject to costly product liability claims, which would harm our brand and reputation as well as our financial performance. The expansion into new products and services could also subject us to legal, operational, and reputational risks that are beyond our control. We cannot assure you that we will be able to recoup our investments. In addition, as our user base shifts to consist of more new generation consumers, we may not be able to accurately assess the credit risks of these new users due to our lack of credit data and experience. Higher credit limit products may also carry more risks, and we may not be able to adequately address the default risk of our loans originated under these higher credit limit products due to a lack of historical data. Serving a changing user base may also expose us to new challenges and more risks. If we fail to execute our growth strategies, or if we fail to address the challenges and risks, our business and results of operations could be materially and adversely affected.

If our credit assessment and risk management model is ineffective, or the credit and other information that we receive from prospective users and third parties is inaccurate and thus does not accurately reflect the user creditworthiness, the accuracy of our credit assessment and risk management will be adversely affected.

Our ability to effectively segment users into appropriate risk profiles, attract and retain users, and to offer funding partners attractive risk-adjusted returns depend on the effectiveness of our credit assessment and risk management model as well as accurate information on user creditworthiness. We rely on our proprietary *Hawkeye* engine to assess credit risk of users. While we continuously improve our risk management capabilities by updating the algorithms, data processing and other technology for the *Hawkeye* engine, if the model contains systematic technical or other errors, is ineffective in analyzing data, or contains other flaws, the accuracy of our credit assessment and the effectiveness of our risk management will be adversely affected, which could materially and adversely affect our business and results of operations.

For our credit assessment, we obtain from prospective users and third parties' certain information of the prospective users, which may not be complete, accurate or reliable. Our credit assessment of a user may not reflect that particular user's actual creditworthiness due to outdated, incomplete or inaccurate user information. Additionally, once we have obtained a user's information, the user 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) experience other adverse financial events, making the information we previously obtained inaccurate. We currently determine whether users have outstanding loans through consumer finance platforms using external databases at the time they obtain a loan from us. We also compare a user's name against our database on a regular basis. Once we detect that a user has multiple outstanding loans with substantial aggregate balances and poses a high credit risk, we will place such user on a high-risk user list and closely monitor the user going forward. However, there is no assurance that we have complete and accurate information relating to all of our users' outstanding loans. For example, a user may borrow money through our platform in order to pay off loans on other consumer finance platforms, and vice versa. If a user incurs additional debt before fully repaying any loan that user takes out on our platform, the additional debt may impair the ability of that user to make payments on his or her loan with us and our funding sources, ability to receive investment returns associated with such loan. In addition, the additional debt may adversely affect the user's creditworthiness generally and could result in the financial distress or insolvency of the user. To the extent that a user has other indebtedness and cannot repay all of his or her indebtedness, the user may choose to make payments to other platforms instead of us. Such inaccurate or incomplete user information could affect the accuracy of our credit assessment and 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.

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

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

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

- users may not find the terms of our loan products, such as the costs and credit limits, competitive or appealing;
- we may fail to predict market demand accurately and provide loan products and financial services that meet this demand in a timely fashion;
- users, investors and institutional funding partners using our platforms may not like, find useful or agree with, the changes we make;
- there may be defects, errors or failures on our platforms;
- there may be negative publicity about our loan products or financial services, or our platform's performance or effectiveness;
- regulatory authorities may take the view that the new products, financial services or platform changes do not comply with PRC laws, regulations or rules applicable to us or our funding partners;
- regulations or rules applicable to us or our funding partners; and
- there may be competing products or services introduced or anticipated to be introduced by our competitors.

If our existing and new loan products and services and investment products do not maintain or achieve adequate acceptance in the market, our competitive position, results of operations and financial condition could be materially and adversely affected.

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

We generate financial services income by charging fees from the users on our platform through our own guarantee companies and from third-party guarantee companies, who in turn charge guarantee service fees to our users. We also generate financial services income by charging fees from financial institutions. These fee rates may also be affected by a change over time in the mix of the types of products we provide to our users and partners, the macroeconomic factors, as well as the competition in the online consumer finance industry. For example, the amount of facilitation and servicing fees on performance-based loans we charge from our funding partners is increasing. As we receive a generally lower fee rate for such loans, it may decrease our profitability. In line with the general regulatory trends in enforcing a lower maximum percentage on fees charged for financial services, we may have to further reduce our fee rates. Any material reduction in our fee rates could have a material adverse effect on our business, results of operations and financial condition.

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

We believe that effectively developing and maintaining awareness of our brand is critical to attracting and retaining users. This in turn largely depends on the effectiveness of our user acquisition strategy, our marketing efforts, our cooperation with institutional funding partners and the success of the channels we use to promote our platform. If any of our current user acquisition strategies or marketing channels becomes less effective, more costly or no longer feasible, we may not be able to attract new users in a cost-effective manner or convert potential users into active users.

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

Any negative publicity or user complaints with respect to us, the consumer finance industry in general and our third-party service providers may materially and adversely affect our business and results of operations.

The reputation of our brands is critical to our business and competitiveness. Any malicious or negative publicity or any publicized incidents in connection with the use of our products or services, whether or not we are negligent or at fault, including but not limited to those relating to our management, business, compliance with the law, financial condition or prospects and our business operations related to campus online lending, whether with or without merit, could severely compromise our reputation and harm our business and operating results. Negative publicity associated with fabricated or malicious reports to the government authorities on our products or services made by competitors or our users may also adversely affect our brand image and reputation and undermine our trust and credibility. As China's consumer finance industry is new and the regulatory framework for this industry is also evolving, negative publicity about this industry and the market segment in which we operate may arise from time to time. Negative publicity about China's consumer finance industry in general may also have a negative impact on our reputation, regardless of whether or not we have engaged in any inappropriate activities. The PRC government has instituted specific rules, including the Guidelines, Interim Measures, and the Circular 141, to develop a more transparent regulatory environment for the online consumer finance industry. 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 or perception of the consumer finance industry as a whole, including campus lending, even if factually incorrect or based on isolated incidents or as a result of conduct by other market players, could compromise our image, undermine our trust and credibility, and negatively impact our ability to attract new users, investors and institutional funding partners. Other negative developments in the consumer finance industry, such as widespread user defaults, fraudulent behavior, the closure of other online consumer finance platforms, or incidents indirectly resulting from the accumulation of large amounts of debt and inability to repay by any particular user, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business activities that may be conducted by market players in the consumer finance industry. For instance, since 2015, there has been a number of reports of business failures of, or accusations of fraud and unfair dealing against, certain companies in the consumer finance industry in China. In addition, any actual or claimed incidents related to extreme user behaviors or

aggressive or illegal loan collection activities may harm our reputation, and if users, investors or institutional funding partners associate us with other peers in the industry who have been implicated in such incidents, they may be less willing to engage in borrowing or funding activities on our platform. In the ordinary course of our business, we may need to bring lawsuits against certain borrowers for delinquent loans. If courts do not support our claims, such legal proceedings may also negatively impact our reputation and brand image. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

Fraudulent activities on our platforms or that target our users could negatively impact our operating results, brand and reputation.

We are subject to risks associated with fraudulent activities on our platforms as well as risks associated with handling user and investor information. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. In addition, our new generation consumers may be more susceptible to fraud due to their limited financial knowledge and experience in using financial services. They may not be well equipped to detect sophisticated fraudulent schemes that directly target them. For instance, our users may be encouraged by third parties or organized criminal groups to incur personal installment loans on our platform and transfer the proceeds to them, who have no intention to repay, ultimately resulting in default. Other scammers may pretend to be us, offer our users fraudulent loans and charge fraudulent “service fees” to our users. We provide our users with education on financial planning and management, including on the concept of credit, credit and personal information protection, fraud and identity theft prevention. However, we cannot assure you that these efforts will be effective in preventing fraud. While we have not historically experienced any significant incident of fraud that caused material losses to us, significant increases in fraudulent activities on our platform would divert significant resources from us in cooperating for the investigations, and we may be ordered to compensate for the loss in the scams, which could negatively impact our brand and reputation, increase our operational costs, result in losses to us and our funding sources, reduce loan originations on our platform and lead us to take additional steps to reduce the risk of fraud and further increase our costs and expenses. High-profile fraudulent activity could also lead to regulatory intervention and may divert our management’s time and attention and cause us to incur additional expenses and costs. If any of the foregoing were to occur, our business, results of operations and financial condition could be materially and adversely affected.

If we fail to maintain cooperation with our funding partners or to maintain sufficient liquidity to originate loans to our users, our reputation, results of operations and financial condition may be materially and adversely affected.

Our institutional funding partners typically agree to provide funding to our users who meet their predetermined criteria, subject to their approval process. These agreements have fixed terms ranging from one to two years. Some of these agreements have automatic renewal options upon expiration. In addition, while our users’ loan requests are usually approved if they fall within the parameters set and agreed upon by us and our institutional funding partners, the funding institutions may implement additional requirements in their approval process outside of our monitor and control. Thus, there is no assurance that our institutional funding partners could provide reliable, sustainable and adequate funding to support the required liquidity, either because they could decline to fund user loans originated on our platform or decline to renew or renegotiate their participation on our platform. Moreover, some institutional funding partners have required that in the event where the repayment of loans by the borrower is overdue for a certain period of time, the funding partner would have the right to terminate the loan and is entitled to a compensation equal to the amount of the outstanding principal and interests from the us or our affiliated guarantee companies. If we are unable to provide such compensation, the funding partner may terminate the cooperation with us, which in turn may negatively affect the confidence of other funding partners in us. In such events, our liquidity, the availability of our investor protection funds and our business prospects will be adversely and negatively affected.

In addition, if PRC laws and regulations impose more restrictions on cooperation with institutional funding partners, institutional funding partners may become more selective in choosing cooperation partners, which may drive up the funding costs and the competition among online lending platforms to cooperate with a limited number of institutional funding partners as well as other non-institutional funding sources. Furthermore, if PRC laws and regulations are issued that prohibit our cooperation with our institutional funding partners, including licensed financial institutions, microcredit lenders or other consumer finance platforms, our cooperation with our funding partners may have to be terminated or suspended, which may materially and adversely affect our business, financial condition and results of operations.

We may not be able to sustain our historical growth rates.

We have experienced rapid growth since we commenced our online consumer finance business. Our total operating revenue were RMB10,604 million, RMB11,645 million and RMB11,381 million (US\$1,786 million) in 2019, 2020 and 2021, respectively. We originated RMB177 billion and RMB214 billion (US\$33.6 billion) in loans in 2020 and 2021, respectively. However, there can be no assurance that we will be able to maintain our historical growth rates in future periods. Our revenue growth may slow, or our operating revenue may decline for a number of possible reasons, including decreasing consumer spending, changes in regulations and government policies, increasing competition, slowing in the growth of China's online consumer finance industry, difficulties in delivery and fulfillment of online purchases, emergence of alternative business models, changes in government policies or general economic conditions, and natural disasters or virus outbreaks. If our growth rate declines, investors' perceptions of our business and business prospects may be adversely affected and the market price of our ADSs could decline.

Our business is dependent on our ability to maintain relationships with our business partners and other third parties, and at the same time, we are subject to risks associated with our business partners and other third parties.

We currently rely on a number of business partners and other third parties in various aspects of our business. For example, we source products from third-party suppliers for our online direct sales. In particular, we have cooperated extensively with JD.com, from which we source a significant portion of products that we offer on our e-commerce channel. We cannot assure you that our current suppliers will continue to sell products to us on commercially acceptable terms, or at all, after the current agreement expires. In addition, if we fail to attract new suppliers to sell their products to us due to any reason, our business and growth prospects may be materially and adversely affected. In addition, we have third-party sellers on our *Maiya* and e-commerce platforms. We do not have as much control over the quality, storage and delivery of products sold directly on our online marketplace as we do over the products that we sell directly ourselves. If any third-party seller does not control the quality of the products that it sells on our *Maiya* and e-commerce platforms, or if it does not deliver the products or delivers them late or delivers products that are materially different from its description of them, or if it sells certain products without licenses or permits as required by the relevant laws and regulations, we could face claims that we should be held liable for any losses or face product liability claims. We may also incur liability or become subject to administrative penalties for counterfeit or unauthorized products sold on our platforms, or for products sold on our platforms or content posted on our platforms that infringe on intellectual property rights, or for other misconduct, including carrying out fictitious transactions or deleting unfavorable comments. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to E-Commerce" and "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Product Quality and Consumer Rights Protection."

In addition, we cooperate with a number of business partners and other third parties to fulfill and deliver our products to our users. For example, we use the warehousing and delivery infrastructure of JD.com and SF Express for fulfilling user orders on our e-commerce channel. Our ability to process and fulfill orders accurately and provide high-quality user service depends on the fulfillment infrastructure of our business partners and other third parties. Any interruptions to or failures in their delivery and fulfillment services could prevent the timely or proper delivery of our products to users. Our business, financial condition and results of operations may be adversely affected by any disruptions to their delivery and fulfillment services.

Furthermore, we work closely with certain third-party service providers, such as third-party payment platforms, custody and settlement service providers, commercial data providers, and loan collection service providers, in conducting our business. If these third-party service providers fail to function properly, we cannot assure you that we would be able to find an alternative in a timely and cost-efficient manner, or at all. Moreover, any aggressive practices or misconduct by any of our third-party service providers, including third-party loan collection service providers, could damage our reputation and subject us to claims and investigations. If we are unable to effectively monitor and regulate our third-party loan collection service providers, we may need to conduct more loan collection activities ourselves, which may increase our costs, subject us to heightened reputational and legal risks and adversely affect our business, financial condition and results of operations.

Pursuing, establishing and maintaining relationships with business partners and other third parties, as well as integrating their data and services with our system, require significant time and resources. Our current agreements with partners and other third parties 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 our competitors' products or services. Certain types of partners may devote more resources to support their own businesses which compete with us. For example, JD Finance conducts consumer finance business and is supported with the significant resources available from JD.com.

The smooth operation of our business also depends on the compliance by our business partners and other third parties with applicable laws and regulations. Any negative publicity about business partners and other third parties, such as negative publicity about their loan collection practices and any failure by them to adequately protect the information of our users and investors, to comply with applicable laws and regulations or to otherwise meet required quality and service standards, could harm our reputation and further lead to decrease in the willingness of prospective borrowers. We may also be held responsible for any misconduct of their loan collection practice. If any of the foregoing were to occur, our business and results of operations could be materially and adversely affected. Our reputation is associated with these business partners and other third parties, and if any of the foregoing were to occur, our reputation may suffer.

Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities. Together, these government authorities promulgate and enforce regulations that cover many aspects of the operation of our business, including but not limited to the online retail, the online finance industries and audio-visual program operations. The PRC government extensively regulates the internet industry. See “Item 4. Information on the Company—B. Business Overview—Regulations.” 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 are required to obtain various licenses and permits from different regulatory authorities in order to distribute certain categories of products on our website. We have made efforts to obtain all the applicable licenses and permits, but due to the large number and variety of products sold on our websites, we may not always be able to do so, and we may be penalized by governmental authorities for selling products without proper licenses. As we increase our product selection, we may also become subject to new or existing laws and regulations that did not affect us before. Furthermore, we do not directly own the websites or mobile internet applications due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, which may result in significantly disruptions to our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us. We are also required to obtain certain licenses and permits for our online consumer financing and microcredit services. See “Item 3. Key Information—D. Risk Factors—The laws and regulations governing the online consumer finance industry in China are developing and evolving rapidly, and our business operations have been and may need to continue to be modified to ensure full compliance with relevant laws and regulations. We also cooperate with institutional funding partners, whose compliance with PRC laws and regulations may affect our business.”

Our online consumer finance platform, *Fenqile*, operated by Shenzhen Fenqile, has obtained certain value-added telecommunications service license for the operation of domestic call center service and content service (excluding internet content service) in July 2017, which will remain valid until July 2022, and certain value-added telecommunications service license for online data processing and transaction processing in July 2019, which will remain valid until July 2024. Our membership platform, *Le Card*, operated by Mengtian Technology, one of the variable interest entities, has obtained certain value-added telecommunications service license for the operations of online data processing and transaction processing and internet content service in February 2022, which will remain valid until January 2024. It is uncertain if the variable interest entities 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. 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. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Foreign Investment—Licenses and Permits.” If the PRC government determines that we are 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 the relevant parts of our business or to 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.

In addition, we engage in network microcredit business through Ji’an Fenqile Network Microcredit Co., Ltd., or Ji’an Microcredit, a subsidiary of Shenzhen Fenqile, in Ji’an, Jiangxi Province, which obtained a network microcredit license from the relevant local authority. The microcredit license was updated in July 2020 and will remain valid until July 2021. However, since the regulatory regime and practice with respect to network microcredit companies are evolving in recent years and subject to uncertainties, see “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Microcredit,” we cannot assure you that we would not be subject to any rectification requirements or administrative penalties due to any non-compliance, nor can we assure you that we will be able to satisfy rectification requirements, if any, and maintain such license or renew the license. For example, in November 2020, the CBIRC and PBOC

released the Interim Measures for the Administration of Network Microcredit Companies Business (Draft) to solicit public comments. The draft measures make it clear that a network microcredit business shall be carried out mainly in the provincial administrative areas to which the entity is registered and shall not be cross-provincial without prior approval. The registered capital of a company operating a network microcredit business within a province shall not be less than RMB1 billion and shall be a one-time paid-in monetary capital. The registered capital of a company operating a network microcredit cross-provinces shall not be less than RMB5 billion and shall be a one-time paid-in monetary capital. The draft measures would establish a three-year transition period, and those operating cross-provincial network microcredit businesses without approval will be phased-out. We cannot assure you that Ji'an Microcredit will be able to maintain or renew its microcredit license if the draft measures are implemented. Although we believe that Ji'an Microcredit is only a supplementary funding source and we do not intend to rely on it as a major source for funding, if we need to obtain funding from Ji'an Microcredit but are unable to maintain or renew the microcredit license or obtain any other requisite approvals, licenses or permits, our business, financial condition and results of operations would be materially and adversely affected.

If we are deemed to engage in a personal credit reporting business and violate any PRC laws or regulations governing personal credit reporting businesses, our business, financial condition, results of operations and prospects could be materially and adversely affected. In particular, we are subject to uncertainties surrounding the 2021 Draft Measures for Credit Reporting Business, the interpretation and implementation of which may have an adverse impact on our business, financial condition and results of operations.

The PRC government has adopted several regulations governing personal credit reporting businesses. These regulations include the Regulation for the Administration of Credit Reporting Industry, enacted by the State Council and became effective in March 2013, and the Management Rules on Credit Agencies, issued by the PBOC, in the same year. According to the Regulation for the Administration of Credit Reporting Industry, "credit reporting business" means the activities of collecting, organizing, storing and processing "credit information" of individuals and enterprises, as well as providing such information to others, and a "credit reporting agency" refers to a duly established agency whose primary business is credit reporting. Enterprises or individuals engaging in personal credit reporting business shall obtain a license from the PBOC. Enterprises or individuals shall not engage in personal credit reporting business without the approval by the PBOC. Entities engaged in personal credit reporting business without such approval may be subject to penalties, including ban of business, confiscation of revenues related to personal credit reporting business, imposition of fines of RMB50,000 to RMB500,000 or criminal liabilities.

In September 2021, the PBOC released the Measures for Credit Reporting Business, which took effect on January 1, 2022. The Measures for Credit Reporting Business defines "credit information" as information that "serves the financial and economic activities and is used to determine the credit status of individuals and enterprises, which refers to basic information, loan information and other relevant information collected in accordance with the law and other information originated from analysis and evaluation of credit status of individuals and enterprises based on the foregoing information". The Measures for Credit Reporting Business also requires, among other things, that the credit reporting agency shall report to the PBOC the information processors that collaborate with such credit reporting agency with respect to the collection, storing, processing and analyzing of the credit information. Separately, entities "actually providing credit reporting function services" in the name of "credit information service, credit service, credit evaluation, credit rating, credit repair, etc." are also subject to the Measures for Credit Reporting Business. Any agency carrying out personal credit reporting business without the necessary permit should complete the rectification within 18 months after the implementation date of the Measures for Credit Reporting Business.

As the Measures for Credit Reporting Business is relatively recent, significant uncertainties exist with respect to the its interpretation and implementation. For example, the Measures for Credit Reporting Business. does not specify what constitutes "activities relating to credit reporting business." It is also unclear what activities may be deemed as "actually providing credit reporting services." Further, the Measures for Credit Reporting Business does not provide a clear guidance or execution rules on how and when these providers, if deemed to be conducting credit reporting business, could apply for required licenses or otherwise comply with the Measures for Credit Reporting Business.

In April 2021, The PBOC, the CBIRC, the CSRC and the SAFE invited a number of internet platform operators for a meeting to discuss the operations and compliance of their internet finance business, including but not limited to conducting credit reporting business through authorized credit reporting agency. If we are found to be carrying out credit reporting business or credit reporting function services by the PRC authorities, we may be required to obtain a personal credit reporting business license or pursue other avenue to ensure compliance. We will closely monitor and assess the regulatory developments. In light of the significant uncertainties of the Measures for Credit Reporting Business, we may incur significant costs and expenses in an effort to address its requirements and to make necessary changes to our policies and practices, including obtaining an personal credit reporting business license or if we are deemed as an information processor, we may be required to collaborate with a licensed credit reporting agency and to be reported to the PBOC with respect to the collection, storing, processing and analyzing of credit information. Any failure or perceived failure by us to comply with the Measures for Credit Reporting Business and other related laws and regulations in the future could have an adverse effect on our business, financial condition and results of operations.

New laws and regulations may impose additional requirements and other obligations on our e-commerce business, which may materially and adversely affect our business, financial condition and results of operations.

In addition to requirements of licenses and permits, PRC laws and regulations also require e-commerce platform operators to take measures to protect consumer rights. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to E-Commerce.” Failure to do so may subject the e-commerce platform operators to rectification requirements and penalties. For example, the E-Commerce Law requires e-commerce platform operators to take necessary actions if the merchants on the platform fail to display prominently on their home page the information contained in their business licenses or administrative permits relating to their operations.

Moreover, under the E-Commerce Law, except for in certain circumstances, all e-commerce operators, including e-commerce platform operators and merchants on these platforms, shall register with local branches of the State Administration for Market Regulations, or the SAMR, provide identity information of merchants on their platform to local branches of SAMR and prompt any merchants failing to make such registrations to comply with the relevant registration requirements. We have required merchants on our platform to complete such registrations. As a result of such requirements, we may lose existing merchants and fail to attract potential merchants who may not be willing to cooperate with us in full compliance with the E-Commerce Law. In addition, the E-Commerce Law imposes a number of new obligations on e-commerce platform operators, including the obligations to (i) ensure platforms’ security, including but not limited to protection of data privacy, (ii) ensure fair dealing and protect the legitimate rights and interests of consumers on the platform, (iii) publicize transaction information preservation and transaction rules, and (iv) protect intellectual properties. In addition, the Measures for the Supervision and Administration of Online Transactions which became effective on May 1, 2021 specify that online transaction operators, as well as online platform operators, shall conduct their businesses in full compliance with the Anti-unfair Competition Law and other relevant PRC laws and regulations, and shall not unfairly compete with other operators or disturb social and economic orders. Such unfair competition conducts include, but are not limited to, carrying out any fictitious transactions and making up user evaluations. We cannot assure you that our current business operations satisfy the obligations provided under the E-Commerce Law and the Measures for the Supervision and Administration of Online Transactions in all respects. If the PRC governmental authorities determine that we are not in compliance with all the requirements proposed under relevant laws and regulations, we may be subject to fines and/or other sanctions, which may have a material adverse impact on our business and results of operations.

Our business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19 in China.

Since the beginning of 2020, COVID-19 has become widespread in China and many other countries. Many of the initial quarantine measures within China have since been relaxed, and we, together with our business partners, have gradually resumed normal operations since March 2020. However, restrictions have been re-imposed from time to time thereafter in certain cities to combat sporadic outbreaks. Starting from the fourth quarter of 2020, a few waves of COVID-19 infections have emerged in various regions of China, including the emergence of the Omicron variants affecting areas such as Xi’an, Jilin Province, and Shanghai in late 2021 and early 2022, and varying levels of travel restrictions were reinstated. For example, travel restrictions and mandatory quarantine measures have been implemented in Shanghai since March 2022, affecting our operations in the city. If new cases of COVID-19 continue to emerge, we may need to close our offices in the affected cities and undertake other preventive measures. The extent to which our operations and financial performance will be affected depends on the future developments of the pandemic, which are highly uncertain. If the situation materially deteriorates in China or globally, our business, results of operations and financial condition could be materially and adversely affected.

China is expected to experience lower consumption in the first half of 2022 due to the spread of infections and measures to contain the spread, and may experience further economic uncertainty from time to time. Our business may be impacted in a materially negative way. As our customers experience greater economic uncertainty, potential or actual unemployment, they may become less inclined to consume or borrow, which could then materially impact our business. They may also have less propensity or ability to repay loans, which may impact delinquencies, bad debt, charge-offs, and other credit statistics. This may result in an upward adjustment in our provision and adversely affected our financial condition and results of operations. In the negative economic environment caused by COVID-19, we may also need to continue to adjust our credit scoring model and lower our approval rates, in order to mitigate against any potential credit risks. This may in turn negatively impact our revenues and our growth. If there is an upward trend in the debt ratio and an increase in the delinquency rate among Chinese consumers, in particular the new generation consumers, more stringent regulations on the consumer finance industry may be promulgated to control the credit risk, which may also materially and adversely affect our business.

In addition, our business partners, customers and service providers may also experience disruptions in their operations due to quarantine restrictions, supply chain difficulties and slowdown in consumer demand, which may have a negative impact on our business. As our business entails facilitating consumption, both online and offline, any lockdown may affect consumer sentiment, which may impact negatively loan origination and revenue growth. Furthermore, some of the companies we have invested in have suffered from the temporary closure of offices and facilities and the general downturn of the economy resulted from the COVID-19 outbreak. Consequently, we may not receive investment returns as expected, and may lose part or all of our investment in these companies.

The COVID-19 pandemic has resulted in, and may intensify, global economic distress, and the duration and extent of the impact is highly uncertain at this time. The extent to which it may affect our results of operations, financial condition and cash flows will depend on the future development of the outbreak, possibility of new waves in China and other countries, the development and progress of distribution of vaccine and other medical treatment, the potential change in consumer behavior due to the prolonged impact of the pandemic, the actions taken by government authorities to contain the outbreak and stimulate the economy to improve business condition, all of which are beyond our control.

Fluctuations in interest rates could negatively affect our business.

The profitability of our business depends on the interest rates at which our users are willing to borrow, and the interest rates at which our funding partners are willing to lend. Specific benchmark rates may fluctuate as a result of changes in economic conditions and governmental policies. For example, the People's Bank of China lowered its benchmark lending rates in February 2020, April 2020 and January 2022 as China's economy continues to be threatened by the COVID-19 outbreak. If we fail to respond to the fluctuations in interest rates in a timely manner and reprice our loan products, our loan products may become less attractive to our users. For example, in a falling interest rate environment, potential users may seek lower priced loans from other channels if we do not lower the interest rates on our loan products. Similarly, in a rising interest rate environment, potential investors may seek higher return investments from other channels if we do not increase the return on our investment products. Moreover, if we are unable to reprice our loan products and investment products correspondingly, the spreads between the interest rates on our loan products and the expected rates of return on our investment products may be reduced, and our profitability may be adversely affected.

We incurred net losses in the past and may incur net losses in the future.

We incurred net losses in the past while we had a net income in 2018, 2019, 2020 and 2021 respectively. We anticipate that our operating expenses will increase in the foreseeable future as we seek to continue to grow our business, attract potential users, investors and partners, and further enhance and develop product and service offerings. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our operating revenue sufficiently to offset these higher expenses. We strategically focus on serving new generation consumers and seek to capture their long-term growth potential. To the extent we are unable to execute this strategy or if we are unable to generate increased revenue on repeat users, we may not continue to generate net income. In addition, we historically had relatively low charge-off rates. Our 90 day+ delinquency ratio was 1.56%, 1.95% and 1.92% as of December 31, 2019, 2020 and 2021. If our charge-off rates were to increase in the future, we may incur losses. We have also adopted, and may continue to adopt, accounting standards that affect our net income. If any of the foregoing occurs, we may incur net losses again and may be unable to achieve or maintain profitability on a quarterly or annual basis for the foreseeable future.

Misconduct, errors and failure to perform by our employees 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. Our business depends on our employees to interact with users and investors, 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 and 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 users and investors is governed by various PRC laws. It is not always possible to identify and deter misconduct or errors by employees, 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 take, convert or misuse funds, documents or data or fail to follow protocol when interacting with users and investors, 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 have failed to follow protocol, and therefore be subject to civil or criminal liability.

If our ability to collect delinquent loans is impaired, or if the collection efforts of our in-house team or third-party service providers are impaired, our business and results of operations might be materially and adversely affected.

We have built a collection team with both in-house employees and third-party service providers to handle the collection of delinquent loans. If either our employees or our third-party service providers' collection methods, such as phone calls, text messages, in-person visits, legal letters and litigations and/or arbitrations, are not effective and we fail to respond quickly and improve our collection methods, our delinquent loan collection rate may decrease. While we have implemented and enforced policies and procedures relating to collection activities by us and third-party service providers, including initiating litigations and arbitrations against delinquent users, if those collection methods were to be viewed by the users or regulatory authorities as harassments, threats or other illegal conducts, we may be subject to lawsuits initiated by the users or prohibited by the regulatory authorities from using certain collection methods. If this were to happen and we fail to adopt alternative collection methods in a timely manner or the alternative collection methods are proven to be ineffective, we might not be able to maintain our delinquent loan collection rate and the funding sources' confidence in our platform may be negatively impacted. If any of the foregoing takes place and impairs our ability to collect delinquent loans, the loan originations on our platform will decrease, and our business and the results of operations could be materially and adversely affected.

Moreover, the current regulatory regime for debt collection in China remains unclear. Although we aim to ensure compliance of our collection efforts with the relevant laws and regulations and we have established strict internal policies to prohibit aggressive practices, we cannot assure you that our collection team will not engage in any misconduct as part of their collection efforts. Any such misconduct by our collection personnel or the perception that our collection practices are considered to be aggressive and not compliant with the relevant laws and regulations in China may result in harm to our reputation and business, which could further reduce our ability to collect payments from borrowers, the willingness of prospective customers to use our products or lead to fines and penalties imposed by the relevant regulatory authorities, any of which may have a material adverse effect on our results of operations.

If we fail to keep up with technology advancements, our business, results of operations and prospects may be materially and adversely affected.

We utilize AI and machine learning technology to operate and improve our credit assessment and risk management model, improve our operational efficiency, and conduct targeted marketing. The success of our business will depend, in part, on our ability to adapt and respond effectively to the technology advancements on a timely basis. The online consumer finance industry is rapidly evolving with continuous technological changes. If we are unable to develop and improve our technological capabilities that keep pace with rapid technological and industry changes, our business, results of operations and financial condition could be adversely affected. If new technologies emerge that are able to access credit and manage risk more effectively, such technologies could adversely impact our ability to compete effectively more effectively. We must continue to invest substantial resources in research and development to enhance our technology. We may not be able to execute our technological strategies successfully due to a variety of reasons such as technical difficulties, inaccurate predictions of industry trend and demand, or lack of necessary resources. Failure to keep up with technological advancements may result in less attractive products and services and reduced credit assessment and risk management abilities, which may in turn materially and adversely affect our business, results of operations, and prospects.

Uncertainties relating to the growth and profitability of the online retail industry in China in general, and the e-commerce industry in particular, could adversely affect our operating revenue and business prospects.

Online direct sales on our e-commerce channel account for a significant portion of our total operating revenue. Our future results of operations will depend on numerous factors affecting the development of the e-commerce industry in China, which may be beyond our control. These factors include:

- the growth of internet, broadband, personal computer and mobile penetration and usage in China, and the rate of any such growth;
- the level of trust and confidence of Chinese consumers in online shopping, as well as changes in user demographics and consumer tastes and preferences;
- the selection, price and popularity of products that we and our competitors offer online;
- whether alternative retail channels or business models that better address the needs of consumers emerge in China; and
- the development of fulfillment, payment and other ancillary services associated with online purchases.

A decline in the popularity of online shopping in general, or any failure by us to adapt our website and improve the online shopping experience of our users in response to trends and consumer requirements, may adversely affect our operating revenue and business prospects.

Furthermore, the e-commerce industry is subject to macroeconomic changes, and retail purchases tend to decline during recessionary periods. Many factors outside of our control, including inflation and deflation, currency exchange rate fluctuation, volatility of stock and property markets, interest rates, tax rates, other government policies, and unemployment rates, can adversely affect consumer confidence and spending, which could in turn materially and adversely affect our growth and profitability. Unfavorable developments in domestic and international politics, including military conflicts, political turmoil and social instability, may also adversely affect consumer confidence and reduce spending, which could in turn materially and adversely affect our growth and profitability.

Our delivery, return and exchange policies may materially and adversely affect our results of operations.

We have adopted user-friendly return and exchange policies. We may also be required by law to adopt new or amend existing return and exchange policies from time to time. For example, pursuant to the PRC Consumer Rights and Interests Protection Law and the Interim Measures for Seven-day Unconditional Return of Online Purchased Goods (2020 version), consumers are entitled to return goods purchased online within seven days upon receipt of such goods for no reason, subject to certain exceptions. See “Item 4. Information on the Company—B. Business Overview— Regulations—Regulations Relating to E-Commerce” and “Item 4. Information on the Company—B. Business Overview— Regulations—Regulations Relating to Product Quality and Consumer Rights Protection.” These policies improve users’ shopping experience and promote user loyalty, which in turn help us acquire and retain users. However, these policies also subject us to additional costs and expenses which we may not be able to recoup with increased revenue. Our ability to handle a large volume of returns is unproven. If our return and exchange policy is misused by a significant number of users, our costs may increase significantly and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our users may be dissatisfied, which may result in a loss of existing users or failure to acquire new users at a desirable pace, and may materially and adversely affect our results of operations as a result.

If we fail to compete effectively, our results of operations and market share could be harmed.

The online and offline consumption market is highly competitive and evolving in China. Our competitors operate with different business models, have different cost structures or participate 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, and support of their platforms.

Our competitors may also have longer operating histories, more extensive user or investor bases, larger amounts of data, greater brand recognition and loyalty, and broader partner relationships than we do. 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 to new technologies, charging lower fees on loans and undertaking more extensive marketing campaigns. When new competitors seek to enter our target market, or when existing market participants seek to increase their market share, they sometimes undercut the pricing 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 investors and users may not fully understand how our platform works. Our pricing and terms could deteriorate if we fail to act to meet these competitive challenges. In addition, in response to more stringent PRC laws and regulations regarding cash loans, more online lending platforms may expand their services and products to scenario-based lending, including partnering with e-commerce platforms, which may drive up the competition among online lending platforms. Such intensified competition may increase our operation costs and adversely affect our results of operations and profitability. Furthermore, to the extent that our competitors are able to offer more attractive terms to our business partners, such business partners may choose to terminate their relationships with us. In addition, as our competitors may implement certain procedures to reduce their fees in response to the current or potential PRC regulations on interest rates and fees charged by online lending platforms, we may need to reduce our fees as well to comply with such regulations and to remain competitive in the online lending industry. If we are unable to compete with our competitors, or if we are forced to charge lower fees due to competitive pressures, we could experience reduced revenues or our platforms could fail to achieve market acceptance, any of which could materially and adversely affect our business and results of operations.

On February 7, 2021, the Anti-monopoly Committee of the State Council officially promulgated the Guidelines to Anti-Monopoly in the Field of Internet Platforms, or the Anti-Monopoly Guidelines for Internet Platforms. The Anti-Monopoly Guidelines for Internet Platforms mainly covers five aspects, including general provisions, monopoly agreements, abusing market dominance, concentration of undertakings, and abusing of administrative powers eliminating or restricting competition. The Anti-Monopoly Guidelines for Internet Platforms prohibit certain monopolistic acts of internet platforms so as to preserve market competition and safeguard interests of users and undertakings participating in internet platform economy, including without limitation, prohibiting platforms with dominant position from abusing their market dominance, such as discriminating customers in terms of pricing and other transactional conditions using big data and analytics, coercing counterparties into exclusivity arrangements, using technology means to block competitors' interface, favorable positioning in search results of goods displayed, using bundle services to sell services or products, and compulsory collection of unnecessary user data. As the Anti-Monopoly Guidelines for Internet Platforms were newly promulgated, it is uncertain to estimate its specific impact on our business, financial condition, results of operations and prospects. We cannot assure you that our business operations comply with such regulations and authorities' requirements in all respects. If any non-compliance is raised by relevant authorities and determined against us, we may be subject to fines and other penalties and need to adjust some of our business practice, which could be costly.

We have granted, and may continue to grant, low and nominally priced share options, restricted share units and other types of awards under our share incentive plans, which may result in increased share-based compensation expenses.

Our performance is largely dependent on talented and highly-skilled individuals. Our future success depends on our continuing ability to identify, develop, motivate, and retain highly-skilled personnel. We have adopted share incentive plans to provide additional incentives in the forms of low and nominally priced share options, restricted share units and other types of awards to employees, directors and consultants. See "Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans" for a detailed discussion. For the years ended December 31, 2019, 2020 and 2021, we recorded an aggregate of RMB177.3 million, RMB198.8 million and 187.9 million (US\$29.5 million), respectively, in share-based compensation expenses. We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based 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.

If the total addressable market for our target user cohort is smaller than what we believe it is, our results of operations may be adversely affected, and our business may suffer.

It is very difficult to estimate the total addressable market for our target user cohort due to factors such as market demand, PRC regulations of the credit industry, competition, general economic conditions and the relatively short history of the online consumer finance industry in China. We believe that our total addressable market of users consists of new generation consumers. However, if there is less demand than we anticipate for loan products offered on our platform, it may materially and adversely impact our business, financial condition and results of operations.

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

We experience some seasonality in our business, reflecting a combination of seasonal demand for consumer loans and seasonality patterns associated with the online retail industry. For example, we generally experience less user traffic and purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, e-commerce companies in China hold special promotional campaigns on November 11 each year, which improve our results for that quarter. The demand for our products and services is higher in March, April, September, October and November, which generally corresponds to the start of school and our promotional activities around November 11. While our growth has somewhat masked this seasonality, our quarterly operating results could be affected by such seasonality in the future.

Therefore, our quarterly results of operations, including our operating revenue, expenses, net loss or income and other key metrics, may vary significantly in the future, and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results for any single quarter are not necessarily an indication of future performance.

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

In addition to the impact of COVID-19, our business could also be adversely affected by the effects of epidemics, including avian influenza, severe acute respiratory syndrome (SARS), influenza A (H1N1), Ebola, Zika virus, H7N9 flu, avian flu or another pandemic. Any such occurrences could cause severe disruption to our daily operations. In recent years, there have been outbreaks of epidemics in China and globally. Our business could also be adversely affected if our employees are affected by health epidemics. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general. Our headquarters are located in Shenzhen, where most of our directors and management and a significant portion of our employees currently reside. Most of our in-house and outsourcing collection team, customer service team are located in Wuhan, Changsha and Nanchang. Most of our system hardware and back-up systems are hosted in leased facilities located in Shenzhen, Guangzhou and Beijing. Consequently, we are highly susceptible to factors adversely affecting Shenzhen, Wuhan, Guangzhou and Beijing. If any of the abovementioned natural disasters, health epidemics or other outbreaks were to occur in Shenzhen, Wuhan, Guangzhou, Beijing, or any other city where we have major operations in China, our operation may experience material disruptions, such as temporary closure of our offices and suspension of services, which may materially and adversely affect our business, financial condition and results of operations.

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

Our consolidated financial statements have been prepared on a going concern basis. We believe that our current cash, cash provided by operating activities and funds available through our bank loans and credit facilities, will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months. However, we need to make continued investments in facilities, hardware, software, technological 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. In such event, there may also be significant doubt as to our ability to continue as a going concern. 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.

If we cannot obtain sufficient cash when we need it, we may not be able to meet our payment obligations under our convertible notes.

In September 2019, we issued US\$300 million principal amount of convertible senior notes. The convertible notes will mature in seven years, bearing interest at a rate of 2.0% per annum. The notes will be convertible into fully paid Class A ordinary shares of the Company or ADSs at a conversion price of US\$14 per ADS at the holder's option from the date that is six months after the issuance date. The holder of the notes will have the right to require us to repurchase for cash all or any portion of the notes on the fourth anniversary of the issuance date. We may not have sufficient funds to pay the interest or fulfill other obligations under the notes.

We derive most of our revenues from, and hold most of our assets through, our subsidiaries. As a result, we may rely in part upon distributions and advances from our subsidiaries in order to help us meet our payment obligations under the notes and our other obligations. Our subsidiaries are distinct legal entities and do not have any obligation, legal or otherwise, to provide us with distributions or advances. We may face tax or other adverse consequences, or legal limitations, on our ability to obtain funds from these entities. In addition, our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our financial condition, results of operations and cash flows;
- general market conditions for financing activities by internet companies; and
- economic, political and other conditions in the PRC and elsewhere.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, we may not be able to meet our payment obligations under our convertible notes. If we fail to pay interest on the notes, we will be in default under the agreements governing the notes, which in turn may constitute a default under existing and future agreements governing our indebtedness.

Any failure to protect the confidential information of our users, funding sources and other third parties or improper use of such data may subject us to liabilities imposed by data privacy and protection laws and regulations, negatively impact our reputation, and discourage users from using our platform.

Our platform collects, stores and processes certain personal and other sensitive data from our users and funding sources. There are numerous laws governing privacy and the storage, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable and other confidential information is increasingly subject to legislation and regulations in numerous domestic and international jurisdictions. PRC government authorities have enacted a series of laws and regulations relating to the protection of privacy and personal information, under which internet service providers and other network operators are required to clearly indicate the purposes, methods and scope of any information collection and usage, to obtain appropriate user consent and to establish user information protection systems with appropriate remedial measures. However, the regulatory framework for privacy protection in China and worldwide is still evolving and likely to remain uncertain for the foreseeable future. We could be adversely affected if legislation or regulations in China are expanded to require changes in business practices or privacy policies, or if the PRC governmental authorities interpret or implement their legislation or regulations in ways that negatively affect our business, financial condition and results of operations.

Meanwhile, in addition to laws, regulations and other applicable rules regarding privacy and privacy advocacy, industry associations or other private parties may propose new and different privacy standards. Because the interpretation and application of privacy and data protection laws and privacy standards are still uncertain, it is possible that these laws or privacy standards may be interpreted and applied in a manner that is inconsistent with our practices. Any inability to adequately address privacy concerns, even if unfounded, or to comply with applicable privacy or data protection laws, regulations and privacy standards, could result in additional cost and liability to us, cause the App stores to remove our mobile applications, damage our reputation, inhibit the use of our platform and harm our business.

For example, the PRC Cybersecurity Law, which took effect in June 2017, provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in the PRC should be stored in the PRC, and the law imposes heightened regulation and additional security obligations on operators of critical information infrastructure. In addition, the State Administration for Market Regulation and the Standardization Administration jointly issued the new Standard of Information Security Technology—Personal Information Security Specification (GB/T 35273-2020) in March 2020, which took effect in October 2020. Pursuant to this standard, the personal data controller refers to entities or persons who are authorized to determine the purposes and means for processing personal information. The personal data controller should collect information in accordance with the principles of legality, minimization and voluntariness and should also obtain a consent from the information provider. In addition, the Data Security Law and the Personal Information Protection Law became effective on September 1, 2021 and on November 1, 2021 respectively, and a draft of the Interim Provisions on the Protection and Management of Personal Information of Mobile Internet Applications was published to solicit public comments on April 26, 2021. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Internet Information Security and Privacy Protection.”

We expect that these areas will receive greater attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

Further, we use certain data collected from external data sources to make credit assessment. In the event that the data collection and provision by any of our external data sources is considered in violation of the personal information protection and data security laws and regulations, such as the PRC Cybersecurity Law, we may not be able to use relevant data for our credit assessment and our business may be materially and adversely affected. For more details of credit assessment activities, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—If we are deemed to engage in a personal credit reporting business and violate any PRC laws or regulations governing personal credit reporting businesses, our business, financial condition, results of operations and prospects could be materially and adversely affected. In particular, we are subject to uncertainties surrounding the 2021 Draft Measures for Credit Reporting Business, the interpretation and implementation of which may have an adverse impact on our business, financial condition and results of operations.”

Failure to prevent cybersecurity breaches will materially and adversely affect our business, reputation, financial condition and results of operations.

The massive 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. In addition, we store part of our data on third-party cloud computing platform servers that are vulnerable to service breaks or cyber-attacks, the occurrence of which may result in data breach or loss. While we and/or the applicable third-party service providers that we cooperate with have taken steps to protect the confidential information that we have access to, security measures, whether taken by us and/or by third-party service providers with whom we cooperate with could be breached. Because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our platform could cause confidential user and investor information to be stolen and used for criminal purposes. Security breaches or unauthorized access to third-party servers which results in leakage of personal data and user information may also harm consumer trust in us and damages our brand reputation. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of any third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users and investors could be severely damaged, we could incur significant liability and our business and operations could be adversely affected in addition to the increased operating costs we incur for data protection.

In addition, we rely on the massive amount of data and user information that we have accumulated over time to conduct our business. In particular, we use user information to make credit assessment of users through our *Hawkeye* engine. These data might be lost due to cyber-attacks, computer viruses, physical or electronic break-ins, or similar disruptions. A noticeable trend in the laws, regulations and policies in China toward an increased level of data protection has also restricted our access to user data in some ways as well as the third-party data providers' ability to provide us with comprehensive data and user information. If the amount and quality of the data we collect are negatively affected, the effectiveness of our risk management may be undermined, which may lead to higher charge-off rates and adversely and materially affect our business and results of operations.

Any significant disruption in service on our platforms, our computer systems or third-party service providers' systems, including events beyond our control, could reduce the attractiveness of our platforms and result in a loss of users 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 platforms would be materially and adversely affected. The satisfactory performance, reliability and availability of our platforms and our underlying network infrastructure are critical to our operations, user service, reputation, and ability to retain existing and attract new users, investors and institutional funding partners. Much of our system hardware is hosted in leased facilities located in Shenzhen, Guangzhou and Beijing. We also rely significantly on our third-party service providers for the operation of our platform. 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 Shenzhen, Guangzhou and Beijing, we could experience interruptions and delays in our service and may incur additional expenses in arranging new facilities.

Any interruptions or delays in our service, whether as a result of third-party or our error, natural disasters, health pandemics such as the ongoing COVID-19 or security breaches, whether accidental or willful, could harm our relationships with our users, investors and institutional funding partners and our reputation. 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 users, investors and institutional funding partners to abandon our platforms, any of which could adversely affect our business, financial condition and results of operations.

We rely on App Stores to disseminate our mobile applications.

We offer our services mainly through our mobile applications. Our mobile applications are offered via App Stores operated by third parties, such as Apple's App Store, which could suspend or terminate users' access to our mobile applications, increase access costs or change the terms of access in a way that makes our applications more difficult to access. As a result, our ability to expand our user base may be adversely affected if potential users experience difficulties in or are prevented from accessing our mobile applications. In the past, our mobile applications were taken down from certain third-party App Stores for a short period of time. We cannot assure you that we will not experience incidents of similar nature in the future, and occurrence of such incidents may adversely affect our brand and reputation, business, financial condition and results of operations.

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

Our platforms 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. Errors or other design defects within the software on which we rely may result in a negative experience for users and funding sources, delay introductions of new features or enhancements, result in errors or compromise our ability to protect user 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 users 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 believe that trademarks, trade secrets, copyright and other intellectual property we use are critical to our business. We rely on a combination of trademark, copyright and trade secret protection laws in China, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. 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. For example, we regularly file applications to register our trademarks in China, but these applications may not be successful and may be challenged by third parties. Meanwhile, intellectual property rights and confidentiality protections in China may not be as effective as those in the U.S. or other countries for many reasons, including lack of procedural rules for discovery and evidence, and low damage awards. Implementation and enforcement of China intellectual property laws have historically been deficient and ineffective. As a result, we may not be able to adequately protect our intellectual property rights, which could adversely affect our revenues and competitive position.

In addition, any unauthorized use of our intellectual property by third parties may adversely affect our revenues and our reputation. In particular, we may have difficulty addressing the threats to our business associated with piracy of our content, particularly our original content. Our content may be potentially subject to unauthorized consumer copying and illegal digital dissemination without an economic return to us. We adopt a variety of measures to mitigate risks associated with piracy, including by litigation and through technology measures. We cannot assure that such measures will be effective.

In addition, while we typically require our employees who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. In addition, such agreements may be breached. Accordingly, we may be forced to bring claims against third parties, or defend claims that they may bring against us related to the ownership of such intellectual property.

Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend intellectual property or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation could result in substantial costs and diversion of resources and management attention. The experience and capabilities of China courts in handling intellectual property litigation varies and outcomes are unpredictable.

We have been and may be subject to intellectual property infringement claims or other legal proceedings and claims in the ordinary course of our business, 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. Some of our trademarks applications have been challenged by third parties, and we may not be able to successfully register such trademarks. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed upon 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.

In addition, from time to time, we may be subject to other legal proceedings and claims arising from our ordinary course of business. In September 2020, we and certain of our officers and directors were named as defendants in two putative federal securities class actions, both of which were dismissed. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings” for more information. However, any adverse outcome of such cases in the future could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation.

Defending litigations or other claims against us is costly and can impose a significant burden on our management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our platform to reduce the risk of future liability, may have a material adverse effect on our business, financial condition and prospects.

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.

In addition to our website, we also offer consumer finance products on our mobile applications, which are regulated by the Administrative Provisions on Mobile Internet Applications Information Services, or the APP Provisions, promulgated by the Cyberspace Administration of China, or the CAC, in June 2016 and became effective in August 2016. In addition, a draft of amendment to the APP Provisions, or the Amendment Draft, was published to solicit public comments on January 5, 2022, under which the provider of the mobile internet application shall have more and detailed obligations when owning or operating a mobile internet application, including but not limited to making and disclosing management rules and platform conventions, guaranteeing cyber data security and personal information protection and completing assessments of security in accordance with applicable laws and regulations. According to the APP Provisions and its Amendment Draft, the providers of mobile applications shall not engage in any activity that is prohibited by laws and regulations, such as endangering national security, disrupting social order or infringing on the legitimate rights and interests of others. 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 you that all the information or content displayed on, retrieved from or linked to our mobile applications complies with the requirements of the APP Provisions and the Amendment Draft (if adopted in the current form) at all times. If our mobile applications were found to be violating the APP Provisions, we may be subject to relevant 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.

Erroneous reports with respect to certain of our users have been sent to the credit reference center of the PBOC, which may result in reputational damage to us.

Some of our institutional funding partners report delinquencies of our users to the credit reference center of the PBOC, which adversely affect such users' credit profiles and abilities to obtain loans in the future. Due to errors in our interfaces with certain institutional funding partners, we have occasionally failed to inform certain institutional funding partners about repayments made by users. As a result, such institutional funding partners believed that the users were delinquent on loan repayments and therefore made erroneous reports to the credit reference center of the PBOC. Neither we nor the institutional funding partners are subject to legal liabilities as long as the institutional funding partners inform the PBOC about the errors in a timely fashion after receiving complaints from the borrowers. Such errors in reports have been isolated incidents and have not resulted in material adverse effect on our business as of the date of this annual report. We have started to request our institutional funding partners to compare their records of delinquent borrowers with ours to avoid future errors. However, there can be no assurance that our institutional funding partners will always cooperate with us or that such measures will be effective in preventing errors. If additional erroneous reports were made to the PBOC in the future, we may suffer negative publicity and reputational damage, which could have an adverse effect on our business, results of operations and financial condition.

Any failure by us or our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation.

According to the applicable anti-money laundering laws and regulations as described in details in “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Anti-Money Laundering,” internet finance service providers are required to comply with certain anti-money laundering requirements, such as the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering.

The PBOC released the Measures for Supervision and Administration of Anti-Money Laundering and Anti-Terrorism Financing of Financial Institutions in April 2021, which became effective in August 2021. It provides that financial institutions, including internet microcredit companies, shall establish a self-assessment system for anti-money laundering and anti-terrorism financing risks at the headquarters level, regularly or from time to time assess the anti-money laundering and anti-terrorism financing risks, and report the self-assessment to the PBOC or its local branches within ten business days from the date of approval by the board of directors or senior management. Financial institutions shall, in accordance with the provisions and in combination with the relevant requirements of the internal control system and risk management mechanism, perform the obligations of customer due diligence, customer identity information and transaction records preservation, large amount transaction and suspicious transaction reporting.

We have implemented various policies and procedures, including internal controls, collaborations with relevant regulatory authorities, and “know-your-customer” procedures, for anti-money laundering purposes. We have also established access to the Anti-Money Laundering Internet Monitoring Platform to report large-sum transactions and suspicious transactions thereon in accordance with the relevant requirements. In addition, we rely on our institutional funding partners and payment processors, in particular the online payment companies that handle the transfer of funds between borrowers and lenders, to have their own appropriate anti-money laundering policies and procedures in compliance with the PBOC requirements. Certain of our institutional funding partners and the online 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.

However, there is no assurance that our anti-money laundering policies and procedures will protect us from being exploited for money laundering purposes or that we will be deemed to be in compliance with applicable anti-money laundering implementing rules, if and when adopted. Moreover, if any of our third-party service providers fail 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.

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

We have made, and may evaluate and consider to make, strategic investments, combinations, acquisitions or alliances to further increase the value of our platforms and better serve users, investors and institutional funding partners. See “Item 4. Information on the Company—A. History and Development of the Company—Strategic Investments.”

The investments and acquired assets or businesses may not generate the financial results we expect. Moreover, these investments, as well as potential future investments we may make, may require significant attention from our management, in particular to ensure that such changes do not disrupt any existing collaborations, or affect our users’ opinion and perception of our products and services. The diversion of our management’s attention and any difficulties encountered during integration could have a material adverse effect on our ability to manage our business. In addition, strategic investments, acquisitions or new business initiatives could expose us to potential risks, including:

- risks associated with the assimilation of new operations, services, technologies and personnel;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing businesses and technologies;
- the inability to generate sufficient revenues to offset the costs and expenses of the transaction; and
- the potential loss of, or harm to, relationships with employees and marketplace users as a result of the integration of new businesses or investment.

Any failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business, results of operations and financial condition.

Furthermore, investments and acquisitions could result in the use of substantial amounts of cash, increased leverage, potentially dilutive issuances of equity securities, goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential liabilities of the acquired business, and the invested or acquired assets or businesses may not generate the financial results we expect. For example, the private companies that we have invested in could be adversely affected by the COVID-19 outbreak, which may lead to impairment in the fair values of our investments and in turn adversely affect our financial condition and operating results. Moreover, the costs of identifying and consummating these transactions may be significant. In addition to obtaining the necessary corporate governance approvals, we may also need to obtain approvals and licenses from relevant governmental authorities for the acquisitions to comply with applicable laws and regulations, which could result in increased costs and delays.

The current tensions in international trade and rising political tensions, particularly between the United States and China, may adversely impact our business.

Recently there have been heightened tensions in international economic relations, such as the one between the United States and China. The U.S. government has recently imposed, and has recently proposed to impose additional, new, or higher tariffs on certain products imported from China to penalize China for what it characterizes as unfair trade practices. China has responded by imposing, and proposing to impose additional, new, or higher tariffs on certain products imported from the United States. Following mutual retaliatory actions for months, on January 15, 2020, the United States and China entered into the Economic and Trade Agreement Between the United States of America and the People's Republic of China as a phase one trade deal, effective on February 14, 2020.

In addition, political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the PRC central government and the executive orders issued by the U.S. government in August 2020 that prohibit certain transactions with certain selected leading Chinese internet companies as well as their products. Rising political tensions could reduce levels of trades, investments, technological exchanges, and other economic activities between the two major economies. Such tensions between the United States and China, and any escalation thereof, may have a negative impact on the general, economic, political, and social conditions in China and, in turn, adversely impacting our business, financial condition, and results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may lose investor confidence in the reliability of our financial statements.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, 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 the company's internal control over financial reporting. In addition, when a company meets the SEC's criteria, an independent registered public accounting firm must attest to and report on the effectiveness of the company's internal control over financial reporting.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. However, if we fail to maintain effective internal control over financial reporting in the future, our management may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Further, because of inherent limitations, internal control over financial reporting may not prevent or detect all misstatements on a timely basis. For instance, in the preparation of the unaudited condensed consolidated financial information for the second quarter of 2019, we uncovered certain control deficiencies which led to accounting errors in our unaudited condensed consolidated financial information for the first quarter of 2019. The accounting errors were corrected and disclosed in our earnings release for the quarter ended June 30, 2019 on Form 6-K. We have undertaken remedial measures to improve our quarter-end closing procedures and addressed the relevant control deficiencies. Moreover, the process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a financial reporting system that satisfies our reporting obligations. Our failure to discover and address any material weaknesses or deficiencies in the future may result in inaccuracies in our financial statements or delay in the preparation of our financial statements. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Ineffective internal control over financial reporting could also expose us to

increased risk of fraud or misappropriations of corporate assets and subject us to potential delisting from the stock exchange on which our ADSs are listed, regulatory investigations or civil or criminal sanctions.

We are subject to changing laws 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 Securities and Exchange Commission, 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.

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. If one or more of our 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. 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, technology and product development, 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 users and investors 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 provident fund, medical insurance, on-the-job injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase.

Unless we are able to control our labor costs or pass on these increased labor costs to our users by increasing the fees of our services, our financial condition and results of operations may be adversely affected.

We may not have sufficient business insurance coverage.

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

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

The consumer financing industry is sensitive to general economic changes that affect consumer confidence, and any slowing in growth rate or general or perceived economic downturn in China may negatively impact our business. Many factors outside of our control, including inflation and deflation, interest rates, volatility of equity and debt securities markets, taxation rates, employment and other government policies can adversely affect consumer confidence. The COVID-19 pandemic had a severe and negative impact on the Chinese and the global economy in 2020, 2021 and early 2022. 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 challenges, including the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014, uncertainties over the impact of Brexit and the ongoing global trade disputes and tariffs. The growth of China's economy has slowed down since 2012 compared to the previous decade and the trend may continue. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. In addition, there have also been concerns about the relationship between China and the United States, resulted from the current trade and political tension between the two countries. 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 materially and adversely affect our business and financial condition.

We are a "controlled company" within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a "controlled company" as defined under the Nasdaq Stock Market Rules because our founder, chairman of the board of directors and chief executive officer, Mr. Jay Wenjie Xiao, owns more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

Risks Related to Our Corporate Structure

If the PRC government deems that the contractual arrangements in relation to the variable interest entities and their subsidiaries 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 and other value-added telecommunication services, are subject to restrictions under current PRC laws and regulations. For example, foreign investors are generally not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider with exceptions relating to e-commerce business, domestic multi-party communications services business, store-and-forward business or otherwise stipulated by the state.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises. To comply with PRC laws and regulations, we set up a series of contractual arrangements entered into among some of our PRC subsidiaries, the variable interest entities, and their shareholders to conduct our operations in China. For a detailed description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Variable Interest Entities.” As a result of these contractual arrangements, we exert control over the variable interest entities and their subsidiaries and consolidate their operating results in our financial statements under U.S. GAAP. Investors in our ADSs are not purchasing equity interest in the variable interest entities in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government deems that our contractual arrangements with the 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, and our ADSs may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of the consolidated VIEs which contribute to 97.5% of our revenues in 2021. Our holding company in the Cayman Islands, the 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 variable interest entities and, consequently, significantly affect the financial performance of the variable interest entities and our company as a group.

In the opinion of our PRC counsel, Shihui Partners, the ownership structures of our PRC subsidiaries and the variable interest entities, currently do not, result in any violation of the applicable PRC laws or regulations currently in effect; and the contractual arrangements among our PRC subsidiaries, the variable interest entities and their shareholders, are governed by PRC laws or regulations, and are currently valid, binding and enforceable in accordance with the applicable PRC laws or regulations currently in effect, and do not result in any violation of the applicable PRC laws or regulations currently in effect. However, Shihui Partners 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.

It is uncertain whether any new PRC laws, regulations or rules relating to such contractual arrangements will be adopted or if adopted, what they would provide. In particular, in March 2019, the National People’s Congress, or the NPC, passed the PRC Foreign Investment Law, which became effective as of January 1, 2020. For the effect of the PRC Foreign Investment Law on us, see “—Risks Related to Doing Business in China—Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.” If the operation of our businesses conducted through the variable interest entities is subject to any restrictions pursuant to the Special Administrative Measures for Foreign Investment Access (Negative List 2021) jointly promulgated by the Ministry of Commerce and the NDRC, or any successor regulations, and the contractual arrangements are not treated as domestic investments, the contractual arrangements may be regarded as invalid and illegal. If this were to occur, we would not be able to operate the relevant businesses through the contractual arrangements and would lose our rights to receive the economic benefits of the variable interest entities. As a result, we would no longer consolidate the financial results of the variable interest entities into our financial results, and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If we do not receive any compensation, we would recognize an investment loss as a result of such derecognition. Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and part of our business operations.

We rely on contractual arrangements with the variable interest entities and their shareholders, for a significant portion of our business operations, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with the variable interest entities and their shareholders to operate our business in areas where foreign ownership is restricted. For a description of these contractual arrangements, see “Item 7. Major Shareholders and Related Party Transaction—B. Related Party Transaction—Contractual Arrangements with the Variable Interest Entities.” These contractual arrangements may not be as effective as direct ownership in providing us with control over the variable interest entities and their subsidiaries. For example, the variable interest entities or their shareholders may fail to fulfill their contractual obligations with us, by, among other things, failing 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 variable interest entities, we would be able to exercise our rights as shareholders to effect changes in their board of directors, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by the variable interest entities and their shareholders of their obligations under the contractual arrangements to exercise control over the variable interest entities and their subsidiaries. The shareholders of the 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 a certain portion of our business through the contractual arrangements with the variable interest entities and their shareholders. Although we have the right to replace any shareholder of such entities under the contractual arrangements, if any of these shareholders is 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 in the PRC legal system. Therefore, our contractual arrangements with the variable interest entities and their shareholders may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by the variable interest entities or their respective shareholders 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 variable interest entities and their shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Variable Interest Entities.” If the variable interest entities or their shareholders 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 variable interest entities were to refuse to transfer their equity interests in such 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 action 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 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 the arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the variable interest entities and their 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.”

Furthermore, the contractual arrangements provide that (i) as requested by our WFOEs from time to time, our variable interest entities will unconditionally sell all of their assets to the extent permitted by PRC law to our WFOEs, respectively, or the entity designated by them, at the lowest price permitted under applicable PRC laws; and (ii) the variable interest entities or their respective shareholders will pay to our WFOEs, or the entity designated by them any payments they receive from such transaction, and any profits arising from such a transaction shall be paid to our WFOEs, or the entity designated by them in satisfaction of the service fees under the exclusive business cooperation agreements. These provisions may not be enforceable under PRC laws in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation. Therefore, in the event of a breach of any agreements constituting the contractual arrangements by the variable interest entities, their respective subsidiaries and/or shareholders, we may not be able to exert effective control over the variable interest entities due to the inability to enforce the contractual arrangements, which could adversely affect our ability to conduct part of our business.

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

The shareholders of the variable interest entities may have potential conflicts of interest with us. These shareholders may breach, or cause the variable interest entities to breach, the existing contractual arrangements, which would have a material adverse effect on our ability to effectively control the variable interest entities and their subsidiaries and receive economic benefits from them. For example, these shareholders may be able to cause our agreements with the variable interest entities 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 exclusive option agreement with these shareholders to request them to transfer all of their equity interests in the 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 these shareholders, 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.

The shareholders of the variable interest entities may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the variable interest entities and the validity or enforceability of our contractual arrangements with the variable interest entities and their shareholders. For example, in the event that any of the individual shareholders who holds any equity interests in some of the variable interest entities divorces his or her spouse, the spouse may claim that the equity interest of the variable interest entities held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be held by the shareholder's spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in a loss of the effective control over those variable interest entities by us. Similarly, if any of the equity interests of some of the variable interest entities is inherited by a third party with whom the current contractual arrangements are not binding, we could lose our control over the variable interest entities or have to maintain such control by incurring unpredictable costs, which could cause disruption to our business and operations and harm our financial condition and results of operations.

Although under our current contractual arrangements, (i) the spouses of some of shareholders of some of our variable interest entities has respectively executed a spousal consent letter, under which each spouse agrees that he/she will not raise any claims against the equity interest, and will take every action to ensure the performance of the contractual arrangements, and (ii) the variable interest entities and their shareholders shall not assign any of their respective rights or obligations to any third party without the prior written consent of our WFOEs or their subsidiaries, we cannot assure you that these undertakings and arrangements will be complied with or effectively enforced. In the case any of them is breached or becomes unenforceable and leads to legal proceedings, it could disrupt our business, distract our management's attention and subject us to uncertainties as to the outcome of any such legal proceedings.

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

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The PRC enterprise income tax law and regulations require enterprises that conduct related party transactions to prepare transfer pricing documentations to demonstrate the basis of determining the price, the computation methodology and detailed explanations. 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 after they conducted tax inspection. We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC subsidiaries, the variable interest entities and their shareholders were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, regulations and rules, and adjust income of the variable interest entities 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 variable interest entities for PRC tax purposes, which could in turn increase their tax liabilities without reducing the tax expenses of our PRC subsidiaries. In addition, if a PRC subsidiary requests the shareholders of the variable interest entities to transfer their equity interests at nominal or no value pursuant to these contractual arrangements, such transfer could be viewed as a gift and subject the PRC subsidiary to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees

and other penalties on the variable interest entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially adversely affected if the 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 benefit from assets held by the 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 variable interest entities hold certain assets that are material to the operation of our business, including, among others, intellectual properties, hardware and software. Shenzhen Fenqile holds our value-added telecommunication business license for our online consumer finance business. Under the contractual arrangements, the variable interest entities may not, and the shareholders of the variable interest entities and Shenzhen Fenqile 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 these shareholders breach these contractual arrangements and voluntarily liquidate the variable interest entities, or the 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 adversely affect our business, financial condition and results of operations. If the variable interest entities undergo a voluntary or involuntary liquidation proceeding, the independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

If we exercise the option to acquire equity interest of the variable interest entities, the equity interest transfer may subject us to certain limitations and substantial costs.

Pursuant to the contractual arrangements, our WFOEs or their subsidiaries have the irrevocable and exclusive right to purchase all or any part of the relevant equity interests in the variable interest entities from the variable interest entities' shareholders at any time and from time to time in their absolute discretion to the extent permitted by PRC laws. This equity transfer may be subject to approvals from, filings with, or reporting to competent PRC authorities, such as the SAMR, and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authorities. The equity transfer price to be received by the variable interest entities under the contractual arrangements may also be subject to enterprise income tax, and these amounts could be substantial.

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 are 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 COVID-19 has had a significant adverse impact on China's economic growth in recent years. The macroeconomic slowdown in China from COVID-19 may

weigh on the growth in the online and offline consumption market in the near future. 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.

Recent litigation and negative publicity surrounding China-based companies listed in the U.S. may result in increased regulatory scrutiny of us and negatively impact the trading price of our ADSs.

We believe that litigation and negative publicity surrounding companies with operations in China that are listed in the U.S. have negatively impacted stock prices for such companies. Various equity-based research organizations have published reports on China-based companies after examining, among other things, their corporate governance practices, related party transactions, sales practices and financial statements that have led to special investigations and stock suspensions on national exchanges. Any similar scrutiny of us, regardless of its lack of merit, could result in a diversion of management resources and energy, potential costs to defend ourselves against rumors, decreases and volatility in the ADS trading price, and increased directors and officers insurance premiums, and could have a material adverse effect upon our business, results of operations and financial condition.

The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our 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. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the PRC authorities, our auditor is not currently inspected by the PCAOB. As a result, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause 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 will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

The HFCAA, which was signed into law on December 18, 2020, states that if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC should prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA, pursuant to which the SEC will identify an issuer as a "Commission-Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in Mainland China and Hong Kong. The PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. In March 2022, the SEC issued its first provisional list of issuers identified under the HFCAA indicating that the companies on the list are now formally subject to the delisting provisions if they remain on the list for three consecutive years. Therefore, we expect to be identified as a "Commission-Identified Issuer" shortly after the filing of this annual report on Form 20-F.

Whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on the annual report on Form 20 F for the year ended December 31, 2023, which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our and our auditor's control. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list our securities on a non-U.S. exchange or that a market for our securities will develop outside of the United States. Such a prohibition 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. In addition, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would materially and adversely affect our business, financial condition, and prospects.

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

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 noncompliant activities under the applicable laws and regulations, such as illegal fund-raising, forming fund collection 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 and offline consumption 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.

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 through our PRC subsidiaries, the variable interest entities and their subsidiaries. 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 it may influence our operations, which could result in a material adverse change in our operation, and our ordinary shares and ADSs may decline in value or become worthless. Also, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and 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. 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.

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

On March 15, 2019, the National People's Congress promulgated the PRC Foreign Investment Law, which became effective on January 1, 2020 and replace 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. Meanwhile, the Implementation Regulations on the Foreign Investment Law, which was promulgated by the State Council in December 2019 and became effective on January 1, 2020, further clarified and elaborated the relevant provisions of the Foreign Investment Law.

However, there still exist uncertainties in relation to the interpretation and implementation of the Foreign Investment Law and its implementation regulations. 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. However, the Implementation Regulations on the Foreign Investment Law still remain silent on whether contractual arrangements should 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 prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. In addition, the Foreign Investment Law provides that foreign-invested enterprises established before the Foreign Investment Law came into effect may maintain their structure and corporate governance within a five-year transition period, which means that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries when such transition period ends. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

We 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 their taxable income under the contractual arrangements it currently has in place with the variable interest entities and their subsidiaries, in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us.

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 discretionary surplus funds. These statutory reserve funds and the discretionary surplus funds are not distributable as cash dividends.

In response to the persistent capital outflow and RMB’s depreciation against the 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, 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, in November 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 the owner’s equity in the latest audit report of such domestic enterprise. 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 making loans to our PRC subsidiaries and consolidated variable interest entities or making 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 filing or registration with the 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 certain information reporting requirements on foreign investors or the applicable foreign investment entities. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Foreign Investment.” 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 statutory limit. Any medium or long-term loan to be provided by us to the variable interest entity must be recorded and registered by the National Development and Reform Committee, or the NDRC, 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 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 Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of 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. In March 2015, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises, or SAFE Circular 19. SAFE Circular 19 became effective 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. In June 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using the Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, securities investment (except for guarantee products issued by bank), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use (except for real estate enterprises). In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment on October 23, 2019, or SAFE Circular 28, pursuant to which all foreign-invested enterprises can make equity investments in the PRC with their capital funds in accordance with the law. As SAFE Circular 28 is new and the relevant government authorities have broad discretion in interpreting the regulation, it is unclear whether SAFE will permit such capital funds to be used for equity investments in the PRC in actual practice.

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

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or record-filings on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any consolidated variable interest entity or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or consolidated variable

interest entities when needed. If we fail to complete such registrations or record-filings, our ability to use foreign currency, including the proceeds we received from our initial public offering, and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Fluctuations in exchange rates could have a material adverse effect on our results of operations and the price of our ADSs.

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

Governmental control of currency conversion may limit our ability to utilize our operating revenue effectively and affect the value of your investment.

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 operating revenue 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 substantial capital outflows of China in 2016 due to the weakening of Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting processes have been 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 to foreign currencies in the future 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 provident 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 or at all, have not registered with certain governmental authority to make social insurance and housing provident funds contributions, and have engaged third-party human resources agencies to pay on our behalf for some of our employees. Neither have we fully withheld the individual income tax in accordance with the relevant PRC laws and regulations. With respect to the underpaid employee benefits or failure to complete the social insurance registration and housing provident fund registration, we may be required to make up the contributions for these plans as well as to pay late fees and fines or be subject to legal sanctions; with respect to the under withheld 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 under withheld individual income tax, our financial condition and results of operations may be adversely affected.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may subject us to penalties or liabilities.

The PRC Labor Contract Law, which was enacted in 2008 and amended in 2012, introduced specific provisions related to fixed-term employment contracts, part-time employment, probationary periods, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining to enhance previous PRC labor laws. Under the Labor Contract Law, an employer is obligated to sign a non-fixed term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract, with certain exceptions, must have non-fixed term, subject to certain exceptions. With certain exceptions, an employer must pay severance to an employee where a labor contract is terminated or expires. In addition, the PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the Labor Contract Law.

These laws and regulations designed to enhance labor protection tend to increase our labor costs. In addition, as the interpretation and implementation of these regulations are still evolving, our employment practices may not be at all times be deemed in compliance with the regulations. As a result, we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

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 Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the anti-monopoly law enforcement agency shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. On February 7, 2021, the Anti-Monopoly Committee of the State Council published the Anti-Monopoly Guidelines for Internet Platforms, which stipulates that any concentration of undertakings involving variable interest entities shall fall within the scope of anti-monopoly review. If a concentration of undertakings meets the criteria for declaration as stipulated by the State Council, an operator shall report such concentration of undertakings to the anti-monopoly law enforcement agency under the State Council in advance. Therefore, our potential acquisitions of other entities that we may make in the future (whether by ourselves, our subsidiaries or through the variable interest entities) and that meets the criteria for declaration may be required to be reported to and approved by the anti-monopoly law enforcement agency, and we may be subject to penalties, including but not limited to a fine of no more than RMB500,000 if we fail to comply with such requirement. In addition, the security review rules issued by the Ministry of Commerce 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 Ministry of Commerce, 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 Ministry of Commerce 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 Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies, 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 was issued to replace the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments through Overseas Special Purpose Vehicles, or SAFE Circular 75. In February 2015, SAFE released the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which has amended SAFE Circular 37 by requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

If our shareholders who are PRC residents or entities do not complete their registration as required, 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. Jay Wenjie Xiao, who directly or indirectly holds shares in our Cayman Islands holding company and who is known to us as being a PRC resident, has completed the foreign exchange registrations in accordance with SAFE Circular 75 then in effect.

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 and 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 SAFE Circular 7. Pursuant to the SAFE Circular 7, PRC citizens and non-PRC citizens who reside in China for a continuous period of no 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 no 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, or otherwise materially adversely affect our business. 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—Regulations—Regulations Relating to Foreign Currency Exchange."

The State Administration of Taxation, or SAT, has issued certain circulars concerning employee share incentives. Under these rules and regulations, 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—Regulations—Regulations Relating to Foreign Currency Exchange."

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, enterprises that are registered in countries or regions outside the PRC but have their "de facto management bodies" located within China may be considered as PRC resident enterprises and are therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. For detailed discussions of applicable laws, regulations and implementation rules, see "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Tax—Enterprise Income Tax."

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." 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 LexinFintech Holdings Ltd. or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then LexinFintech Holdings Ltd. or such subsidiary could be subject to PRC tax at a rate of 25% on its worldwide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends we distribute to non-PRC resident holders may be subject to PRC withholding tax, and 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 your investment in the ADSs or ordinary shares.

If the status of certain of our PRC subsidiaries and variable interest entities as "High and New Technology Enterprises" or "Software Enterprises" is revoked or expires, we may have to pay additional taxes or make up any previously unpaid taxes and may be subject to a higher tax rate, which would adversely affect our results of operations.

The PRC Enterprise Income Tax Law generally imposes a uniform income tax rate of 25% on all enterprises, but grants preferential treatment to "High and New Technology Enterprises", or HNTEs, pursuant to which HNTEs are instead subject to an income tax rate of 15% when they meet the conditions on preferential tax rate, subject to a requirement that they re-apply for HNTE status every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria, and will be subject to the regular 25% income tax rate for any year in which it does not meet the criteria. Beizhipiji is qualified as an HNTE for the three years ending December 31, 2017, 2018, and 2019. In March 2020, Mengtian Technology and Shenzhen Lexin Software Technology Co., Ltd. received confirmation from the relevant PRC government agencies that they qualify as HNTEs for the three years ending December 31, 2019, 2020, and 2021, and will need to re-apply for HNTE qualification in 2022. However, Mengtian Technology failed to satisfy the accreditation conditions concerning tax incentives of HNTEs in 2020 and 2021, and the status of Beizhipiji as an HNTE expired in 2019 without obtaining such new qualification. As a result, both Mengtian Technology and Beizhipiji were subject to the uniform income tax rate of 25% in 2020 and 2021.

The PRC Enterprise Income Tax Law and its implementing rules and other relevant regulations and rules provide that a “Software Enterprise” is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years, and each of Shenzhen Lexin Software Technology Co., Ltd. and Shenzhen Dingsheng Computer Technology Co., Ltd., a subsidiary of the variable interest entity, was qualified as “Software Enterprises” in 2017. Therefore, Shenzhen Dingsheng Computer Technology Co., Ltd. is entitled to an income tax exemption for the years of 2017 and 2018 and a preferential income tax rate of 12.5% from 2019 to 2021. Shenzhen Lexin Software Technology Co., Ltd. is entitled to an income tax exemption for the years of 2017 and 2018. With respect to the year of 2019, pursuant to the Circular on Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries, or the Circular 27, key software enterprises included in the state planning that have not benefited from the preferential treatment of tax exemption in the current year may be subject to enterprise income tax at a reduced rate of 10%, Shenzhen Lexin Software Technology Co., Ltd. was accredited as a key software enterprise so that it was subject to a 10% income tax rate in 2019. Shenzhen Lexin Software Technology Co., Ltd. was subject to 12.5% income tax rate as a “Software Enterprise” in 2020 and 2021. However, these enterprises shall go through record-filing with the tax authority at the time of final settlement each year and be subject to the examination by the relevant authorities in PRC.

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 subsidiaries.

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, or the Double Taxation Arrangement, 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. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Tax—Dividend Withholding Tax.” 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 that 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 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.

According to the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or Circular 7, promulgated by the State Administration of Taxation, or SAT, in February 2015, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by transfer of the equity interests of an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market) without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and the indirect equity transfer will be treated as a direct transfer. As a result, the gain derived from such transfer, which means the equity transfer price minus the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of Circular 7, the transfer which meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company are directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company (excluding cash) are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company’s revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; or (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Tax—Income Tax for Share Transfers.”

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 and our non-PRC resident investors may be subject to filing obligations or taxed or subject to withholding obligations in such transactions, under Circular 7. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” 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 Circular 7. As a result, we may be required to expend valuable resources to comply with Circular 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 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.

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 December 24, 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or the Draft Administrative Provisions, and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or the Draft Filing Measures, both of which were open for public comments until January 23, 2022. Under these draft new rules, a filing-based regulatory system will be applied to "indirect overseas offering and listing" of PRC domestic companies, which refers to such securities offering and listing in an overseas market made in the name of an offshore entity, but based on the underlying equity, assets, earnings or other similar rights of a domestic company which operates its main business domestically. It is still uncertain when the final versions of these new provisions and measures will be issued and take effect, how they will be enacted, interpreted or implemented, and whether they will affect us. Assuming the Draft Administration Regulations and the Draft Filing Measures become effective in their current forms, any of our offering and listing in an overseas market in future may be subject to the filing with the CSRC. If it is determined that any approval, filing or other administrative procedure from the CSRC or other PRC governmental authorities is required for any future offering or listing, we cannot assure that we can obtain the required approval or accomplish the required filings or other regulatory procedures in a timely manner, or at all. If we fail to obtain the relevant approval or complete the filings and other relevant regulatory procedures, we may face sanctions by the CSRC or other PRC regulatory agencies, which may include fines and penalties on our operations in China, limitations on our operating privileges in China, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our 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 ADSs.

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

Shareholder claims or regulatory investigations that are common in jurisdictions outside China are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may

establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States or other jurisdictions may not be efficient in the absence of a mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC, and without the consent by the Chinese securities regulatory authorities and the other competent governmental agencies, no entity or individual may provide documents or materials related to securities business to any foreign party. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability of an overseas securities regulator to directly conduct investigation or evidence collection activities within China and the potential obstacles for information provision may further increase difficulties you face in protecting your interests. See also “—Risks Related to the American Depositary Shares—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” for risks associated with investing in us as a Cayman Islands company.

Risks Related to the American Depositary Shares

The market price for our ADSs may be volatile.

Since the Company’s ADSs became listed on Nasdaq on December 21, 2017, the trading price of our ADSs has ranged from US\$1.90 to US\$20.00. The trading prices of 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 internet or other companies based in China that have listed their securities in the United States in recent years. The trading performances of other Chinese companies’ securities, 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 the 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, third quarter of 2015 and the first quarter of 2016, which may have a material adverse effect on the market price of our ADSs. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular industries or companies. For example, the actual and perceived worldwide economic effect of the COVID-19 pandemic has caused a significant drop in prices on global stock markets, and appears to have similarly had an adverse impact on the market price of our ADSs.

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

- regulatory developments affecting us, our users, or our industry;
- conditions in the online consumer finance industry and the public perception of the legitimacy and ethics of certain business practices of our competitors or other market players within the industry;
- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other online and offline consumption 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 Class A ordinary shares or the ADSs; and
- sales or perceived potential sales of additional Class A ordinary shares or ADSs.

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.

We cannot guarantee that any share repurchase program will be fully consummated or that any share repurchase program will enhance our long-term shareholder value, and share repurchases could increase the volatility of the price of our ADSs and diminish our cash reserves.

On March 16, 2022, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$50 million worth of our ADSs over the next twelve months through March 16, 2023. Our share repurchases could affect our ADS trading prices, increase their volatility, reduce our cash reserves and may be suspended or terminated at any time, which may result in a decrease in the trading prices of our ADSs.

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 the ADSs may view as beneficial.

We have a dual-class share structure such that our ordinary shares consists of Class A ordinary shares and Class B ordinary shares with disparate voting powers. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at general meetings of the Company, and each Class B ordinary share shall entitle the holder thereof to ten votes on all matters subject to vote at general meetings of the Company. 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 in any event. As of March 31, 2022, Mr. Jay Wenjie Xiao, the beneficial owner of our Class B ordinary shares, beneficially owns 78.0% of the aggregate voting power of our company. As a result, Mr. Jay Wenjie Xiao will have considerable influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder to any non-affiliates of such shareholder, or upon a change of control of the shareholder who holds the Class B ordinary share, each of such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share. If at any time Mr. Jay Wenjie Xiao and his affiliates collectively hold less than five percent (5%) of our issued and outstanding shares, each Class B ordinary share will automatically be re-designated into one Class A ordinary share without any action being required by the holders of Class B ordinary shares and whether or not the certificates representing such shares are surrendered to the Company or its transfer agent, and no Class B ordinary shares shall be issued by us thereafter. The concentrated control associated with our dual-class share structure 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 the ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

Moreover, S&P, Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our ordinary shares may prevent the inclusion of our ADSs representing Class A ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our ADSs.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in the ADSs as a source for any future dividend income.

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends either out of profits or share premium, 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 declare and pay dividends on our ordinary shares, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value in the future or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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

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

We may be subject to short seller attacks from time to time. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we may have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short sellers by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could divert management's attention from the day-to-day operations of our company. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact the market price of our ADSs and our business operations.

Substantial future sales or perceived potential sales of the 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 the ADSs to decline. As of March 31, 2022, we had 274,312,486 Class A ordinary shares outstanding, including 269,935,730 Class A ordinary shares represented by ADSs. All of our ADSs will be freely transferable without restriction or additional registration under the Securities Act. The remaining Class A ordinary shares outstanding will be available for sale subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. To the extent shares are sold into the market, the market price of the ADSs could decline.

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

We have adopted a 2017 Share Incentive Plan, or the 2017 Plan, under which we have the discretion to grant a broad range of equity-based awards to eligible participants. See "Item 6. Directors, Senior Management and Employees—B. Compensation." We have registered certain ordinary shares that we may issue under this equity compensation plan and intend to register all ordinary shares that we may issue under this equity compensation plan. Once we register these ordinary shares, they can be freely sold in the public market in the form of ADSs upon issuance, subject to volume limitations applicable to affiliates and relevant lock-up agreements. If a large number of our ordinary shares or securities convertible into our ordinary shares are sold in the public market in the form of ADSs after they become eligible for sale, the sales could reduce the trading price of our ADSs and impede our ability to raise future capital. In addition, any ordinary shares that we issue under an equity incentive plan would dilute the percentage ownership held by the investors who purchased ADSs.

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 Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our sixth amended and restated memorandum and articles of association provide that we may (but are not obliged to) each year hold a general meeting as our annual general meeting. As a holder of 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 depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary, as the holder of the underlying Class A ordinary shares that are represented by your ADSs. If we ask for voting instructions, upon receipt of your voting instructions, the depositary will endeavor to vote the underlying Class A ordinary shares represented by your ADSs in accordance with your instructions. You will not be able to directly exercise any right to vote with respect to the underlying Class A ordinary shares represented by your ADSs 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, the minimum notice period required to be given by our company to our registered shareholders for convening a general meeting is seven (7) calendar days. When a general meeting is convened, you may not receive sufficient advance notice to enable you to withdraw the underlying Class A ordinary shares which are represented by your ADSs and become the registered holder of such Class A ordinary 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, 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 Class A ordinary shares which are represented by your ADSs and becoming the registered holder of such shares prior to the record date for the general meeting, 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 depositary will endeavor to notify you of the upcoming vote and to deliver our voting materials to you if we ask it to. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A ordinary shares which are represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct the voting of the underlying Class A ordinary shares that are represented by your ADSs, and you may have no legal remedy if the underlying Class A ordinary shares are not voted as you requested.

Except in limited circumstances, the depositary will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs if you do not give voting instructions, which could adversely affect your interests.

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

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

The effect of this discretionary proxy is that, if you fail to timely and properly give voting instructions to the depositary as to how to vote the underlying Class A ordinary shares represented by your ADSs at any particular shareholders' meeting, you cannot prevent the underlying Class A ordinary shares represented by 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 Class A ordinary shares are not subject to this discretionary proxy.

The deposit agreement may be amended or terminated without your consent.

We and the depositary may amend the deposit agreement, and we may initiate termination of it, 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.

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 depository 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.

Conversion of our convertible notes may dilute the ownership interest of existing shareholders.

We issued US\$300 million principal amount of convertible senior notes due 2026 in September 2019. The conversion of some or all of the notes may dilute the ownership interests of existing shareholders. Any sales in the public market of the ADSs issuable upon such conversion could adversely affect prevailing market prices of our ADSs. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the market price of our ADSs.

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

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

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

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

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the annual report based on foreign laws.

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 individuals 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. However, the deposit agreement gives you the right to submit claims against us to binding arbitration, and arbitration awards may be enforceable against us and our assets in China even when court judgments are not.

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 are 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 (i) is given by a foreign court of competent jurisdiction, (ii) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (iii) is final and conclusive, (iv) is not in respect of taxes, a fine or a penalty, and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands.

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 our directors, actions by our 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 laws 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 (apart from the memorandum and articles of association, the register of mortgages and charges and special resolutions of shareholders) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our 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 our management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

The memorandum and articles of association contains anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our Class A ordinary shares and the ADSs.

Our sixth amended and restated memorandum and articles of association contains certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board 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 holders of the ADSs 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. In addition, our dual-class structure could discourage others from pursuing any change of control transactions. See “—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 the ADSs may view as beneficial.”

Certain existing shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.

As of March 31, 2022, our directors and officers collectively owns an aggregate of 78.1% of the total voting power of our issued and outstanding ordinary shares. As a result, they have substantial influence over our business, including significant corporate actions such as mergers, consolidations, election of directors and other significant corporate actions.

They may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders. In addition, the significant concentration of share ownership may adversely affect the trading price of our 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.”

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

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

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

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Select Market. 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 an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance requirements; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance requirements.

There can be no assurance that we will not be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in 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 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 is attributable to assets that 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 variable interest entities (including their subsidiaries) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to

substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. A certain portion of our financial services income and assets is treated as active solely for purpose of the PFIC determination. Any change in the composition of the loans originated on our platform may affect the composition of our income for purposes of the PFIC determination. Assuming that we are the owner of our variable interest entities (including their subsidiaries) for United States federal income tax purposes, and based upon our current income and assets, including goodwill and unbooked intangibles, we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and do not presently anticipate becoming a PFIC in the current taxable year or the foreseeable future.

While we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and do not anticipate becoming a PFIC in the foreseeable future, because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs, fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years. In particular, recent decline in the market price of our ADSs significantly increased our risk of becoming a PFIC. The market price of our ADSs may continue to decline and, consequently, we cannot assure you of our PFIC status for any taxable year. The determination of whether we will be or become a PFIC will also depend, in part, on the nature and composition of our income and assets, which may be affected by how, and how quickly, we use our liquid assets. If our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or if we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our variable interest entity for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. In addition, it is possible that the IRS may challenge our classification of certain income and assets as non-passive, which may result in our company being a PFIC for the taxable year ended December 31, 2021 or becoming a PFIC in one or more future taxable years.

If we are a PFIC in any taxable year, a U.S. holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—General”) 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 ADSs or our ordinary shares, we will generally continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares. For more information see “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company Considerations.”

We incur significant costs as a result of being a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq, impose various requirements on the corporate governance practices of public companies, including Section 404 of the Sarbanes-Oxley Act of 2002 relating to internal controls over financial reporting. These rules and regulations have increased and may continue to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. Our management is required to devote substantial time and attention to our public company reporting obligations and other compliance matters. 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 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 business and began to operate Fenqile in October 2013 through Shenzhen Fenqile Network Technology Co., Ltd., or Shenzhen Fenqile. In October 2013, Beijing Lejiaxin Network Technology Co., Ltd., or Beijing Lejiaxin, was incorporated as an investment holding company in the PRC and established its wholly owned subsidiary, Shenzhen Beizhipiji Technology Co., Ltd. or Beizhipiji in June 2014 to operate our online investment platform Juzi Licai. In November 2013, Staging Finance Holding Ltd., or Staging Finance, was incorporated under the laws of the Cayman Islands as our offshore holding company, which then established our wholly owned subsidiary, Installment (HK) Investment Limited, or Installment HK, in Hong Kong. Beijing Shijitong Technology Co., Ltd., or Beijing Shijitong was established in July 2014 as a wholly owned subsidiary of Installment HK in the PRC. In March 2017, we changed our name from “Staging Finance Holding Ltd.” to “LexinFintech Holdings Ltd.”

Through Beijing Shijitong and Shenzhen Lexin Software Technology Co., Ltd., we obtained control over Beijing Lejiaxin, Shenzhen Xinjie, Shenzhen Fenqile, Qianhai Dingsheng and Mengtian Technology, or collectively, the variable interest entities, based on a series of contractual arrangements. See “—C. Organizational Structure—Contractual Arrangements with the Variable Interest Entities.”

On December 21, 2017, our ADSs commenced trading on Nasdaq under the symbol “LX.” We raised from our initial public offering of approximately US\$108.4 million in net proceeds (including the net proceeds generated from the offering of additional 1,800,000 ADSs upon the underwriters’ exercise of their over-allotment option in full) after deducting underwriting commissions and the offering expenses payable by us.

In September 2019, we issued and sold convertible notes in an aggregate principal amount of US\$300 million to PAGAC Lemongrass Holding I Ltd. through a private placement. The convertible notes will mature in seven years, bearing interest at a rate of 2.0% per annum. The notes will be convertible into fully paid Class A ordinary shares of the Company or ADSs at a conversion price of US\$14 per ADS at the holder’s option from the date that is six months after the issuance date. The holder of the notes will have the right to require us to repurchase for cash all or any portion of the notes on the fourth anniversary of the issuance date.

In February 2020, we successfully bid for a plot of land in Shenzhen’s Nanshan district. Total purchase price for the acquisition of the land plot was RMB1.032 billion. Pursuant to the terms of the bid, the Company was required to pay 50% of the total purchase price (minus the security deposit) immediately after the signing of the definitive agreements, and the remaining 50% of the purchase price within one year after the signing. The Company made the first installment payment of RMB516 million in February 2020, and the second installment payment of RMB516 million in February 2021. The land use rights are subject to certain agreed-upon performance requirements and transfer restrictions.

Our principal executive offices are located at 27/F, CES Tower, No. 3099 Keyuan South Road, Nanshan District, Shenzhen 518057, the People’s Republic of China. Our telephone number at this address is +86 755 3637 8888. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Uglund 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 2nd Avenue, Suite 403, New York, NY 10017.

Strategic Investments

We have made investments in businesses in China and abroad. Our investment activities in recent years include equity investments in companies operating in the online consumer finance, individual consumption loans, consumer finance, insurance and fintech industries. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—From time to time we may evaluate and consummate strategic investments or acquisitions, which could require significant management attention, disrupt our business and adversely affect our financial results.” We expect to continue to evaluate and pursue potential opportunities for strategic investments.

B. Business Overview

Overview

We are a leading online and offline consumption platform and a technology-driven service provider in China. Established in 2013, we leverage our profound understanding of consumers in China and the valuable experience of partnering with hundreds of financial institutions over the years, as well as our advanced technological capabilities, to connect fast-growing new generation consumers and small and micro enterprise (SME) owners with well-established national and regional funding partners.

We provide a range of services to consumers, including bridging credit facilities, location-based services (LBS) shopping experience with buy-now and pay-later (BNPL) options through our *Maiya* application, membership benefits, and a point redemption system through our *Fenqile* ecommerce platform. We also provide a range of services to merchants and branded retailers, including customer acquisitions and credit facilities assistance. Furthermore, we provide a range of services to financial institutions, including customer acquisitions, credit and risk assessment, operation upgrading and loan origination assistance by utilizing advanced technologies such as big data, cloud computing and artificial intelligence. The use of these technologies is embodied in our risk management and loan facilitation systems, which allow for the near-instantaneous matching of user's funding requests with offers from cumulatively over 130 funding partners.

We strategically focus on serving the needs of new generation consumers in China between the ages of 23 and 40, including Millennials, Generation Z and New City Youth, who are the driving force of consumption and account for approximately 23% of the total population of China. These are the customers, we believe, with high income potential, more advanced educational background, higher consumption needs, a temporary mismatch between their needs and their income levels (which creates needs for consumption smoothing), a strong desire to build their credit profile, and an appreciation for an efficient user experience. In addition, we believe that new generation consumers in China will mature to become the primary group of consumers within the Chinese economy in the future. We are poised to become one of the most trusted brands in the new generation consumption space.

We are also expanding rapidly in serving the needs of SME owners, which are in line with policy direction. We are well-positioned to offer a comprehensive solution package built upon our sophisticated risk assessment models and systems, credit facilitation capabilities and know-hows on operation upgrading. The loan origination generated by serving SME owners reached RMB15.3 billion in 2021, or 7.1% of our total loan origination, and is expected to further grow in 2022.

Our Services

We provide a range of products and services to consumers, micro- and small-business owners, diversified financial institutions, and retail merchants based on our insights of consumer behaviors and unique platform capabilities, including credit-driven platform services, technology-driven platform services, and new consumption-driven, location-based services. Our total operating revenue was RMB10,604 million in 2019, RMB11,645 million in 2020, and RMB11,381 million (US\$1,786 million) in 2021. Contribution from technology-driven platform services and new-consumption-driven LBS has been increasing and reached over 30% in 2021. We originated RMB177 billion and RMB214 billion (US\$33.6 billion) in loans in 2020 and 2021, respectively.

Credit-Driven Platform Services

We apply AI-based matching technology on our *Fenqile* platform to match underserved consumers with credit demands with funding sources and provide post-loan services. These services include customer acquisition, initial credit screening, and loan collections to facilitate transactions for financial institutions. We also provide guarantee and insurance services to our borrowers based on our partnership with licensed third-party financial guarantee providers and/or commercial insurance companies.

Technology-Driven Platform Services

We offer a comprehensive set of technology-driven platform services to our financial institution customers and partners that enable them to increase revenues, manage financial risks, improve operating efficiency, improve service quality, enhance collections, and reduce overall costs – thereby improving their operations, competitiveness, and profitability. Our technology-driven platform services include services under the profit-sharing model, fintech upgrade model, and customer acquisition service model. We charge primarily a service fee for our offerings.

Profit-sharing model

Our profit-sharing model focuses on empowering the direct lending capability of financial institutions with our customer acquisition and risk control capabilities. As of December 31, 2021, we had provided such services to 27 financial institutions with total loan originations of more than RMB90 billion.

Fintech upgrade model

The fintech upgrade model was launched in 2021. Under this model, we offer solutions consolidating services on channels, products, risk controls and business operations to help financial institutions build up the competitiveness of their in-house capability and proprietary products, achieving growth with low costs and risk exposure.

Customer acquisition service model

In addition to providing user acquisition and matching, initial credit screening, and post-loan services to our financial institution partners, we also refer users on our platform for whom we are temporarily not in a position to provide services to other third-party online lending platforms. Such service is generally intended to provide more options for our users and serves to complement our other services.

New Consumption-Driven, Location-Based Services

Our e-commerce and Maiya platforms provide services to merchants, leveraging on our capabilities in technology, payment and risk control. Location-based services are also provided to local merchants, equipping them with a business platform to strengthen their consumer-based operations and offering consumers access to cost-effective products and services, as well as a superior shopping experience.

Such services primarily target merchants, shopping malls, and brands. We provide software and services for them to conduct sales and marketing, with the goal to drive transaction volume, for which we charge a service fee. As of December 31, 2021, we had served more than 7.5 million users and 5,000 merchants cumulatively with such services.

Our Users

Our target user base is focused on new generation consumers in China between the ages of 23 and 40 and SME owners. As of December 31, 2021, more than 60% and more than 5% of the 36.9 million users of our credit products were urban working population and SME owners, respectively. We provide customized services and products to our borrowers based on their credit needs and risk profiles through diversified financing channels. Our Fenqile is a highly recognized brand with strong user stickiness. Around 80% of all active users on our platform were repeat users who had made at least one transaction on our platform before in the same year or in the previous year. We believe that the high rate of repeat users on our platform is primarily due to our ability to address the credit needs of our borrowers with easy and efficient lending process, as well as the flexibility of repayment solutions on our platform.

Our Products

On *Fenqile*, we offer credit lines to qualifying customers that can then be applied to a variety of use, which we generally categorize as either personal installment loans or installment purchase loans. Our credit products provide our customers with competitive interest rates and flexible repayment solutions. All of our loan products are unsecured and feature fixed monthly payments with various terms. In 2020 and 2021, we originated RMB177 billion and RMB214 billion (US\$33.6 billion) in loans, representing a year-on-year increase of 21%. As of December 31, 2019, 2020 and 2021, the average user loan balance was RMB7,829, RMB8,125 and RMB8,753 (US\$1,374), respectively.

We also offer a scenario-based lending through *Le Hua Card*, which can be connected directly to our customers' preferred payment solution provider, such as Alipay, WeChat Pay, and UnionPay. Customers can apply the use of the *Le Hua Card* under any offline and online consumption scenario where their preferred payment solution is accepted, allowing them to use their credit line for instant purchase or cash-advance.

We have also stepped up our services to SME owners since 2020. For example, the Weledai loan product helps high-quality SMEs with good credit profiles to meet their working capital needs for daily operations. As of the date of this annual report, we have served the credit needs for nearly a million SME owners.

When a user first applies for a credit line, the amount of credit line we offer ranges from RMB5,000 to RMB50,000 and the aggregate loan amount of personal installment loans and installment purchase loans borrowed by a single user may not exceed the credit line available to the customer. The credit line available to a customer, once approved, does not have a term limit. Based on our continuous risk monitoring and assessment, we may unilaterally adjust the amount of the credit line, change the percentage of the credit line that may be applied towards personal installment loans, or revoke the credit line. We may grant up to RMB200,000 credit line to existing users who have established a strong credit history with us.

Users approved for our credit line are automatically eligible for installment loans with terms generally ranging from 1 to 36 months. Users can have multiple installment loans outstanding as long as the aggregated outstanding balance does not exceed the credit limit available for installment loans. Users may use installment loans to obtain cash or to finance purchases from third-party merchants on our marketplace through our e-commerce channel.

User Acquisition and Retention

To date, we have successfully accumulated a large user base and achieved deep market penetration among new generation consumers in China by providing a consumption platform that integrates high quality financial services, online and offline consumption scenarios, membership benefits, and an efficient customer experience.

We acquire customers primarily through four methods: (i) online advertising and related channels, including online platforms and Apps such as Douyin and Wechat, as well as paid placements and advertisements; (ii) natural traffic, which consists of internet traffic generated from our brand recognition, as well as referrals from our existing customers; (iii) our offline sales force, and (iv) our *Maiya* and e-commerce platforms.

In 2021, we further optimized our online customer acquisition model, which is our primary source of customer acquisition. We conducted a more refined classification of our customer cohorts to provide differentiated credit lines, pricing and billing terms, with the aim to drive customer acquisition while maintaining a cost-efficient structure.

We have also expanded our offline sales force to focus more on serving regional users and SME owners. As of December 31, 2021, we had expanded our offline sales team to more than 2,000, which contributed to over 20% of loan originations from new customers in 2021.

We have also been further deepening our understanding of consumption scenarios for our *Maiya* and e-commerce platforms, in order to better serve the needs of our users based on their consumption and lifestyle needs and preferences.

Our Institutional Customers and Funding Partners

We benefit from our position of having diversified funding sources. We primarily finance the loans to users through funding provided by commercial banks, consumer finance companies, microcredit companies and other licensed financial institutions as well as through the establishment of consolidated trusts and issuance of asset-backed securities. We refer to these funding sources collectively as our institutional funding partners. In 2021, institutional funding accounted for 100% of all our newly funded loans.

We added 14 new funding partners in 2021 and had cumulatively served over 130 funding partners as of December 31, 2021. The outstanding balance of funds provided by institutional funding partners increased from RMB52.1 billion as of December 31, 2019 to RMB77.4 billion as of December 31, 2020, and further to RMB88.6 billion (US\$13.9 billion) as of December 31, 2021.

We have been strengthening our funding diversity, notably following the restrictions on cross-provincial business imposed on regional banks. With our regional funding partners, we have been stepping up the customer acquisition and

operation capability to enhance the asset-matching locally. At the same time, we have also been broadening our cooperation with nationwide financial institutions.

Our value propositions for our financial institution partners include risk management technology support, efficient borrower acquisition through online and offline channels, and satisfying risk-adjusted returns throughout the economic cycle. Our technology infrastructure is integrated with risk management systems of our partners, providing them with seamless and real-time risk management experience.

Our proprietary *Wormhole* system connects our users and funding partners' systems in real time that minimizes manual review and approval by the funding partners and allocates funding needs to various funding sources with different risk-and-return parameters. We use our platform to refer qualified users to institutional partners based on applicable risk and return requirements. We are capable of allocating and sending qualified user loans and proposed credit limits to funding partners for final approval, with both typically completed in an automated process using sophisticated algorithms.

Armed with the long-standing cooperation with our institutional funding partners, an in-depth understanding of their needs and trust built over the years, we started to offer fintech upgrade services in the second half of 2021, with the aim to be a trusted co-builder of their online retail and credit businesses. We help financial institutions build up their in-house capability and strengthen the competitiveness of their self-operated products, facilitating their journey of digitalization. We provide digitalized solutions throughout the credit process, including channel co-building, product co-building, risk controls, and user operations. We are committed to helping our institutional funding partners boost their business by improving brand recognition, acquiring high-quality user assets, and controlling risks more effectively.

Our Unique Risk Management Capabilities

We take an advanced and customized risk management approach by operating a diversified product ecosystem in which we serve the credit needs in various scenarios, implement diversified asset allocation and ensure effective risk management. As one of the first fintech companies providing consumer financial services, we also have industry-leading experience and boast a wealth of consumer insights in China.

Our risk management capabilities are embodied in the following features.

Intelligent Risk Assessment Engine Hawkeye

The proprietary *Hawkeye* system is the cornerstone of our risk management process. It encompasses a wide range of features including complex network, automatic feature generation, user behavior sequence analysis, and unsupervised user clustering, providing decisioning support for all loan lifecycle stages from credit approval, to credit line assignment, transactions, products, fund allocation, anti-fraud and collection.

We have made substantial investments in our Hawkeye risk analytics infrastructure and in the development of the latest generation of our risk management strategies. Our Hawkeye is a highly automated and dynamic credit assessment engine. We have developed more than 60,300 decisioning rules utilizing 22,000 potential data variables and accumulated a massive amount of proprietary data from over 36.9 million users and 249.9 million credit applications since inception. Our team of data scientists uses Hawkeye to build and test scores and strategies across the entire loan transaction process described above under “—Our Loan Application and Approval Process.” Our Hawkeye engine supports a variety of analytical techniques and model outputs from traditional regression models to artificial intelligence. Our Hawkeye engine also utilizes a Restricted Boltzmann Machine algorithm to run an artificial neural network to detect any anomaly indicative of fraudulent behaviors on our platform. Our deep learning algorithms, through supervised learning processes and leveraging our massive data, enable us to identify any red flags for fraud.

We also apply artificial intelligence in assessing credit risks, detecting potential frauds, optimizing marketing resource allocation by segmentation and contact strategy. We have launched an AI-enabled intelligent robot program to assist quality assurance, further improving operational efficiency and ensuring compliance.

Anti-Fraud Detection

We have established unique and powerful analytics tools to identify high-risk behaviors such as identity counterfeit, intermediary fraud, and other fraudulent schemes. We have put in place a comprehensive and detailed monitoring framework for thousands of our online and offline business segment levels, and layered response mechanism to anomaly alerts to

identify emerging fraud patterns for all scenarios, We have also applied real-time behavior pattern analysis to identify potential telecom scams and deployed targeted AI technology to prevent third-party telecom frauds.

Risk Modeling

We have built a high-accuracy customer profiling and risk modeling system covering credit approval, credit limit, pricing, portfolio management, and collection based on thousands of variables on credit history and behaviors derived from our extensive data resources. We continue to explore the emerging features of user behaviors from the massive databases and consistently finetune our machine learning algorithms to improve the performance of risk models and enhance risk assessment capabilities.

Based on a lifecycle loss forecasting framework to predict loan losses as early as on the origination day, we have built a layered monitor and alert system on our credit asset performance that incorporates daily, weekly and monthly tracking on risk KPIs and an automatic impact attribution algorithm, with the ultimate goal to achieve effective risk management from monitoring, identification, assessment, mitigation and implementation.

Technology and Security

As a technology-driven company, our success depends on our technological capabilities. Our research and development expenses in 2021 amounted to RMB549 million (US\$86.2 million), representing a year-on-year increase of 15.8%. Our strong commitments to R&D have enable us to maintain our leading technology capabilities, which are critical to providing a seamless user experience, improvement in operational efficiency, information security of our platform, and our innovative initiatives.

Data Security and Monitoring Capabilities

We have been continuously and systematically building our data security and privacy protection capabilities in line with the Data Security Law and the Personal Information Protection Law. We have completed the formulation of management rules for user data maps and data classification, combined data assets from front-end services, back-end systems to data analytics into a centralized data asset management platform. We have ensured the standardization of data transition through data lineage consolidation and unified data fabrication. We also endeavor to ensure that the whole cycle from data collection to data storage and usage is in accordance with the relevant regulatory and compliance requirements: our proprietary data security systems, including the Lejian system, are capable of automatic detection of non-compliant activities violating requirements of sensitive personal data collection and privilege elevation, ensure standardized data encryption, desensitization and storage security, and create a safe outgoing channel with systematic control measures.

In 2021, we continued to make efforts in data security and privacy protection with increased investment in technology. We have been actively making in-depth cooperation in the security industry by forming a strategic cooperation with Qi'anxin, a leading information security company, to jointly promote the industry practice of data security in consumer finance, and by carrying out in-depth cooperation with large internet platform operators in privacy computing and joint modeling.

Our continued efforts to improve our capacity in data security and privacy protection in line with the Data Security Law and the Personal Information Protection Law have been widely recognized. For example, we received the ISO/IEC 27701:2019 certification from BSI, the internationally recognized certification body, in December 2021. Our *Fenqile* app was awarded the security certification from China Network Security Review Technology and Certification Center (CCRC) in February 2022. In March 2022, our *Lejian* Platform received the Innovation Award of 2021 in the "Super CSO Award in 2021" and the security certification from China Cybersecurity Review Technology and Certification Center (CCRC) in February 2022, indicating that our information security management system and privacy information management system are comparable with the best international standards.

Cloud-based Service and Computing Capabilities

We use key technologies based on cloud-native standards to efficiently deliver a full suite of highly reliable, easily scalable, observable and easy-to-operate/maintain financial business systems for our financial customers, empowering them with our financial capabilities accumulated over the years of operations. The system architecture has undergone a complete overhaul into a fully modularized and plug-in-able design, made possible to orthogonally address extremely complicated business logic. The application and dependencies are integrated into images through the container and immutable infrastructure technology, followed by application resource isolation and second-level deployment with the application of lightweight container technology, which is portable and deployable. Finally, through Kubernetes, which is the best practice of container orchestration, our R&D personnel will only need to focus on the state of the business operation, with the underlying system making dynamic adjustment to system resources based on the loading of the system. Compared to industry peers which generally cooperate with large cloud-service providers, our private cloud technology has helped our financial partners to rapidly deploy on-demand integrated technology systems through fin-tech upgrade.

Big Data Capabilities

We consider data as our core assets. Through data weaving architecture technology, our system covers more than 170 million users, more than 10 billion orders, and more than 200,000 different data lineage points, providing multi-dimensional hierarchical management for storage and processing, dynamically ensuring that more than 99% of data is clean and available.

We have established a real-time, intelligent attribution decision-making system to support intelligent decision-making and enhanced analytics, which is capable of automatically collecting a large number of strategic operational events for real-time computing and algorithmic analysis. The decision tree is visualized for automatic attribution, enabling rapid product processing and responsive decision adjustments within one hour.

We have established online profile management for our users, which systematically supports millions of tags management, including 1,000 high-value tags with over 10 billion features, empowering our capabilities in business growth, matching, anti-fraud, risk assessment, and retail recommendation. Our real-time computing is extensively applied in intelligent decision-making and business monitoring. We have developed an autonomous management system based on DataOps and over 200,000 data calls and computational lineages, shortening the time required for self-service data insight and invocation within one minute.

Use of AI in Risk Controls and Operations

As a leading fin-tech company, we attach great importance to the application of AI technology in risk controls. We have been actively pursuing in privacy computing with a target to better protect the privacy of our user data and apply third-party data in a more comprehensive way. We cooperate with mainstream data vendors in joint-modeling based on federal learning, which is applied to credit and marketing scenarios and could enhance the efficiency of high-risk interception and accurate marketing. We have developed our own federal learning platform, explored edge computing, and achieved risk assessment without leaving the terminal. Privacy computing will gradually become the infrastructure of our AI capabilities.

In connection with credit matching, we have optimized the matching algorithm by adding a structured budget planning module for optimal decision results. In the real-time matching process, the lending risk is steadily and effectively controlled by a sensitive and perceptive control module. The multi-objective, optimized algorithms and multi-level reinforcement learning will facilitate dynamic adjustment to the matching strategy in response to real-time changes for optimal decision making.

We are making efforts in various aspects for accurate customer acquisition, including in-depth cooperation with media, leveraging media resources and acquiring users with the assistance of media platforms, and making full use of ecological resources for mining of crowd attributes based on federal learning and joint modeling. We have established marketing models such as conversion rate model and user value model to integrate dimensions of responses and risks, screen high-quality users, and improve the cost effectiveness and quality of our user acquisition.

Competition

The online and offline consumption market is highly competitive and evolving in China. As a leading online and offline consumption platform and a technology-driven service provider in China, we face competition from other platforms, major internet players, traditional financial institutions as well as other installment loan service providers.

Some players from the internet industry have built up a large user base because of their strength in online consumption scenarios and financial resources. With the implementation of anti-monopoly policies, we expect the market landscape to change in favor of other players, with more opportunities to develop their strength and gain market share. We are strategically focused on the new generation consumers. Our consumption scenarios, risk control efficiency and user experience are major differentiations and niches that we enjoy over banks and other platform operators. We believe that financial services are built upon trust and we are committed to working with our partners and customers. Multi-dimensional competition is inherent in any new business. We expect to compete directly with dominant players from the internet industry. We may also compete with operators from payment services. Local merchant- and consumer-based services are a new business area, and we may face new competition and challenges.

We believe that our ability to compete effectively for users, investors and funding partners depends on many factors, including the variety of products, user experience, effectiveness of risk management, the risk-adjusted return, our partnership with third parties, our marketing efforts and the strength of our brand. Furthermore, as our business continues to grow, 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 attract additional talent.

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. We have registered 165 patents in China and have applied for 385 additional patents with the PRC State Intellectual Property Office and we also have three international patent applications through the procedures under the Patent Cooperation Treaty. We have registered 202 software copyrights and 3 copyrights for artworks with the PRC National Copyright Administration. We have 160 registered domain names, including lexin.com, lexinfintech.com, and Fenqile.com. As of the date of this annual report, we had 446 registered trademarks, including our “LEXIN 乐信,” “Fenqile, and “分期乐” trademarks.

Insurance

We maintain property insurance policies covering certain equipment and other property that are essential to our business operations to safeguard against risks and unexpected events. We also provide social security insurance including pension insurance, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance, and housing provident fund plans through a PRC government-mandated defined contribution plan for our employees. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China.

Seasonality

We experience some seasonality in our business, reflecting a combination of seasonal demand for consumer loans and seasonality patterns associated with the online retail industry. For example, we generally experience less user traffic and purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, e-commerce companies in China hold special promotional campaigns on November 11 each year, which improve our results for that quarter. The demand for our products and services is higher in March, April, September, October and November, which generally corresponds to the start of school and our promotional activities around November 11. While our rapid growth has somewhat masked this seasonality, our quarterly operating results could be affected by such seasonality in the future. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our quarterly results may fluctuate significantly due to the seasonality of our business and may not fully reflect the underlying performance of our business.”

Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China.

We are regulated by various government authorities, including, among others:

- the Ministry of Industry and Information Technology, or the MIIT, regulating the telecommunications and telecommunications-related activities, including, but not limited to, the internet information services and other value-added telecommunication services;
- the PBOC, as the central bank of China, regulating the formation and implementation of monetary policy, issuing the currency, supervising the commercial banks and assisting the administration of the financing;
- the CBRC (which was integrated by China Banking Regulatory Commission, or the CBIRC, and other governmental departments in April 2018), regulating financial institutions and promulgating the regulations related to the administration of financial institutions.

Regulations Relating to Foreign Investment

The PRC Foreign Investment Law

The establishment, operation and management of corporate entities in the PRC, including foreign-invested companies, are subject to the Company Law of the PRC, or the Company Law, which was issued by the Standing Committee of the National People’s Congress, or the NPC Standing Committee, on December 29, 1993 and took effect on July 1, 1994. It was last amended on October 26, 2018. Unless otherwise provided in the PRC Foreign Investment Law, the provisions of the Company Law shall prevail.

In March 2019, the NPC passed the PRC Foreign Investment Law, which became effective in January 2020. The PRC Foreign Investment Law replaces the Law on Sino-Foreign Equity Joint Ventures, the Laws on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC. In December 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, which became effective in January 2020 and further clarified and elaborated the relevant provisions of the Foreign Investment Law. The Foreign Investment Law and its implementation regulations embody the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments, including, among other things:

- Negative List. Investments in the PRC by foreign investors and foreign-invested enterprises are regulated by the Catalogue of Industries in which Foreign Investment is Encouraged (2020 edition), or the 2020 Catalog, and the Special Administrative Measures for Foreign Investment Access (Negative List 2021), or the 2021 Negative List, was promulgated by the Ministry of Commerce and the NDRC in December 2021 and became effective on in January 2022. The Foreign Investment Law reiterates and officially establishes the pre-access national treatment plus negative list management system for foreign investment. The negative list, in a unified manner, lists the restrictive measures for the entry of foreign investment. It further expands the scope of permitted industries by foreign investment by reducing the number of industries that fall within the negative list where restrictions on the shareholding percentage or requirements on the composition of board or senior management still exists. In addition, industries such as value-added telecommunication services (except e-commerce, domestic multi-party communications services, store-and-forward service and call center service), including internet information services, are still restricted from foreign investment pursuant to the Negative List (2021 Revision). We provide the value-added telecommunication services that are restricted to foreign investment through the consolidated variable interest entities.
- Information Reporting System. The Foreign Investment Law provides that a foreign investment information reporting system shall apply to the foreign-invested enterprises. In December 2019, the Ministry of Commerce and the SAMR jointly issued the Measures for Reporting of Foreign Investment Information, or the Foreign Investment Information Measures, which became effective in January 2020 and superseded the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises on the same date. Pursuant to the Foreign Investment Information Measures, since January 1, 2020, foreign investors that carry out investment activities directly or indirectly in China and the relevant foreign-invested enterprises shall, through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the SAMR, disclose their investment information to the competent authorities by submitting reports related to the establishment, modification and cancelation of corporations, and their annual reports.
- Transition Period. The Implementation Regulations on the Foreign Investment Law require that, among others, existing foreign-invested enterprises established before the effectiveness of the Foreign Investment Law may choose to change their organizational forms or structures and go through the change of registration procedures at any time prior to January 1, 2025. Otherwise, the relevant local branch of the SAMR shall not process other registration matters applied for by the enterprise, and shall publicize relevant information of such enterprise.

In December 2020, the NDRC and the Ministry of Commerce promulgated Measures for Security Review of Foreign Investment, which became effective on January 18, 2021. The Foreign Investment Security Review Mechanism, or the Security Review mechanism, in charge of organization, coordination and guidance of foreign investment security review is thereunder established. A working mechanism office shall be established under the NDRC and led by the NDRC and the Ministry of Commerce to undertake routine work on the security review of foreign investment. According to the Security Review Mechanism, foreign investment activities falling in the scope such as important cultural products and services, important information technologies and internet products and services, important financial services, key technologies and other important fields that concern state security while obtaining the actual control over the enterprises invested in, a foreign investor or a party concerned in the PRC shall take the initiative to make a declaration to the working mechanism office prior to making the investment.

For more details of the Foreign Investment Law, 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 variable interest entities and their subsidiaries 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 Value-Added Telecommunication Services

According to the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises issued by the State Council in December 2001 and amended in September 2008, February 2016, and April 2022 respectively, the ultimate capital contribution percentage held by foreign investors in a foreign-invested value-added telecommunications enterprise shall not exceed 50% unless otherwise provided by the state. The Circular of the Ministry of Industry and Information Technology on Liberalizing the Restrictions on Foreign Shareholding Percentages in Online Data Processing and Transaction Processing Business (for-profit e-commerce business) promulgated by the MIIT, in June 2015, or Circular 196, allow a foreign investor to own more than 50% of the total equity interest in an e-commerce business.

In July 2006, the Ministry of Information Industry (which was integrated into the MIIT with other governmental departments in March 2008), issued the Notice of the Ministry of Information Industry on Strengthening the Administration over Foreign Investment in the Operation of Value-Added Telecommunications Business, or the MIIT Notice. According to the MIIT Notice, a foreign investor in the telecommunications service industry must establish a foreign invested enterprise and apply for a telecommunications service license. The MIIT Notice also requires that: (i) PRC domestic telecommunications enterprises must not, through any form, lease, transfer or sell a telecommunications service license to a foreign investor, or provide resources, offices and working places, facilities or other assistance to support illegal telecommunications services operations by a foreign investor; (ii) value-added telecommunications enterprises or their shareholders must directly own the domain names and trademarks used in their daily operations; and (iii) each value-added telecommunications enterprise must have necessary facilities for its approved business operations and maintain such facilities only in the regions covered by its license. The Negative List (2021 Revision) stipulates that the ultimate foreign equity ownership in a value-added telecommunications service provider shall not exceed 50%, except for e-commerce business, domestic multi-party communications services business, store-and-forward business and call center business which may be 100% owned by foreign investors.

On June 8, 2020, MIIT issued the Notice of Strengthening the Administration of Call Center Service, which provides that any entities engaging in call center service shall obtain corresponding business permits as required by the relevant laws and regulations, and shall conduct the business subject to the Catalog of Telecommunications Business.

In light of the above restrictions and requirements, we provide the value-added telecommunication services through the consolidated variable interest entities, and such variable interest entities own the relevant domain names and registered trademarks and have the necessary personnel to operate the website.

Licenses and Permits

We are required to hold a variety of licenses and permits in connection with various aspects of our business, including the following:

Value-added Telecommunication Service License

The Telecommunications Regulations of PRC promulgated in September 2000 and amended in July 2014 and February 2016, respectively, by the State Council and its related implementation rules, including the Catalog of Classification of Telecommunications Business issued and amended in June 2019 by the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services. The Administrative Measures on Telecommunications Business Operating, promulgated by the MIIT in 2009 and most recently amended in July 2017, set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Under these regulations, a commercial operator of value-added telecommunications services must first obtain a license for value-added telecommunications business, or value-added telecommunications service license, from the MIIT or its provincial level counterparts.

Administration of mobile internet application information services is strengthened through the Regulations for Administration of Mobile Internet Application Information Services, or the MIAIS Regulations, issued in June 2016 and effective in August 2016. The MIAIS Regulations were enacted to regulate mobile application information services, or the App, the App providers (including App owners or operators) and online App stores. App service providers are required to obtain relevant qualifications pursuant to PRC laws and regulations. On January 5, 2022, the Amendment Draft was published to solicit public comments, under which the provider of the mobile internet application shall be obligated to make and disclose management rules and platform conventions, guarantee cyber data security and personal information protection and complete assessments of security in accordance with applicable laws and regulations with respect to the mobile internet application.

Our online consumer finance platform, Fenqile, operated by Shenzhen Fenqile, has obtained (i) certain value-added telecommunications service license for the operation of domestic call center service and content service (excluding internet content service) from MIIT in July 2017, which will remain valid until July 2022; and (ii) certain value-added telecommunications service license for online data processing and transaction processing from the Guangdong Administration of Telecommunications in July 2019, which will remain valid until July 2024. Our membership platform, Le Card, operated by Mengtian Technology, one of the variable interest entities, has obtained certain value-added telecommunications service license for the operations of online data processing and transaction processing and internet content service from the Guangdong Administration of Telecommunications in February 2022, which will remain valid until January 2024. Furthermore, it is uncertain if the variable interest entities 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.

Online Culture Operating Permit

The Provisional Measures on Administration of Internet Culture issued by the Ministry of Culture (which was integrated into the Ministry of Culture and Tourism, or the MCT, with other governmental departments in March 2018) in February 2011 and amended in December 2017, and other related rules require an entity to obtain an Online Culture Operating Permit from the applicable provincial level cultural administrative authority before engaging in activities related to “online cultural products,” which is defined as cultural products produced, disseminated and circulated via the internet. Pursuant to Interim Measures for the Administration of Online Games promulgated by the Ministry of Culture in June 2010 and amended in December 2017, an entity is required to obtain an Online Culture Operating Permit to engage in transaction service of virtual currencies used for online games. However, in May 2019, the General Office of the MCT promulgated the Circular on Adjusting the Scope of Approval for Online Culture Operating Permit and Further Standardizing the Approval Work, or the MCT Circular 81, pursuant to which the MCT no longer assumed the management responsibilities in relation to the online games industry. Meanwhile, the MCT Circular 81 set forth that, among others, the Online Culture Operating Permit, the scope of which only includes transaction service of virtual currencies used for online games, issued before the date of the circular should remain effective during the validity period while such permit should not be renewed after expiration. Furthermore, the Interim Measures for the Administration of Online Games was annulled by the MCT in July 2019. We provide platform services for trading virtual currencies used for online games on *Fenqile*. We have obtained an Online Culture Operating Permit from the Guangdong Municipal Bureau of Culture in March 2017. However, such Online Culture Operating Permit was expired in March 2020 and could not be renewed due to the MCT Circular 81. It is possible that the PRC government will promulgate new laws and regulations and require additional approvals or licenses or imposes additional restrictions on the transaction service of virtual currencies used for online games, and we cannot assure you that we will be able to obtain such new approvals or licenses.

Audio-Visual Permit

In 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry. In the same year, five PRC regulatory agencies, namely, the Ministry of Culture, the State Administration of Radio, Film and Television, or the SARFT (which was integrated into the National Radio and Television Administration, or the NRTA, with other governmental departments in March 2018), the General Administration of Press and Publication (which was integrated into the NRTA with other governmental departments in March 2018), the NDRC and the Ministry of Commerce, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector. According to these regulations, non-State-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network.

According to the Administrative Regulations on Internet Audio-Visual Program Service, or the Audio-Visual Regulations, promulgated by the SARFT and the MIIT on December 20, 2007, as amended on August 28, 2015, internet audio-visual program service refers to activities of making, editing and integrating audio-visual programs, providing them to the general public via the internet, and providing such services to other people by uploading. An internet audio-visual program service provider shall obtain an Audio-Visual Permit issued by the SARFT or complete certain registration procedures with the SARFT. On March 30, 2009, the SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs, which reiterates the pre-approval requirements for the internet audio-visual programs, including those on mobile network (if applicable).

Pursuant to the Audio-Visual Regulations, providers of internet audio-visual program services are generally required to be either state-owned or state-controlled. According to the Official Answers to Press Questions Regarding the Internet Audio-Visual Program Regulations published on the SARFT’s website on February 3, 2008, the SARFT and MII clarified that providers of internet audio-visual program services who had legally engaged in such services prior to the adoption of the Audio-visual Regulations shall be eligible to re-register their businesses and continue their operations of internet audio-visual program services so long as those providers have not been in violation of the laws and regulations. This exemption will not be granted to internet audio-visual program service providers established after the adoption of the Audio-Visual Regulations. These policies have later been reflected in the Notice on Relevant Issues Concerning Application and Approval of Audio-Visual Permit, issued by the SARFT on May 21, 2008 and amended on August 28, 2015.

According to the Administrative Provisions on Online Audio-visual Information Services promulgated jointly by the CAC, the MCT and the NRTA on November 18, 2019, which became effective on January 1, 2020, online audio-visual information service providers shall authenticate user’s real identity information based on organization code, identity card number, mobile phone number, etc. Online audio-visual information service providers shall not serve users who fail to provide their real identity information.

Regulations Relating to Official Accounts of Internet Users

On September 7, 2017, the CAC promulgated the Administrative Provisions on the Information Services Provided through Official Accounts of Internet Users, which became effective on October 8, 2017. It requires that providers review user information such as account information and qualifications for and scope of services, categorize users, and file such information with the local cyberspace administrator; and further establish a database with respect to registered persons, published content, the number of people subscribing to a given account, and the number of people reading the relevant articles published by the official user accounts, and implement specific management systems for official user accounts to be filed with the CAC. On December 15, 2019, the CAC promulgated the Regulations on the Ecological Governance of Network Information Content, effective from March 1, 2020, which specify the content scopes that are encouraged, prohibited or prevented from producing, re-producing and publishing. The network information content service platforms should fulfill the main responsibility of content management and establish an ecological governance mechanism of the network information, improve system for user registration, account management, information publishing review, emergency response, and etc.

On January 22, 2021, the CAC promulgated the amended Administrative Provisions on the Information Services Provided through Official Accounts of Internet Users, effective from February 22, 2021, further clarifies that the providers shall assume primary responsibility for establishing, improving and strictly implementing user registration, information content verification, emergency response, cyber security, data security, personal information protections, intellectual properties protections, credit assessment and other administration system. The providers shall take measures such as compound verification to authenticate the identification information of registered users based on mobile phone number, organization code, identity card number, etc., and the providers shall not serve users who fail to provide their real identity information or make false registration. In addition, the providers shall mark the verified official accounts and publicize the content category, the name of the operator, the registered operation address, the organization code, contact information and other registration information according to different natures of the users. If any official accounts violate the laws and regulations, the providers shall take appropriate measures to stop any such violations, such as, notifying the user to make corrections, restricting account functions, suspending information update, stopping advertising, closing or cancelling accounts, keep relevant records and promptly report to the competent authorities.

Regulations Relating to Online Consumer Finance Services

Regulations Relating to cooperation with Institutional Funding Partners

The PRC laws and regulations governing our cooperation with institutional funding partners are developing and evolving.

In December 2017, the Internet Finance Rectification Office and the Online Lending Rectification Office jointly issued the Circular 141, outlining general requirements on the “cash loan” business conducted by network microcredit companies, banking financial institutions and online lending information intermediaries. The Circular 141 specifies the features of “cash loans” as not relying on consumption scenarios, with no specified use of loan proceeds, with no qualification requirement on users, and unsecured. The Circular 141 sets forth several general requirements with respect to “cash loan” business, including, without limitation: (i) no organizations or individuals may conduct the lending business without obtaining approvals for the lending business; (ii) 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 judicial interpretations issued by the Supreme People’s Court; (iii) 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. Loans to any borrower without income sources are prohibited; and (iv) all relevant institutions shall enhance the internal risk control and prudentially use the “data-driven” risk management model.

The Circular 141 also sets forth several requirements on banking financial institutions participating in “cash loan” business, including, among other things, (i) such banking financial institutions shall not extend loans jointly with any third-party institution which has not obtained approvals for the lending business, or fund such institution for the purpose of extending loans in any form; (ii) with respect to the loan business conducted in cooperation with third-party institutions, such banking financial institutions shall not outsource the core business (including the credit assessment and risk control), and shall not accept any credit enhancement service whether or not in a disguised form (including the commitment to taking default risks) provided by any third-party institutions with no guarantee qualification and (iii) such banking financial institutions must require and ensure that the third-party institutions shall not collect any interests or fees from the 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, order to cease business operation, and criminal liabilities.

In July 2020, the CBIRC implemented the Commercial Banks Online Lending Measure to formulate the regulation regime for online lending business conducted by commercial banks. For example, the Commercial Banks Online Lending Measures require that a commercial bank shall not grant an individual with a credit line more than RMB200,000 and the term of the personal credit loan extended under such credit shall not exceed one year in the case of repayment of the principal due in a lump sum. Meanwhile, reading of the loan contract by a borrower shall be mandatory in the loan application process and reasonable time limit shall be set therefor.

In addition, the Commercial Banks Online Lending Measures set several rules for commercial banks to collaborate with external institutions on online lending, including: (i) commercial banks shall conduct pre-admission assessments on cooperative external institutions and manage such external institutions by a name list; (ii) commercial banks shall not accept any credit enhancement services directly or in disguised form, from third parties without qualification to provide guarantee, credit insurance or guarantee insurance; (iii) the cooperative external institutions (except for an insurance company or an institution with guarantee qualification) shall not charge any interest or expense to the borrower in any form; (iv) commercial banks shall independently conduct the credit approval, contract execution and other core risk control business; (v) the collaboration agreement between the commercial banks and the cooperative external institutions shall be executed in writing and specify the cooperation scope, data confidentiality, transitional arrangement for change or termination of the matters under cooperation, and the commitment of the external institutions for cooperating with the commercial bank in accepting the inspection by the banking regulatory authorities; and (vi) the commercial banks shall fully disclose, in conspicuous place of relevant page, the information of the cooperative external institutions, the information of the cooperative product, as well as rights and responsibilities of the commercial bank and the cooperative external institutions.

The Commercial Banks Online Lending Measures set forth a transitional period of these measures, which is two years from the date on which the Commercial Banks Online Lending Measures is implemented. The business newly increased in the transitional period shall comply with the requirement therein, and a plan to rectify the online lending business within such transitional period shall be formulated and submitted to the banking regulatory authority within one month from the implementation date. The Commercial Banks Online Lending Measures shall also apply as reference to the online lending business conducted by consumer finance companies and auto finance companies (except for the above-mentioned requirements on the terms of personal credit loan).

In February 2021, the CBIRC issued the Notice on Further Regulating Commercial Banks Online Lending, or the Circular 24, which sets forth several requirements on the online lending business of the commercial banks, including: (i) the commercial banks shall conduct the risk control measures independently and the core credit assessment and risk control business are prohibited to be outsourced; (ii) except for the commercial banks which have no actual business sites, mainly conduct online business and meet other requirements stipulated by the CBIRC, local commercial banks shall conduct online lending within the jurisdiction where such commercial banks are registered; and (iii) with respect to the online loan business conducted in cooperation with third-party institutions, the capital contribution of cooperative institutions shall not be less than 30% in a single loan. The online lending business of branches of foreign banks, trust companies, consumer finance companies and auto finance companies shall be subject to the Circular 24 and the Commercial Banks Online Lending Measures.

Regulations Relating to Loan Interest

The Civil Code of PRC, which was promulgated by the NPC in May 2020 and became effective in January 2021, requires that the interest rates charged under a loan agreement must not violate applicable provisions of the PRC laws and regulations and the interest shall not be deducted from the proceeds of the loan in advance, and if the interest is deducted from the proceeds in advance, the loan shall be repaid and the interest shall be calculated based on the actual loan amount.

In accordance with the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court in August 2015 and effective in September 2015, or the 2015 Private Lending Judicial Interpretations, agreements between a lender and a borrower on loans with annual interest rates below 24% are valid and enforceable. With respect to loans with annual interest rates between 24% and 36%, 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 or any third parties, the courts will likely turn down the borrower's request to demand the return of the interest payment. If the annual interest rate of a private loan is higher than 36%, the obligations to pay interest payment in excess of the maximum interest rate allowed will be invalidated.

In December 2020, the Supreme People's Court issued the Decision on Amending the Provisions of the Supreme People's Court on Several Issues the Application of Law in the Trial of Private Lending Cases (2rd Revisions in the year of 2020), or the Private Lending Judicial Interpretation Amendment, which amended several provisions of the 2015 Judicial Interpretation including the upper limit of judicial protection for private lending interest rates. The Judicial Interpretation Amendment provides that where the lender requests the borrower to pay interest in accordance with the interest rate agreed upon in the agreement, the people's court shall support such request, except where the interest rate agreed by both parties exceeds four times of the one-year Loan Prime Rate at the time of the establishment of the agreement, or the Quadruple LPR Limit. The one-year Loan Prime Rate refers to the one-year loan market quoted interest rate issued by the National Bank Interbank Funding Center which was authorized by the PBOC, on the 20th of each month since August 20, 2019. According to the 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.

In addition, the Supreme People's Court issued the Official Reply to Issues on the Application of the Interpretations of the Supreme People's Court of New Private Lending, or the Official Reply on the Application of Interpretations of New Private Lending, in December 2020, and it became effective in January 2021. The Official Reply on the Application of Interpretations of New Private Lending confirms that any disputes arising from the relevant financial business conducted by the microcredit companies, financing guarantee companies, regional equity market, Pawn Enterprises, financial leasing companies, commercial factoring companies and local assets management companies that are supervised by the local financial supervision governmental authorities, shall not apply to the Interpretations of the Supreme People's Court of New Private Lending.

In March 2021, the PBOC releases the Announcement No.3, or the Announcement, to ensure orderly competition in the loan market and protect the legitimate rights and interests of financial consumers, all loan products are required to expressly list their annualized interest rates, specifically: (i) all lending institutions are required to display the annualized rate of each loan product prominently on the website, mobile app, poster, and any other channels where the product is marketed, and specify the annualized rate in the loan contract. Daily and monthly interest rates may also be displayed if necessary, but not more prominently than the annualized interest rates; (ii) lending institutions include but are not limited to depository financial institutions, automobile finance companies, consumer finance companies, micro-lending companies, and internet platforms that advertise or display loan services; (iii) the annualized rate of a loan should be calculated as the annualized ratio of total costs (to borrower) to outstanding principal amount. The costs include interest and other fees and charges directly related to the loan. The amount of principal should be specified in the loan contract or other loan certificates. If the loan is repaid in installments, the outstanding principal amount should be the balance after each repayment; and (iv) the calculation of the annualized interest rate may be based on compound interest or simple interest. The calculation based on compound interest is equivalent to that of the internal rate of return, and the simple-interest approach should be specified as such.

Regulations Relating to Campus Online Lending

In April 2017, the CBIRC issued the Guidelines on Prevention and Control of the Risks in Banking Industry, to emphasize the relevant requirements on the campus online lending business provided in the Rectification of Campus Online Lending Notice, which include the prohibitions of: (i) marketing to individuals unable to repay loans; (ii) providing online lending service to college students under the age of eighteen; (iii) conducting false and fraudulent advertising and promotion; or (iv) providing usurious loans in disguised forms.

In May 2017, the CBIRC, MOE and Ministry of Human Resources and Social Security issued the Notice on Further Strengthening the Regulation and Management Work of Campus Online Lending Business, or the CBIRC Circular 26, which provides that (i) the commercial banks and the policy banks may research and develop financial products and provide loans that provide general assistance to college students and support them in areas such as learning and training, consumption and entrepreneurship, and provide customized and quality financial services to college students with reasonable credit limits and interest rates; (ii) any entity established without approval of the relevant banking regulatory authority shall not provide any credit services to college students so as to eliminate fraud, usurious loans or violent loan collections; and (iii) all campus online lending business conducted by the online lending information intermediaries shall be suspended and the outstanding balance of campus online lending loans shall be gradually reduced until reaching a zero balance.

In February 2021, the CBIRC, the PBOC, the Ministry of Education, the Office of the Central Cyberspace Affairs Commission and the Ministry of Public Security jointly issued the Notice on Further Strengthening the Regulation and Management Work of Internet Consumer Loan for College Students, or the Notice on Internet Consumer Loan for College Students. The Notice on Internet Consumer Loan for College Students provides that the microcredit companies are prohibited to provide internet consumer loans to college students. In addition, it sets forth several requirements on the banking financial institutions participating in internet consumer loans for college students, including without limitation: (i) the banking financial institutions and its cooperative institution shall not conduct online precision marketing aimed at college students, and shall complete necessary filings and reports with relevant authorities before offline promotion in campus; (ii) the banking financial institutions shall strictly check credit qualifications and the identities of college students and their use of loans, conduct comprehensive credit assessment, and receive the written confirm from the second repayment sources (such as parents, guardians, or other administrator of the college students) that they agree such internet consumer loan provided to such college student and they will guarantee the repayment of such internet consumer loan; and (iii) all credit information of internet consumer loan for college students shall be submitted to the financial credit information database in a timely, complete and accurate manner, and college students who do not agree to submit such credit information shall not be extended the loan.

Regulations Relating to Illegal Fund-Raising and Unapproved Loan Facilitation

Raising funds by entities or individuals from the general public must be conducted in strict compliance with applicable PRC laws and regulations to avoid administrative and criminal liabilities. The Notice on Relevant Issues Concerning the Penalty on Illegal Fund-Raising issued by the General Office of the State Council in July 2007, explicitly prohibit illegal public fund-raising. The main features of illegal public fund-raising include: (i) illegally soliciting and raising funds from the general public by means of issuing stocks, bonds, lotteries or other securities without obtaining the approval of relevant authorities, (ii) promising a return of interest or profits or investment returns in cash, properties or other forms within a specified period of time and (iii) using a legitimate form to disguise the unlawful purpose.

To further clarify the criminal charges and punishments relating to illegal public fund-raising, the Supreme People's Court promulgated the Judicial Interpretations to Issues Concerning Applications of Laws for Trial of Criminal Cases on Illegal Fund-Raising which came into force in January 2011 and was revised in March 2022, or the Illegal Fund-Raising Judicial Interpretations. The Illegal Fund-Raising Judicial Interpretations provide that a public fund-raising will constitute a criminal offense related to "illegally soliciting deposits from the public" under the PRC Criminal Law, if it meets all of the following four criteria: (i) the fund-raising without the legal permit of the relevant authorities or is concealed under the guise of legitimate acts; (ii) the fundraising employs general solicitation or advertising such as the Internet, social media, promotion meetings, leafleting and messaging service advertising; (iii) the fundraiser promises to repay, after a specified period of time, the capital and interests, or investment returns in cash, properties in kind and other forms; and (iv) the fund-raising targets at the general public as opposed to specific individuals. An illegal fund-raising activity will be fined or prosecuted in the event that it constitutes a criminal offense. Pursuant to the Illegal Fund-Raising Judicial Interpretations, an offender will be subject to criminal liabilities, if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form (i) in an amount exceeding RMB1,000,000, (ii) with over 150 fund-raising targets involved, or (iii) with the direct economic loss caused to fund-raising targets exceeding RMB500,000. Also, an offender will be subject to criminal liabilities if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form in an amount exceeding RMB500,000 or with the direct economic loss caused to fund-raising targets exceeding RMB250,000 and concurrently falls under the following circumstances (i) where it/he has been criminally prosecuted for illegal fund-raising, (ii) where it/he has been had been subject to administrative punishment for illegal fund-raising within two (2) years, or (iii) where there is adverse social impact or other serious consequences.

In January 2019, the Supreme People's Court, Supreme People's Procuratorate and Ministry of Public Security issued the Opinions on Handling Criminal Cases of Illegal Fund-raising, which further clarified, among other things, that the PRC financial administration laws and regulations shall be considered as the basis for determining the illegality of illegal fund-raising.

To further clarify the criminal liability and punishments relating to illegal loan facilitation, the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Public Security and the Ministry of Justice jointly issued the Opinions on Several Issues Concerning Handling Criminal Cases Involving Illegal Loan Lending, or the Illegal Loan Lending Opinions, in July 2019, which became effective in October 2019. Pursuant to the Illegal Loan Lending Opinions, anyone who illegally offers loans to unspecific targets (including entities and individuals) in the society for profit-making purposes without the approval by the regulatory authorities or beyond its business scope ten times or more within two years, which disturbs the financial market order and involves serious circumstances, shall be convicted of the crime of illegal business operation and punished accordingly in accordance with the PRC Criminal Law. The Illegal Loan Lending Opinions also clarified that, to involve "serious circumstances," the illegal lendings shall fulfill the condition that the actual annual interest rate exceeds 36%, provided that the introduction fee, consulting fee, management fee, overdue interest and liquidated damages shall be included in the calculation of actual annual interest rate.

On August 1, 2019, the General Office of the State Council issued and promulgated the Guidance on Promoting the Healthy Development of the Platform Economy, which provides that the market-access management and supervision of financial services provided through online platforms in the finance sector are regulated by the laws, regulations and other relevant rules. In addition, entities conducting financial information intermediaries services and transaction-matching services are subject to the market-access management pursuant to relevant laws.

The Regulations on the Prevention and Disposition of Illegal Fund-raising Practices promulgated by the State Council in January 2021, which took effect in May 2021, prohibits illegal fund-raising practices in any form.

The funding of loans by us going through the trusts may render us to be deemed as a lender or a provider of financial services by the PRC regulatory authorities, and we may be subject to supervision and restrictions on lending under such PRC laws and regulations.

Regulations Relating to Microcredit

The Guidance on the Pilot Establishment of Microcredit Companies jointly promulgated by the CBIRC and the PBOC in May 2008 allows provincial governments to approve the establishment of microcredit companies on a test basis. Based on this guidance, many provincial governments in China, including that of Jiangxi Province, promulgated local implementation rules on the administration of microcredit companies. For example, Jiangxi Financial Service Office, the regulatory authority for microcredit companies in Jiangxi Province, promulgated Measures for the Supervision and Administration of Microcredit Companies in Jiangxi Province (Trial Version) in March 2012, to impose the management

duties upon the relevant regulatory authorities and to specify more detailed requirements on the microcredit companies, in accordance with which, among other requirements, (i) the microcredit companies are prohibited from engaging in deposit taking activities from the public and illegal fund-raising; (ii) the modification of certain company registration issues shall be subject to the approval by the relevant regulatory authorities; and (iii) the microcredit company shall engage in the loan business in the place of registration and in or around the surrounding counties within the same municipality of the place of registration, and the loan balance for the borrowers in the county of registration shall not be less than the 60% of the aggregate loan balance.

Jiangxi Financial Service Office further issued the Guidelines for the Supervision and Administration of Network Microcredit Companies of Jiangxi Province (for Trial Implementation) in September 2016, or Jiangxi Network Microcredit Companies Guidelines, to provide more specific rules on the supervision and administration of network microcredit companies in Jiangxi Province, pursuant to which, among other things, the network microcredit company could raise funds through transferring credit asset and asset-backed securitization with the approval of the regulatory authority, apart from the capital contributions paid by its shareholders and loans from no more than two banking financial institutions. In addition, Jiangxi Network Microcredit Companies Guidelines require that (i) the network microcredit company shall primarily conduct its microcredit loan business through the internet, and that the working capital used in the microcredit loan business through the internet shall be no less than 70% of the aggregate working capital of such network microcredit company, and (ii) the aggregate loan balance within the municipality where such network microcredit company is located shall be no less than 30% of the aggregate loan balance of the network microcredit company.

In November 2017, the Internet Finance Rectification Office issued the Notice on the Immediate Suspension of Approvals for the Establishment of Network Microcredit Companies, which became effective immediately and provides that the relevant regulatory authorities of microcredit companies at all levels shall suspend the approval of the establishment of network microcredit companies and the approval of any microcredit business conducted across provincial lines.

On December 1, 2017, the Internet Finance Rectification Office and the Online Lending Rectification Office jointly issued the Circular 141, which emphasizes the suspension of approving new network microcredit companies and further imposes measures to strengthen the regulation of network microcredit companies. Such measures include, among others, that the network microcredit companies shall not provide campus loans, and should suspend the funding of network micro-loans with no specific scenario or designated use of loan proceeds, gradually reduce the volume of the existing business relating to such loans and take rectification measures in a period to be separately specified by authorities.

On December 8, 2017, the Online Lending Rectification Office promulgated the Rectification Implementation Plans of Network Microcredit Companies to further detail the requirements on network microcredit companies. Pursuant to the Rectification Implementation Plans of Network Microcredit Companies, “network micro-loans” are defined as micro-loans provided through the internet by network microcredit companies controlled by internet enterprise. The features of network micro-loans include online borrower acquisition, credit assessment based on the online information collected from the business operation and internet consumption, as well as online loan application, approval and funding.

Consistent with the Guidance on the Pilot Establishment of Microcredit Companies and the Circular 141, the Rectification Implementation Plans of Network Microcredit Companies emphasize several aspects where inspection and rectification measures must be carried out for the network micro-loans industry, which include, among others, (i) the network microcredit companies shall be approved by the competent authorities in accordance with the applicable regulations promulgated by the State Council, and the approved network microcredit companies in violation of any regulatory requirements shall be re-examined; (ii) qualification requirements to conduct network micro-loan business (including the qualification of sponsor shareholders, the sources of borrowers, the internet scenario and the digital risk-management technology); (iii) whether the qualification and funding source of the shareholders of network microcredit companies are in compliance with the applicable laws and regulations; (iv) whether the “integrated actual interest” (namely the aggregated borrowing costs charged to borrowers in the form of interest and various fees) are annualized and subject to the limit on interest rate of private lending set forth in the judicial interpretations issued by the Supreme People’s Court and, whether any interest, handling fee, management fee or deposit are deducted from the principal of loans provided to the borrowers in advance; (v) whether campus loans, or network micro-loans with no specific scenario or designated use of loan proceeds are granted; (vi) with respect to the loan business conducted in cooperation with third-party institutions, whether the network microcredit companies outsource the core business (including the credit assessment and risk control), or accept any credit enhancement service (whether or not in a disguised form) provided by any third-party institutions with no guarantee qualification; or whether any applicable third-party institution collects any interests or fees from the borrowers; and (vii) entities that conduct network micro-loans business without relevant approval or license for lending business.

The Rectification Implementation Plans of Network Microcredit Companies also set forth that all related institutions shall be subject to inspection and investigation before the end of January 2018. Depending on the results, different measures shall be taken before the end of March 2018: (i) for institutions holding network microcredit licenses but do not meet the qualification requirements to conduct network micro-loan business, their network microcredit licenses shall be revoked and such institutions will be prohibited from conducting loan business outside the administrative jurisdiction of their respective approving authorities; (ii) for institutions holding network microcredit licenses that meet the qualification requirements to conduct network micro-loan business but were found not in compliance with other requirements, such as the requirements on the integrated actual interest rate, the scope of loan and the cooperation with third-party institutions, such institutions shall take rectification measures in a period separately specified by authorities, and in the event that the rectification does not meet the authorities' requirements, such institutions shall be subject to several sanctions, including revocation of license and orders to cease business operation.

In September 2020, the CBIRC issued the Notice on Strengthening the Supervision and Management of Microcredit Companies, or Circular 86. Circular 86 aims to regulate the operation of microcredit companies, prevent and resolve relevant risks, promote the healthy growth of the microcredit industry. Circular 86 stipulates the following requirements with respect to the microcredit companies, including without limitation: (i) the financing balance of the microcredit company funding by bank loans, shareholder loans and other nonstandard financing instruments shall not exceed such company's net assets; (ii) the financing balance of the microcredit company funding by issuance of bonds, asset securitization products and other instruments of standardized debt assets shall not exceed four times of its net assets; (iii) the balance of loans offered to one borrower shall not exceed 10% of the net assets of the microcredit company, and the balance of loans offered to one borrower and such borrower's related parties shall not exceed 15% of the net assets of the microcredit company; (iv) microcredit companies are prohibited from upfront deduction of interest, commission fees, management fees or deposits from loans by microcredit companies before they are released to the borrowers, and if microcredit companies has deducted any upfront fees in violation of rules and regulations, the borrower will only need to repay the actual loan amount after the exclusion of the interests and fees deducted, and the loan's interest rate shall be calculated accordingly; (v) microcredit companies shall conduct business in the administrative area at the county level where the company is domiciled in principle, except as otherwise provided for the operation of online microcredit business; and (vi) the microcredit companies and third-party loan collection agencies entrusted shall not collect loans by violence, threats of violence, or other ways that intentionally cause harm, infringe personal freedom, illegally occupy property, or interfere with day-to-day life through insulting, slandering, harassing, or disseminating private personal information, or other illegal methods. The local financial regulatory authorities may further lower the ratio caps in (i) and (ii) in accordance with regulatory requirements.

The Interim Measures for the Administration of Network Microcredit Companies Business (Draft), or the Draft Network Microcredit Measures, was released by the CBIRC and PBOC in November 2020 to solicit public comments. The Draft Network Microcredit Measures makes it clear that a network microcredit business shall be carried out mainly in the provincial administrative areas to which the entity is registered and shall not be cross-provincial without prior approval. The registered capital of a company operating a network microcredit business shall not be less than RMB1 billion and shall be a one-time paid-in monetary capital. The Draft Network Microcredit Measures would expressly prohibit loans from being used to invest in bonds, stocks, financial derivatives, or asset management products to purchase houses or to repay mortgage loans. The Draft Network Microcredit Measures would establish a three-year transition period, and those operating cross-provincial network microcredit businesses without approval will be phased-out.

We engage in network microcredit businesses through Ji'an Microcredit, a subsidiary of Shenzhen Fenqile, in Ji'an, Jiangxi Province, which obtained a network microcredit license from the relevant local authority. The microcredit license was updated in July 2021 and will remain valid until July 2023.

Regulations Relating to Financing Guarantee

In March 2010, the CBIRC, the NDRC, the MIIT, the Ministry of Commerce, PBOC, SAIC and the Ministry of Finance of PRC promulgated the Tentative Administrative Measures for Financing Guarantee Companies. The Tentative Administrative Measures for Financing Guarantee Companies require an entity or individual to obtain a prior approval from the relevant regulatory body to engage in the financing guarantee business, and defines "financing guarantee" as an activity whereby the guarantor and the creditor, such as a financial institution in the banking sector, agree that the guarantor shall bear the guarantee obligations in the event that the secured party fails to perform its financing debt owed to the creditor.

In August 2017, the State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Regulations, which became effective on October 1, 2017. The Financing Guarantee Regulations define "financing guarantee" as a guarantee provided for the debt financing (including but not limited to the extension of loans or issuance of bonds), and set out that the establishment of a financing guarantee company or

engagement in the financing guarantee business without approval may result in several penalties, including but not limited to banning, an order to cease business operation, confiscation of illegal gains, fines of up to RMB1,000,000 and criminal liabilities. The Financing Guarantee Regulations also set forth that the outstanding guarantee liabilities of a financing guarantee company shall not exceed ten times of its net assets, and that the outstanding guarantee liabilities of a financing guarantee company vis-à-vis the same guaranteed party shall not exceed 10% of the net assets of the financing guarantee company, while the outstanding guarantee liabilities of a financing guarantee company vis-à-vis the same guaranteed party and its affiliated parties shall not exceed 15% of its net assets.

In April 2018, seven PRC regulatory agencies including the CBIRC, the NDRC and the MIIT, jointly issued four supporting documents, or the CBIRC Circular 1, including Administration Measures for the Permits to Conduct Financing Guarantee Business, Measures for the Calculation of Outstanding Financing Guarantee Liabilities, Administration Measures for the Assets Ratio of Financing Guarantee Companies, and Guidelines to the Cooperation by and between the Banking Financial Institutions and Financing.

Guarantee Companies, to set forth implementation measures of the Financing Guarantee Regulations. These measures cover various aspects of business operations of financing guarantee companies, including certain limits on outstanding guarantee liabilities and liability-to-asset ratio, and the requirements on cooperation model with the banking financial institutions.

On October 9, 2019, the CBIRC and other eight PRC regulatory agencies promulgated the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Supplementary Provisions. The Financing Guarantee Supplementary Provisions provides that, among others, institutions providing services such as client recommendation and credit assessment to various institutional funding partners shall not render any financing guarantee service, whether directly or in disguised form, without the necessary approval.

In July 2020, the CBIRC issued the Guidelines for Off-Site Supervision of Financing Guarantee Companies, or the Off-Site Supervision Guidelines, which took effect in September 2020. The Off-Site Supervision Guidelines stipulate the guidelines for the competent regulatory authorities to continuously analyze and evaluate the risk of financing guarantee companies and the financing guarantee industry, by way of collecting report data and other internal and external data of the financing guarantee companies and by carrying out corresponding measures. Pursuant to the Off-Site Supervision Guidelines, financing guarantee companies shall establish and implement an off-site supervision information report system and submit related data and non-data information in accordance with the requirements of the competent regulatory authorities. The Off-Site Supervision Guidelines note that the corporate governance, internal control, risk management capabilities, guarantee business, associated guarantee risks, asset quality, liquidity indicators and investment conditions of financing guarantee companies shall be the key areas for the off-site supervision.

Shenzhen Lexin Financing Guarantee Co., Ltd., one of subsidiaries of Shenzhen Fenqile, through which we provide the guarantee to our borrowers on our e-commerce channel for the loan provided by our institutional funding partners on our platform, has obtained the license to conduct financing guarantee business in September 2017. The license was re-issued in November 2019, and the paid-in capital set forth therein is equal to RMB1.0 billion. Meanwhile, Ganjiang New Area Mengtian Financing Guarantee Co., Ltd., a subsidiary newly established by Mengtian Technology, has obtained the license to conduct financing guarantee business in October 2019. The license was re-issued in August 2021, and the registered capital set forth therein is equal to RMB350 million.

In December 2021, the PBOC issued the Regulations for Local Financial Supervision and Administration (Draft) to solicit public opinions, which clarifies the responsibilities of local financial regulatory authorities and outlines the principles for regulating illegal financial activities of local financial organizations, including but not limited to micro-loan companies and financing guarantee companies.

Regulations Relating to Commercial Factoring

The Notice on the Pilot Launch of Commercial Factoring, issued by the Ministry of Commerce in 2012, approves the pilot launch of commercial factoring in the Shanghai Pudong New Area and the Tianjin Binhai New Area. The Ministry of Commerce also issued another notice to expand the list of pilot areas to include the Chongqing Liangjiang New Area, Sunan Modern Construction Demonstration Zone and Suzhou Industrial Park. In 2015, the Ministry of Commerce issued the Opinions on Supporting the Innovative Development of Pilot Free Trade Zones, which approved the pilot commercial factoring businesses in all the free trade zones. Under these notices issued by the Ministry of Commerce and local implementing rules, commercial factoring companies may be established in these areas upon the approval of the local counterpart of the Ministry of Commerce or other competent authorities.

On May 8, 2018, the Ministry of Commerce issued the Notice of Matters concerning the Adjustments to the Duties of Administration of Financial Leasing Companies, Commercial Factoring Companies and Pawnshops, according to which the Ministry of Commerce has transferred the duties of developing business operation and supervision rules for commercial factoring companies to the CBIRC effective on April 20, 2018. In October 2019, the CBIRC issued the Notice on Strengthening the Supervision and Administration over Commercial Factoring Enterprises. This notice clarifies the commercial factoring business as to the following services provided by a commercial factoring enterprise to the supplier that transfers its account receivable based on the real transaction to the commercial factoring enterprise: (i) factoring financing; (ii) maintenance of the sales breakdown (ledger); (iii) collection of account receivables; and (iv) non-commercial bad debt guarantee. Commercial factoring enterprises may concurrently engage in client credit investigation and evaluation and the consulting services relating to commercial factoring. A commercial factoring enterprise may not engage in the following activities or businesses: (i) taking or taking in a disguised manner the deposits from the public; (ii) obtaining funds through online lending information intermediaries, local trading places in various types, asset management institutions, private investment fund or any other institutions; (iii) borrowing or borrowing in a disguised manner funds from other commercial factoring enterprises; (iv) offering loans or offering loans as entrusted; (v) specially engaging in or carrying out as entrusted a collection business or debt repayment demand business irrelevant to commercial factoring; and (vi) carrying out a factoring financing business based on an illegal underlying transaction contract, consignment contract, account receivable with unclear ownership or the right to demand payment arising out instrument or other negotiable securities.

The Guiding Opinions on Promoting the New Development Pattern of Financial Services, issued by Shenzhen Branch of CBIRC, the Shenzhen Central Sub-branch of PBC and Shenzhen Local Financial Supervision and Administration in November 2021, highlights that the equity management of local financial organizations such as microcredit companies, financing guarantee companies, financing leasing companies and commercial factoring companies shall follow the principles of good qualification, reasonable structure and regulatory behaviors. The regulatory authorities shall strictly review the qualification of the shareholders of such companies, regulate the change of shareholders and the increase and decrease of the capital, and strengthen the penetration management of the shareholders and actual controllers of such local financial organizations.

Regulations Relating to Credit Reporting Business

The PRC government has adopted several regulations governing personal credit reporting businesses. These regulations include the Regulation for the Administration of Credit Reporting Industry, enacted by the State Council and became effective in March 2013, and the Management Rules on Credit Agencies, issued by the PBOC, in the same year.

The Regulation for the Administration of Credit Reporting Industry defines “credit reporting business” and “credit reporting agency” for the first time. According to the Regulation for the Administration of Credit Reporting Industry, “credit reporting business” means the activities of collecting, organising, storing and processing “credit-related information” of individuals and enterprises, as well as providing such information to others, and a “credit reporting agency” refers to a duly established agency whose primary business is credit reporting. Besides, the Regulation for the Administration of Credit Reporting Industry and the Management Rules on Credit Agencies stipulate that the establishment of a credit reporting agency to engage in personal credit reporting business shall be subject to the approval of the PBOC, and the requirements for such establishment. The requirements for such establishment include: (1) its major shareholders have a good reputation and do not have any record of major violation of law or non-compliance in the past three years; (2) its registered capital shall not be less than RMB50 million; (3) it has the facilities, equipment, systems and measures for the protection of information security which comply with the provisions of the PBOC; (4) the proposed candidates for directors, supervisors and senior management personnel shall be familiar with the laws and regulations relating to credit reporting business, shall possess the work experience and management capabilities in the credit reporting business required for performance of their duties, shall not have any record of major violation or non-compliance during the past three years, and shall have obtained the appointment qualifications approved by the PBOC; (5) it has a proper organizational structure; (6) it has proper internal control systems for business operation, information security management, compliance management, etc.; (7) its individual credit information system shall satisfy the standard of National Information System Security Level Protection Level 2 or above; and (8) it satisfies any other prudential requirements stipulated by the PBOC. Entities engaged in personal credit reporting business without such approval may be subject to penalties, including ban of business, confiscation of revenues related to personal credit reporting business, fines of RMB50,000 to RMB500,000 or criminal liabilities. The Regulation for the Administration of Credit Reporting Industry also requires entities to ensure the security of personal information by setting business rules for personal credit reporting business, prohibiting collecting certain personal information (e.g., religion, finger print), and providing rights for the individuals with respect to their personal information (e.g., inquiry, objection, complaint).

The Management Rules on Credit Agencies enacted by the PBOC is based on the Regulation for the Administration of Credit Reporting Industry, and further detailing the rules with respect to the administration for the credit reporting agency,

including the rules to establish, change, deregister a credit reporting agency, the rules for the daily operation of a credit reporting agency, etc.

In September 2021, the PBOC released the Measures for Credit Reporting Business, which took effect in January 2022. The Measures for Credit Reporting Business defines “credit information” as information that “serves the financial and economic activities and is used to determine individuals and enterprises credit status, which refers to basic information, loan information and other relevant information collected in accordance with the law and other information originated from analysis and evaluation of individuals and enterprises’ credit status based on the foregoing information”. It applies to entities that carry out credit reporting business and “activities relating to credit reporting business” in China. Separately, entities “actually providing credit reporting services” in the name of “credit information service, credit service, credit evaluation, credit rating, credit repair and etc.” are also subject to the Measures for Credit Reporting Business. The Measures for Credit Reporting Business provides rules on credit reporting business and credit reporting agencies, including that (i) the credit reporting agencies shall collect credit information following the “minimum and necessary” principle and must not collect credit information by unlawful means, (ii) information user shall not abuse credit information, and shall use credit information for legal and legitimate purpose, (iii) credit reporting agencies shall take measures to ensure the credit information security, and establish emergency and report system for incidents, (iv) the database of the domestic credit reporting agencies shall be set up in the territory of the PRC, (v) credit reporting agencies shall comply with related laws and regulations when providing credit information to the overseas, and (vi) the credit reporting agency shall report to the PBOC the information processors who collaborate with such credit reporting agency with respect to the collection, storing, processing and analyzing credit information. Any agency carrying out personal credit reporting without the necessary permit should complete the compliance rectification within 18 months after the implementation date of the Measures for Credit Reporting Business.

Regulations Relating to Outsourcing Services

In recent years, the PRC government has expressed its support for outsourcing services provided by non-governmental companies.

The Guidelines for Management of Outsourcing Risks of Banking Financial Institutions, or the Outsourcing Risk Guidelines, issued and effective on June 4, 2010, requires banks engaging in outsourcing to establish outsourcing risk management guidelines and incorporate these guidelines into their overall risk management systems. The Outsourcing Risk Guidelines, which generally regulates outsourcing by banks, defines “outsourcing” as an act whereby a banking financial institution commissions some business activities originally handled by itself to a service provider for sustained operations and such service provider may be an independent third party, a subsidiary, an affiliated company, or a related party established in or outside China by the parent company of the banking financial institution or its affiliates.

To regulate information technology outsourcing by banks, the China Banking Regulatory Commission, or CBRC, which is a predecessor of the CBIRC, issued the Guidelines for Regulating Information Technology Outsourcing Risks of Banking Financial Institutions, or the IT Outsourcing Guidelines, on February 16, 2013, the Circular on Strengthening the Management of Risks Incurred during Offsite and Centralized Information Technology Outsourcing of Banking Financial Institutions, or the Offsite IT Outsourcing Circular, on July 1, 2014 and the Notice of the General Office of the China Banking Regulatory Commission of the Launch of the Regulatory Assessment of the Offsite Centralized Information Technology Outsourcing of Banking Financial Institutions, or the Notice of Offsite IT Outsourcing Assessment, on December 2, 2014.

The IT Outsourcing Guidelines cover “information technology outsourcing,” which is defined as the outsourcing of information technology activities normally undertaken by banking financial institutions such as research and development and consultancy, system operations and maintenance to external service providers. It prohibits the outsourcing of strategic management, risk management and internal audit functions, and other functions that relate to information technology core competitiveness. It also requires outsourcing providers to meet certain information security, business continuity, quality and operational management criteria and qualifications. Under the IT Outsourcing Guidelines, an outsourcing service provider who: (i) severely violates applicable laws, regulation and supervisory policies, (ii) steals or leaks sensitive data of banking financial institutions in case of severe violation, (iii) is negligent in its management resulting in repeated occurrence of key system disruption or data accidents, (iv) provides low quality services, resulting in losses to multiple banking financial institutions and fails to make rectification upon multiple warnings, (v) fails to rectify any issue identified during any risk monitoring and inspection within a given period or (vi) commits other violations or causes other severe information technology accidents, may be prohibited from providing information technology outsourcing services for two or more year.

In addition, the Offsite IT Outsourcing Circular regulates “offsite IT outsourcing,” which is defined as outsourcing provided by service providers that provide services for three or more banking financial institutions or other institutions at the same time offsite by renting of key IT infrastructure facilities or purchase of key infrastructure services by banking financial institutions or where the information system is located, operated and maintained by service providers outside the premises of the financial institution. It requires offsite IT outsourcing providers to comply with applicable banking laws and regulations and be subject to inspection by banking regulators. The Offsite IT Outsourcing Circular also sets forth certain due diligence, risk assessment and management, outsourcing contract, reporting and audit requirements.

On December 30, 2021, the CBIRC issued the Measures for the Regulation of IT Outsourcing Risks of Banking and Insurance Institutions, or the IT Outsourcing Regulation Measures, which replaced the IT Outsourcing Guidelines, the Offsite IT Outsourcing Circular and the Notice of Offsite IT Outsourcing Assessment.

The IT Outsourcing Regulation Measures has incorporated insurance group (holding) companies, insurance companies, insurance asset management companies and financial asset management companies into the scope of its supervision. The measures clearly stipulate that banking and insurance institutions shall not outsource their responsibilities as the subject of IT management and network security, and shall specify the IT functions that cannot be outsourced, including IT strategic management, IT risk management, IT internal audit and other functions related to the core competitiveness of IT. Also, The IT Outsourcing Regulation Measures highlights that when implementing IT outsourcing, the banking and insurance institutions shall include “safeguarding network and information security and strengthening the protection of important data and personal information” as one of the principles. In addition, the banking and insurance institutions shall carry out hierarchical management of IT outsourcing activities and relevant service providers and take differentiated management and control measures for important outsourcing and general outsourcing according to the IT Outsourcing Regulation Measures.

Regulations Relating to Anti-Money Laundering

The PRC Anti-money Laundering Law, which became effective in January 2007, sets forth the principal anti-money laundering requirements applicable to financial institutions as well as non-financial institutions with anti-money laundering obligations, including the adoption of precautionary and supervisory measures, establishment of various systems for client identification, retention of clients identification information and transactions records, and reports on large transactions and suspicious transactions. According to the PRC Anti-money Laundering Law, financial institutions subject to the PRC Anti-money Laundering Law include banks, credit unions, trust investment companies, stock brokerage companies, futures brokerage companies, insurance companies and other financial institutions as listed and published by the State Council, while the list of the non-financial institutions with anti-money laundering obligations will be published by the State Council. However, the State Council has not promulgated a list of the non-financial institutions subject to anti-money laundering obligations.

The Guidelines jointly released by ten PRC regulatory agencies in July 2015, purport, among other things, to require the internet finance industry, to comply with certain anti-money laundering requirements, including establishing a user identification program, monitoring and reporting of suspicious transactions, preserving user information and transaction records, and providing assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The PBOC will formulate implementation rules to further specify the anti-money laundering obligations of the internet finance industry.

In October 2018, the PBOC and the CSRC jointly released the Administrative Measures for Anti-Money Laundering and Anti-Terrorism Financing of Internet Financial Institutions (for Trial Implementation), or the Anti-Money Laundering Measures for Internet Financial Institutions, which became effective in January 2019. The Anti-Money Laundering Measures for Internet Financial Institutions provides that the institutions engaging in internet finance business, including online payment, online lending, and online lending information intermediary business, shall be subject to the obligation of anti-money laundering and anti-terrorism financing, and further refined and detailed requirements of verifying client identity, reporting suspicious transactions, keeping identity data and transaction records, and other anti-money laundering obligations. The Interim Measures also stipulated the anti-money laundering obligations of an online lending intermediary therein.

In April 2021, the Measures for Supervision and Administration of Anti-Money Laundering and Anti-Terrorism Financing of Financial Institutions, or the Anti-Money Laundering Measures for Financial Institutions, was released by the PBOC officially and will take effect on August 1, 2021. According to the Anti-Money Laundering Measures for Financial Institutions, the following financial institutions duly established within the PRC territory are clearly required by the PBOC to fulfill anti-money laundering and anti-terrorism financing related obligations: (a) developmental financial institution, policy banks, commercial banks, rural cooperative banks, rural credit cooperatives and village/township banks; (b) securities

companies, futures companies and fund management companies; (c) insurance companies and insurance asset management companies; (d) trust companies, financial asset management companies, finance companies of enterprise groups, financial leasing companies, auto finance companies, consumer finance companies, currency brokerage companies, loan companies and wealth management subsidiaries of commercial banks; and (e) other financial institutions that shall perform their obligations of anti-money laundering and counter-terrorism financing as determined and announced by the People's Bank of China. Besides, such obligations also apply to the non-bank payment institutions, banks card organization, fund clearing center, microcredit companies engaging in the internet microcredit lending business and the institutions engaging exchange business, funds sales business, insurance agency and brokers business. The PBOC and its branches shall carry out the supervision and administration of the financial institutions' work with regard to the anti-money laundering and anti-terrorism financing pursuant to the relevant laws and regulations. The Anti-Money Laundering Measures for Financial Institutions require the financial institutions to draft and improve the anti-money laundering and anti-terrorism financing internal control policy, evaluate the anti-money laundering and anti-terrorism financing risks, establish the risks management mechanism according to its risks conditions and operation scale, construct anti-money laundering information system, and set up or appoint institutions equipped with qualified staff, to perform its anti-money laundering and anti-terrorism financing obligations.

On June 1, 2021, the PBOC released the Anti-Money Laundering Law (Draft for Comment), or the Draft Anti-Money Laundering Law, expanded the definition of Anti-Money Laundering to money laundering activities that in concealing and covering up by various means the source and nature of the proceeds and revenues from any crimes instead of just limited to seven kinds of crimes in the 2007 version Anti-Money Laundering Law. The Draft Anti-Money Laundering Law also broadened the scope of financial institutions and the special non-financial institutions subject to the performance of the duties of anti-money laundering.

We have implemented various policies and procedures, such as internal controls and "know-your-customer" procedures, for anti-money laundering purposes.

Regulations Relating to Internet Information Security

The National People's Congress has enacted legislation that prohibits the 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.

Pursuant to applicable regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and monitoring systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

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.

In November 2016, the Standing Committee of the National People's Congress promulgated the Cybersecurity Law of the PRC, or the PRC Cybersecurity Law, which took effect on June 1, 2017. In accordance with the PRC Cybersecurity Law, network operators must comply with applicable laws and regulations and fulfill their obligations to safeguard network security in conducting business and providing services. Network service providers must take technical and other necessary measures as required by laws, regulations and mandatory requirements to safeguard the operation of networks, respond to network security effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

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, 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 interest, 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 interest, 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 may be 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.

On December 28, 2021, the Cyberspace Administration of China, the NDRC, the MIIT, the Ministry of Public Security, the Ministry of State Security, the Ministry of Finance, the Ministry of Commerce, the PBOC, the NRTA, the CSRC, the National Administration of State Secrets Protection and the National Cryptography Administration jointly issued the Cybersecurity Review Measures, which took effect on February 15, 2022. The scope of review under the Cybersecurity Review Measures extends to critical information infrastructure operators that intend to purchase internet products and services and data processing operators engaging in data processing activities, which affect or may affect national security. According to Article 7 of the Cybersecurity Review Measures, operators who possess personal information of over a million users shall apply to the Cybersecurity Review Office for cybersecurity reviews before listing in a foreign country. Besides, the Cybersecurity Review Measures also provides that if the relevant authorities consider that certain network products and services, or data processing activities affect or may affect national security, the authorities may initiate a cybersecurity review even if the operators do not have an obligation to report for a cybersecurity review under such circumstances. The Cybersecurity Review Measures also elaborates the factors to be considered when assessing the national security risks of the relevant activities, including among others, risks of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country, risks of critical information infrastructure, core data, important data or a large amount of personal information data being affected, controlled and maliciously used by foreign governments after a foreign listing and risks of cyber information security.

On November 14, 2021, the CAC released the Regulations on the Cyber Data Security (Draft for Comments), or the Draft Regulations, and will accept public comments until December 13, 2021. The Draft 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 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 interest 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 Measures and the Draft Regulations remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States. We cannot predict the impact of the Draft Measures and the Draft 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 Measures and the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange, we will face uncertainties as to whether such clearance

can be timely obtained, or at all. In addition, if a final version of the Draft 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. Based on the foregoing, our PRC legal counsel does not expect that, as of the date of this annual report, the current applicable PRC laws on cybersecurity would have a material adverse impact on our business.

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, all organization or individual shall not 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 offences 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 October 29, 2021, the CAC issued the Measures for Security Assessment of Cross-border Data Transfer (Draft for Comment). According to these measures, in addition to the self-risk assessment requirement for provision of any data outside China, a data processor shall apply to the competent cyberspace department for data security assessment and clearance of outbound data transfer in any of the following events: (i) outbound transfer of personal information and important data collected and generated by an operator of critical information infrastructure; (ii) outbound transfer of important data; (iii) outbound transfer of personal data by a data processor which has processed more than one million users' personal data; (iv) outbound transfer of more than one hundred thousand users' personal information or more than ten thousand users' sensitive personal information cumulatively; (v) such other circumstances where ex-ante security assessment and evaluation of cross-border data transfer is required by the CAC.

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 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 July 6, 2021, the Standing Committee of Shenzhen Municipal People's Congress issued the Data Regulations of Shenzhen Special Economic Zone, or the Shenzhen Data Regulations, which took effective on January 1, 2022. The Shenzhen Data Regulations further clarify the responsibilities of local regulatory authorities in Shenzhen regarding data protection and administration, and provide, among others, more detailed provisions in relation to recommendation of personalized products or services based on user portraits, use of biometric data.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets

during online information distribution. Specifically, internet companies in the PRC with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

Furthermore, the Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security and became effective in March 2006, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, which was promulgated by the PRC National People's Congress in December 2012, states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities.

On October 21, 2019, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretations on Certain Issues Regarding the Applicable of Law in the Handling of Criminal Case Involving Illegal Use of Information Networks and Assisting Committing Internet Crimes, which came into effect on November 1, 2019, and further clarified the meaning of Internet service provider and the severe situations of the relevant crimes.

Regulations Relating to Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, which was promulgated by MIIT and became effective in September 2013, telecommunication business operators and ICP operators are responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulgence of, damage to, tampering with or loss of users' personal information. In accordance with the Cyber Security Law, network operators are 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. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators must take immediate remedial measures, notify the affected users and report the incidents to the relevant authorities in a timely manner. If any user knows that a network operator illegally collects and uses his or her personal information in violation of laws, regulations or any agreement with the user, or the collected and stored personal information is inaccurate or wrong, the user has the right to request the network operator to delete or correct the relevant collected personal information.

The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on internet privacy. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress in August 2015 and becoming effective in November 2015, the standards of crime of infringing citizens' personal information were amended accordingly and the criminal culpability of unlawful collection, transaction, and provision of personal information has been reinforced. In addition, any ICP 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 for (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (x) sells or provides personal information to others unlawfully, or (y) steals or illegally obtains any personal information, will be subject to criminal liability in severe situations. In addition, the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate of the PRC on Several Issues

Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, effective in June 2017, have clarified certain standards for the conviction and sentencing in relation to personal information infringement. The PRC government has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. The Civil Code further provides in a stand-alone chapter of right of personality and reiterate that the personal information of a natural person shall be protected by the law. Any organization or individual shall legitimately obtain such personal information of others in due course on a need-to-know basis and ensure the safety and privacy of such information, and refrain from excessively handling or using such information.

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 August 22, 2019, the CAC promulgated the Children Information Protection Provisions, which took effect on October 1, 2019, requiring that before collecting, using, transferring or disclosing the personal information of a child, the Internet service operator should inform the child's guardians in a noticeable and clear manner and obtain their consent. Meanwhile, internet service operators should take measures like encryption when storing children's personal information. 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. 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 adopted the Personal Information Protection Law which took effect on November 1, 2021. The Personal Information Protection Law integrated 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). In addition, it imposes further obligations on a personal information processor that provides for important internet platform services and has large amount of users and complicated business activities, including establishing a sound compliance system for personal information protection in

accordance with the provisions of the State and setting up an independent agency mainly composed of external members to supervise personal information protection, formulating platform rules specifying the standards for the processing of personal information by product or service providers on the platform and the obligations to protect personal information following the principles of openness, fairness and impartiality, 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. The entities failing to comply could be ordered to correct, or suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

Regulations on Financial Consumers Protection

The Implementation Measures of the PBOC for Protecting Rights and Interests of Financial Consumers, or the Measures for Financial Consumer Protection promulgated by the PBOC on September 15, 2020 came into force on November 1, 2020. Pursuant to the Measures for Financial Consumer Protection, the non-bank payment institution shall adopt a series of internal management measures to protect the rights and interests of financial consumers, including optimizing rules and policies as well as establishing a sound working mechanism and formulating an effective internal control system for protecting the rights and interests of financial consumers. Furthermore, it clearly states that financial information of consumers shall be used for the purpose in compliance with laws and regulations and agreed by both parties and kept in strict confidential, and no leakage or illegal disclosure to other parties shall be allowed, and institutions are required to set up a management system for the usage of financial information of consumers and implement technologies and other measures as necessary to properly maintain and store the financial information of consumers collected.

Regulations Relating to Internet Advertising and Marketing

In April 2015, the Standing Committee of the NPC promulgated the PRC Advertising Law, or the Advertising Law, which was amended on October 26, 2018 and April 29, 2021 respectively. Pursuant to the Advertising Law, the contents of advertisements shall be authentic and legal, expressed in healthy form, and shall not contain any information that is false or confusing. Violation of these provisions may result in penalties, including fines, orders to cease dissemination of the advertisements and orders to eliminate impact within the corresponding scope.

The Interim Measures for Administration of Internet Advertising, or the Internet Advertising Interim Measures, were adopted by the SAIC and became effective in September, 2016. The Internet Advertising Interim Measures regulate internet advertisement, which are defined as commercial advertisements that directly or indirectly promote goods or services through websites, web pages, internet applications or other internet media in various forms, including texts, pictures, audio clips and videos. According to the Internet Advertising Interim Measures, internet advertisers are responsible for the authenticity of the content of advertisements. The identity, administrative license, cited information and other certificates that advertisers are required to obtain in publishing internet advertisements shall be true and valid. Internet advertisements shall be distinguishable and prominently marked as “advertisements” in order to enable consumers to identify them as advertisements. Publishing and circulating advertisements through the internet shall not affect the normal use of the internet by users. It is not allowed to induce users to click on the content of advertisements by any fraudulent means, or to attach advertisements or advertising links in emails without users’ permission. The Internet Advertising Interim Measures also impose several restrictions on the forms of advertisements and activities used in advertising. In addition, the SAMR issued the Measures for Administration of Internet Advertising (Draft for Comments), or the Draft Internet Advertising Measures for public comments until December 25, 2021, which highlights that if the internet broadcast constitutes commercial advertisements, the relevant operators and marketers shall be subject to the Draft Internet Advertising Measures, and any advertisements for medical treatment, drugs, formula foods or medical devices for special medical purposes or health foods are prohibited to be published by the internet broadcast.

The Circular of the People’s Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange on Further Regulating Financial Marketing Campaigns, or the Circular 316, which was promulgated on December 20, 2019 and became effective on January 25, 2020, regulates that market players who have not obtained the corresponding qualification for the financial business may not carry out marketing related to such financial business, except that information release platforms and the media are entrusted by the financial product operators or financial service providers that have obtained the qualification for the financial business with the financial marketing in accordance with the law. According to the Announcement No.3 issued by PBOC, all lending institutions are required to display the annualized rate of each loan product prominently on the website, mobile app, poster, and any other channels where the product is marketed, and specify the annualized rate in the loan contract. The calculation of the annualized interest rate may be based on compound interest or simple interest. The calculation based on compound interest is equivalent to that of the internal rate of return, and the simple-interest approach should be specified as such.

In December 2021, the Online Marketing Draft was released to solicit public opinions, which applies to financial institutions and third-party Internet platform operators entrusted by financial institutions to carry out online marketing of financial products. The Online Marketing Draft outlined the basic principles and guidance for online marketing of financial products.

Regulations Relating to E-Commerce

Certain laws and regulations are promulgated in recent years to specifically regulate the e-commerce industry in PRC. In January 2014, the SAIC adopted the Online Transactions Measures, which impose certain stringent requirements and obligations on online trading or service operators as well as the marketplace platform providers. For example, the marketplace platform providers are obligated to examine the legal status of each third-party merchant selling products or services on the platform and display on a prominent location on the web page of such merchant the information stated in the merchant's business licenses or a link to such business license. Where the marketplace platform providers also act as online distributors, these marketplace platform providers must make a clear distinction between their online direct sales and sales of third-party merchant products. Moreover, consumers are generally entitled to return the products sold by an online trading operator within seven days upon the receipt thereof and are not required to provide reasons for such return. In addition, the Online Transactions Measures specifies that online distributors or related service operators, as well as marketplace platform providers, shall conduct their businesses in full compliance with the Anti-unfair Competition Law and other relevant PRC laws and regulations, and shall not unfairly compete with other operators or disturb social and economic orders, including but not limited to carrying out any fictitious transactions and deleting any unfavorable comments.

In April 23, 2019, the Standing Committee of the NPC implemented a newly amended Anti-unfair Competition Law of the PRC. It further emphasized that a business operator shall not engage in any false or misleading publicity for its products, or fictitious transactions to defraud or mislead consumers. Violation of these provisions may subject the relevant business operators to various penalties, including an order from the relevant governmental authorities to cease illegal acts, with payment of a fine ranging from RMB200,000 to RMB1 million, or in the case of a severe violation, revocation of business licenses and payment of a fine ranging from RMB1 million to RMB2 million.

In August 2018, the Standing Committee of the NPC promulgated the PRC E-Commerce Law, or the E-Commerce Law, which became effective in January 2019. The E-Commerce Law proposes a series of requirements on e-commerce operators, including individuals and entities carrying out business online, e-commerce platform operators and merchants within the platform. For example, the E-Commerce Law requires e-commerce operators to respect and equally protect consumers' legitimate rights and provide options to consumers without targeting their personal characteristics, and also requires e-commerce operators to clearly point out to consumers their tie-in sales in which additional services or products are added by merchants to a purchase, and not to assume consumers' consent to such tie-in sales by default. Moreover, the E-Commerce Law requires e-commerce operators, including individuals and entities carrying out business online, e-commerce platform operators and merchants on these platforms, to display prominently on their home page the information contained in their business licenses or administrative permits relating to their operating businesses; failure to take necessary actions against merchants on the e-commerce platforms that are not in compliance with such requirements may subject the e-commerce platform operators to rectification within a specified period and a fine between RMB20,000 and RMB100,000.

The E-Commerce Law also sets forth certain requirements and/or obligations particularly applicable to the e-commerce platform operators, including, among other things:

- *Requirements relating to credit evaluation.* The e-commerce platform operators are required to establish a credit evaluation system and publicize the credit evaluation rules, and provide consumers with ways to evaluate products sold or services provided within the platform.
- *Requirements relating to transaction rules.* The e-commerce platform operators shall develop and continuously publish or make publicly available, prominently on its homepage, a link to its platform service agreement and transaction rules, specifying the rights and obligations of relevant parties with respect to joining and leaving the platform, quality assurance and protection of consumer rights and personal information, and to ensure convenience and complete access to reading and downloading such service agreement and transaction rules by merchants and consumers.

- *Liability of the e-commerce platform operators.* The e-commerce platform operators who fail to take necessary actions when they know or should have known that the merchants within the platform infringe upon others' intellectual property rights or the products or services provided by the merchants do not meet the requirements for personal and property security, or otherwise infringe upon consumers' legitimate rights, will be imposed a joint liability with the merchants; with respect to the products or services affecting consumers' life and health, the e-commerce platform operators will bear relevant responsibilities if they fail to review the qualifications of merchants or fail to safeguard the interests of the consumers.

On October 23, 2020, the Interim Measures for Seven-day Unconditional Return of Online Purchased Goods (2020 version) was issued by the SAMR and took in effect on the same day, which emphasizes that online goods sellers shall lawfully perform their duties of ensuring the consumers to exercise the rights of "Seven-day Unconditional Return of Purchased Goods" and the provider of an online trading platform shall guide and urge the online goods sellers who use the platform to perform such duties, as well as conduct supervisions and inspections and provide technical support.

On March 15, 2021, the Administrative Regulations on Internet Transactions were released by the State Administration for Market Regulation and took into effective on May 1, 2021, which are the supplementary rules to the E-Commerce Law and repealed the Online Transactions Measures. Pursuant to the Administrative Regulations on Internet Transactions, any online business operator who conducts online sales or provides service through online social networking platforms or online live-broadcasting platforms, should comply with both the E-Commerce Law and the Administrative Regulations on Internet Transactions. We are subject to these measures as a result of our online direct sales and online marketplace.

Regulations Relating to Product Quality and Consumer Rights Protection

Pursuant to the Product Quality Law of PRC promulgated by the Standing Committee of the NPC in February 1993, and as amended in July 2000, August 2009 and December 2018 respectively, or the Product Quality Law, a seller must establish and practice a check-for-acceptance system for replenishment of its stock, and examine the quality certificates and other marks and must also adopt measures to keep the products for sale in good quality. Violation of the Product Quality Law could result in various penalties, including the imposition of fines, suspension of business operations, revocation of business licenses or criminal liabilities. Where a defective product causes physical injury to a person or damage to another person's property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

The PRC Consumer Rights and Interests Protection Law, as amended and effective as of March 15, 2014, the Administrative Regulations on Internet Transactions and the E-Commerce Law, have provided stringent requirements and obligations on business operators, including internet business operators and platform service providers. For example, consumers are entitled to return goods purchased online, subject to certain exceptions, within seven days upon receipt of such goods without stating a reason for such return. To ensure that sellers and service providers comply with these laws and regulations, the platform operators are required to implement rules governing transactions on the platform, monitor the information posted by sellers and service providers, and report any violations by such sellers or service providers to the relevant authorities. In addition, online marketplace platform providers may, pursuant to the relevant PRC consumer protection laws, be exposed to liabilities if the lawful rights and interests of consumers are infringed upon in connection with consumers' purchase of goods or acceptance of services on online marketplace platforms and the online marketplace platform providers fail to provide consumers with the contact information of the seller or manufacturer. In addition, online marketplace platform providers may be jointly and severally liable with sellers and manufacturers if they are aware or should be aware that any seller or manufacturer is using the online platform to infringe upon the lawful rights and interests of consumers and fail to take measures necessary to prevent or stop such activity.

The Civil Code of PRC provides that:

(i) in the event of damage arising from a defective product, the infringed party may seek compensation from either the manufacturer or seller of the said product. If the product defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation. If the product defect is caused through the fault of the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation;

(ii) if the product defect is caused through the fault of a third party, including, inter alia, the transporter or the party providing storage, and results in damage to others, the seller of the said product shall be entitled to seek reimbursement from the third party upon compensation;

(iii) if a defective product endangers the personal or property safety of others, the infringed party shall be entitled to request that the manufacturer or seller assume tort liability through, inter alia, stop infringement, removal of obstacle and elimination of danger;

(iv) if a defect is found in a product after it has been put into circulation, the manufacturer and the seller shall take remedial measures in a timely manner including, inter alia, alerts and recalls. In the event of damage is enlarged due to a failure to take remedial measures in a timely manner or inadequate remedial measures, they shall bear tort liability. Where a recall measure is taken pursuant to the preceding sentences, the manufacturer and the seller shall bear the necessary expenses incurred by the infringing party resulted therefrom; and

(v) in the event of death or serious damage to health arising from a product that is manufactured or sold when it is known to be defective or failure to take effective remedial measures pursuant to the preceding sentences, the infringed party shall be entitled to claim corresponding punitive compensation.

We are subject to these laws and regulations as an online supplier of commodities and a provider of an online marketplace platform.

Regulations Relating to 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 of the PRC, promulgated in February 2010 and taking effect in April 2010, or the Copyright Law, and related rules and regulations. A revised Copyright Law was published in November 2020 and became effective in June 2021. Under the Copyright Law, the term of protection for copyrighted software is 50 years.

Patent. The Patent Law of the PRC, promulgated in December 2008 and effective since October 2009, or the Patent Law, provides for patentable inventions, utility models and designs. A revised patent Law was published in October 2020 and became effective in June 2021. An invention or utility model for which patents may be granted shall have novelty, creativity and practical applicability. The State Intellectual Property Office under the State Council is responsible for examining and approving patent applications.

Trademark. The Trademark Law of the PRC, promulgated in April 2019 and effective since November 2019, or the Trademark Law, and the rules implemented thereunder protect registered trademarks. The PRC Trademark Office of the SAIC is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a “first-to-file” principle with respect to trademark registration.

Domain Name. Domain names are protected under the Measures for the Administration of the Internet Domain Names promulgated by the MIIT in August 2017 and effective since November 2017 or the Domain Names Measures. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names. The Domain Names Measures has adopted a “first-to-file” principle with respect to the registration of domain names.

We have registered 165 patents in China, and have applied for 385 additional patents with the PRC State Intellectual Property Office and we also have three international patent applications through the procedures under the Patent Cooperation Treaty. We have registered 202 software copyrights and 3 copyrights for artworks with the PRC National Copyright Administration. We have 160 registered domain names, including lexin.com, lexinfintech.com and fenqile.com. As of the date of this annual report, we had 446 registered trademarks, including our “LEXIN乐信,” “Fenqile,” and “分期乐” trademarks.

Regulations Relating to Tax

Enterprise Income Tax

PRC enterprise income tax is calculated based on taxable income, which is determined under (i) the PRC Enterprise Income Tax Law, implemented in January 2008 and amended by NPC in December 2018 and (ii) the implementation rules to the Enterprise Income Tax Law promulgated by the State Council in January 2008 and amended in April 2019. The Enterprise Income Tax Law imposes a uniform enterprise income tax rate of 25% on all resident enterprises in the PRC, including foreign-invested enterprises and domestic enterprises but, grants preferential treatment to “High and New Technology Enterprises,” or HNTEs, and qualified “Software Enterprises.” HNTEs are instead subject to an income tax rate of 15%, subject to the requirement that they re-apply for HNTE status every three years. During each year of this three-year period, an HNTE must conduct a qualification self-review to ensure it meets the HNTE criteria, or be subject to the regular 25% income tax rate for any year in which it does not meet the criteria. A qualified “Software Enterprise” is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. According to the Circular on Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries, or the Circular 27, which was effective in January 2011, key software enterprises included in the state planning that have not benefited from the preferential treatment of tax exemption in the current year may be subject to enterprise income tax at a reduced rate of 10%. However, in December 2020, the Announcement on the Enterprise Income Tax Policies for Promoting the High-quality Development of the Integrated Circuit Industry and the Software Industry was released, which replaced the above-mentioned provision in the Circular 27. It provides that a key software enterprise encouraged by the state shall be exempt from the enterprise income tax from the first to the fifth year from the year when such enterprise makes profits and be subject to the enterprise income tax levied at the reduced rate of 10% for subsequent years. However, these enterprises shall go through record-filing with the tax authority at the time of final settlement each year and be subject to the examination of the development and reform authority and the industry and information technology authority.

In addition, according to the Enterprise Income Tax Law, enterprises registered in countries or regions outside the PRC but have their “de facto management bodies” located within China may be considered to be PRC resident enterprises and are therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Though the implementation rules of the Enterprise Income Tax Law define “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, and properties of an enterprise,” the only detailed guidance currently available for the definition of “de facto management body” as well as the determination and administration of tax residency status of offshore-incorporated enterprises are set forth in the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies promulgated by the SAT, in April 2009, or Circular 82, and the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Overseas Incorporated Resident Enterprises (Trial Version) issued by the SAT in July 2011, or Bulletin No. 45, which provides guidance on the administration as well as the determination of the tax residency status of a Chinese-controlled offshore-incorporated enterprise, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC company or PRC corporate group as its primary controlling shareholder.

According to Circular 82, a Chinese-controlled offshore-incorporated enterprise will be regarded as a PRC resident enterprise 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:

- the primary location of the day-to-day operational management and the places where they perform their duties are in the PRC;
- decisions relating to the enterprise's financial and human resource matters are made or are subject to approval of organizations or personnel in the PRC;
- the enterprise's primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and
- 50% or more of voting board members or senior executives habitually reside in the PRC.

Bulletin No. 45 further clarifies certain issues related to the determination of tax resident status and competent tax authorities. It also specifies that when provided with a copy of Recognition of Residential Status from a resident Chinese-controlled offshore-incorporated enterprise, a payer does not need to withhold income tax when paying certain PRC-sourced income such as dividends, interest and royalties to such Chinese-controlled offshore-incorporated enterprise.

Income Tax for Share Transfers

According to the Circular 7 promulgated by the SAT in February 2015 as amended in December 2017, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by transfer of the equity interests of an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market) without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and the indirect equity transfer will be treated as a direct transfer. As a result, the gain derived from such transfer, which means the equity transfer price less the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of Circular 7, the transfer which meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company are directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company's revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; or (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties. In October, 2017, SAT issued Bulletin of SAT on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or the Bulletin 37, which, among others, repeals certain rules stipulated in Circular 7 on December 1, 2017. The Bulletin 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises.

There is uncertainty as to the application of Circular 7. Circular 7 may be determined by the PRC tax authorities to be applicable to our prior private equity financing transactions that involved non-resident investors, if any of such transactions are determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-resident investors in such transactions may become at risk of being taxed under Circular 7, and we may be required to expend valuable resources to comply with Circular 7 or to establish that we should not be taxed under the general anti-avoidance rule of the Enterprise Income Tax Law, which may have a material adverse effect on our financial condition and results of operations.

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 SAT on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, promulgated by the SAT in February 2009, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it should be a company as provided in the tax treaty; (ii) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. In August 2015, the SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, or Circular 60, which became effective in November 2015 and was amended in June 2018. 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,

nonresident 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. In February 2018, the SAT promulgated the Notice on Issues Related to the “Beneficial Owner” in Tax Treaties, according to which when determining the applicant’s status as the “beneficial owner” regarding tax treatments in connection with dividends in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in a third-party country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levies tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. In October 2019, the SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, or Circular 35. Circular 35 became effective and superseded Circular 60 in January 2020. Compared to Circular 60, Circular 35 provides that the nonresident enterprises and their withholding agents are not required to submit the supporting documents for tax treaty benefits when performing tax filings. Instead, nonresident enterprises and their withholding agents may retain such supporting documents themselves for the post-tax filing examinations by the relevant tax authorities. Accordingly, Installment (HK) Investment 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, 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.

Regulations Relating to Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Regulations of the People’s Republic of China on Foreign Exchange Control, promulgated by the State Council as amended in August 2008. Under these regulations, the Renminbi is freely convertible for current account items, including the trade and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities, unless the prior approval of SAFE is obtained and prior registration with SAFE is made.

The Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investments promulgated by SAFE in November 2012 and most recently amended in December 2019 substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expense accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of Renminbi proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, according to the Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents promulgated by SAFE in May 2013 and most recently amended in December 2019, the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. In March 2015, SAFE released the SAFE Circular 19, which became effective in June 2015 and was amended in December 2019. SAFE Circular 19 made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises. It also annulled the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or SAFE Circular 142, and the Notice of the State Administration of Foreign Exchange on the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-Invested Enterprises in Certain Areas, and lifted some foreign exchange restrictions under SAFE Circular 142. However, SAFE Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using a Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, providing entrusted loans or repaying loans between non-financial enterprises.

In June 2016, SAFE issued the SAFE Circular 16, which became effective on the same day. Compared to SAFE Circular 19, SAFE Circular 16 provides that, in addition to foreign exchange capital, foreign debt funds and proceeds remitted from foreign listings should also be subject to the discretionary foreign exchange settlement. In addition, it also lifted the restriction, that foreign exchange capital under the capital accounts and the corresponding Renminbi capital obtained from

foreign exchange settlement should not be used for repaying the inter-enterprise borrowings (including advances by the third party) or repaying bank loans in Renminbi that have been sub-lent to the third party.

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

Regulations Relating to Labor

Regulations on Labor Contract

The main PRC employment laws and regulations applicable to us include the Labor Law of the PRC, or the Labor Law, the Labor Contract Law of the PRC, or the Labor Contract Law, the Implementing Regulations on the Labor Contract Law of the PRC and other relevant laws and regulations.

The Labor Law was issued by the NPC Standing Committee on July 5, 1994, took effect on January 1, 1995, and was last amended on December 29, 2018. Under this law, employers should enter into employment contracts with their employees based on the principles of equality, consent and agreement through consultation. Wages will be paid based on the policy of performance, equal pay for equal work, lowest wage protection and special labor protection for female worker and juvenile workers. The Labor Law also requires employers to establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Employers are also required to pay their employees' social insurance premiums.

The Labor Contract Law was issued by the NPC Standing Committee on June 29, 2007, amended on December 28, 2012 and took effect on July 1, 2013. Under this law and its implementing regulations, enterprises established in the PRC must enter into employment agreements with their employees to provide for the term of employment, job duties, work time, holidays and statutory payments, labor protection, working condition and occupational hazard prevention and protection and other essential contents. Both employers and employees will duly perform their duties. The Labor Contract Law also provides for the scenario of rescission and termination. Except for certain situations explicitly stipulated in the Labor Contract Law that are not subject to economic compensation, economic compensation shall be paid to the employee by the employer for the rescission or termination of the employment agreement.

Regulations on Social Insurance and Housing Provident Funds

Pursuant to the Social Insurance Law of the PRC, which was promulgated by the NPC Standing Committee on October 28, 2010, effective on July 1, 2011 and last amended on December 29, 2018, the PRC established social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. Employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. Employers must apply for completion of social security registration with the local social security agency within 30 days from the date of incorporation with their business license, registration certificate or corporation seal. Employers that fail to complete social security registration will be ordered by the social security administrative authorities to make correction within a stipulated period; where correction is not made within the stipulated period, the employers will be subject to fines ranging from one to three times the amount of the payable social security premiums, and the person(s)-in-charge who is/are directly accountable and other directly accountable personnel will be subject to fines ranging from RMB500 to RMB3,000. If an employer does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution will order it to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department will impose a fine from one to three times the amount of overdue payment.

According to the Several Provisions on Implementing the Social Insurance Law of the PRC, or the Provisions, issued by the Ministry of Human Resources and Social Security of the PRC on June 29, 2011 and effective on July 1, 2011, insurance premiums that should be paid by employees will be withheld and paid by the employers. Where an employer fails

to withhold and pay the premiums in accordance with the Provisions, the social insurance premium collection institution will order the employer to remit within the prescribed time and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date of default as late payment penalty. Employers may not require employees to pay late payment penalties.

Pursuant to the Regulations on the Administration of Housing Provident Funds, issued by the State Council on April 3, 1999 and last amended on March 24, 2019, employers must complete housing provident funds registration with local housing fund administration centers and open housing fund accounts for their employees in the bank. Employers must, within 30 days from their date of establishment, go through housing provident funds registration with local housing fund administration centers and complete housing provident fund account establishment procedures for employees with the examination and approval documents of the housing provident fund management center within 20 days from completion of registration. Employers are required to pay and deposit housing funds on behalf of their employees in full and in a timely manner, and any employer that fails to open such bank account or contribute housing funds may be fined and ordered to make payment within a prescribed time limit. If the employer still fails to do so, the housing fund administration center may apply to the court for enforcement of the unpaid amount.

Pursuant to the Notice of the General Office of the State Council on Promulgation of the Pilot Program for Implementing Consolidation of Maternity Insurance and Basic Medical Insurance for Employees and Opinions of the General Office of the State Council on Comprehensively Promoting the Implementation of the Combination of Maternity Insurance and Basic Medical Insurance for Employees issued on January 19, 2017 and March 6, 2019, maternity insurance and basic medical insurance for employees will be consolidated. On July 20, 2018, 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 Reform Plan. Under the Reform Plan, beginning January 1, 2019, tax authorities are responsible for the collection of social insurance contributions in the PRC.

Pursuant to the Interim Measures for Participation in Social Insurance by Hong Kong, Macao and Taiwan Residents in the Mainland, which was promulgated by the Ministry of Human Resources and Social Security on November 29, 2019, effective on January 1, 2020, employers registered in the Mainland China shall contribute basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for Hong Kong, Macao and Taiwan residents who are employed or recruited by them.

Regulations on M&A Rules

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAMR, the CSRC and SAFE, issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which took into effect on September 8, 2006 and were amended on June 22, 2009. Foreign investors are subject to the M&A Rules when they purchase equity interest of a domestic company or subscribe for the increased capital of a domestic company that changes a domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets via such foreign-invested enterprise; or when the foreign investors purchase the assets of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules also provide that if a PRC entity or individual plans to merge or acquire its related PRC entity through an overseas company legitimately incorporated or controlled by such entity or individual, such a merger or acquisition shall be subject to examination and approval by MOFCOM.

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 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.

On December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments. According to the Draft Provisions and the Draft Administration Measures, the overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the 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 Draft Administration Measures, an overseas offering and listing is prohibited under any of the following circumstances: (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 there are material ownership disputes over the equity, major assets, and core technology, etc. of the issuer; (iv) 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, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (v) if, in past three years, directors, supervisors, or senior executives have been subject to administrative punishments for severe violations, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (vi) other circumstances as prescribed by the State Council.

According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC (i) with respect to its initial public offering and listing within three business days, after its initial filing of the listing application to the regulator in the place of the intended listing, (ii) with respect to its follow-on offering within three business days after completion of the follow-on offering, (iii) with respect to its follow-on offering for purpose of acquiring specific assets, within three business days after the first public announcement of the transaction, and (iv) with respect to listing by means of reverse takeover, share swap, acquisition and similar transactions, within three business days after its initial filing of the listing application or the first public announcement of the transaction, as case may be. Non-compliance with the Draft Administration Measures or an overseas listing completed in breach of Draft Administration Measures may result in a warning on the relevant domestic companies or a fine of RMB1 million to RMB10 million on them. If the circumstances are serious, they may be ordered to suspend their business or suspend their business pending rectification, or their permits or businesses license may be revoked. Furthermore, the controlling shareholder, actual controllers, directors, supervisors, and other legally appointed persons of the domestic enterprises may be warned, or fined between RMB500,000 to RMB5,000,000 either individually or collectively.

Regulations on Anti-Monopoly Matters Related to Internet Platform Companies

The PRC Anti-Monopoly Law, which took effect on August 1, 2008, prohibits monopolistic conducts such as entering into monopoly agreements, abusing market dominance, and undertaking concentrations that may have the effect of eliminating or restricting competition. On October 23, 2021, the Standing Committee of the National People's Congress issued a second draft amendment to the amended Anti-Monopoly Law for public comments, which proposes to increase the fines for illegal concentration of business operators to “no more than ten percent of its preceding year's sales revenue if the concentration of business operator has or may have an effect of excluding or limiting competition; or a fine of up to RMB5 million if the concentration of business operator does not have an effect of excluding or limiting competition.” The draft also proposes for the relevant authority to investigate transaction where there is evidence that the concentration has or may have the effect of eliminating or restricting competition, even if such concentration does not reach the filing threshold.

On February 7, 2021, the Anti-Monopoly Commission of the State Council officially promulgated the Anti-Monopoly Guidelines for Internet Platforms. The guidelines prohibit certain monopolistic conducts of internet platforms to protect market competition, safeguard interests of users and operators who participate in internet platform economics, including without limitation, prohibiting platforms with dominant position from abusing their market dominance (such as discriminating customers in terms of pricing and other transactional conditions using big data and analytics, coercing counterparties into exclusivity arrangements, using technology methods to block competitors' interface, tying or attaching unreasonable trading conditions, compulsory collection of unnecessary user data). In addition, the guidelines also reinforce the requirement of antitrust merger review for internet platform related transactions to safeguard market competition. On August 17, 2021, the SAMR issued the Provisions on Prohibition of Unfair Competition on the Internet (Draft for

Comments), which prohibits business operators from using data, algorithms and other technical means to commit traffic hijacking, interference, malicious incompatibility and other improprieties to influence user choices or hinder or damage the normal operation of network products or services offered by other business operators. In addition, on November 15, 2021, the SAMR published the Overseas Anti-monopoly Compliance Guidelines for Enterprises, which provides that both PRC enterprises that conduct business and operation overseas and PRC enterprises that conduct business and operations in China and may have certain impacts on overseas markets may face risks on anti-monopoly in other jurisdictions, in particular for those that conduct import and export trade, overseas investments, acquisition, transfer or license of intellectual properties and tendering and bidding activities.

Regulations on Technology Export Control

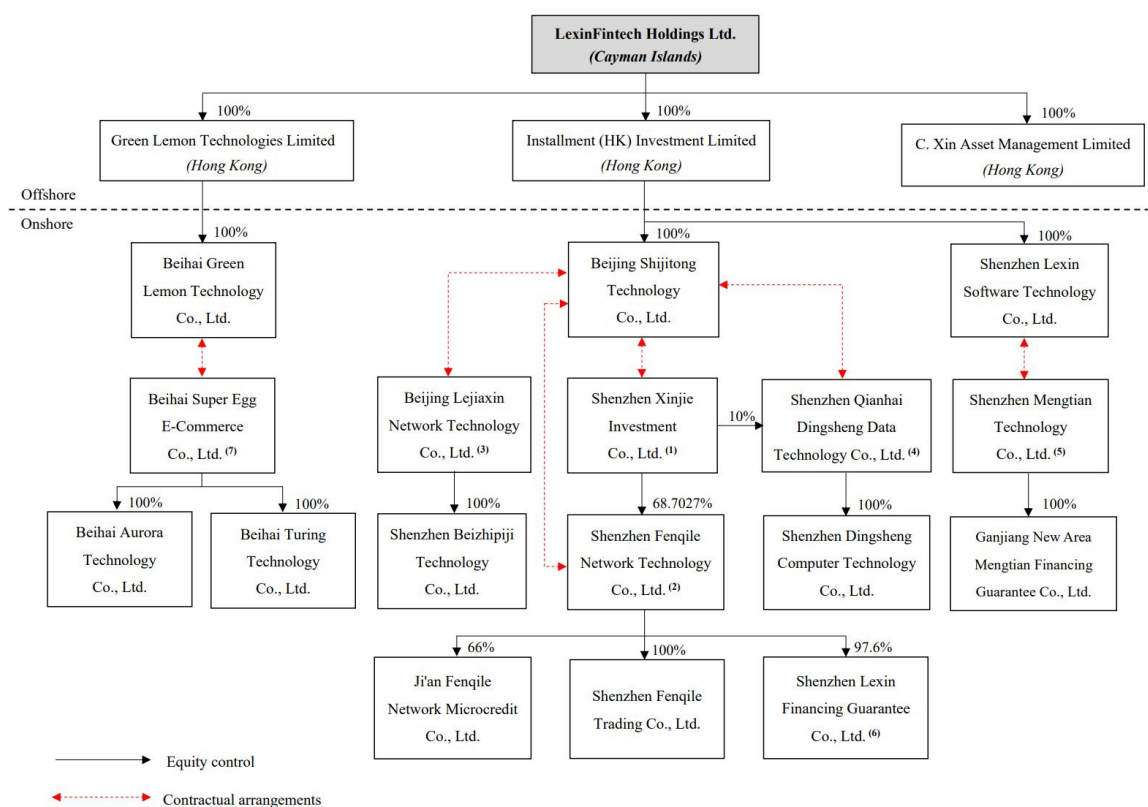
On November 7, 2016, the Standing Committee of the National People's Congress issued the Foreign Trade Law, and it provides that foreign trade operators engaged in export of technologies shall report with the relevant governmental authorities. Pursuant to the Foreign Trade Law, where technologies exported are prohibited, or restricted but were exported without governmental permission, relevant authorities will impose penalties in accordance with the relevant laws and regulations, or will order the operators to conduct rectification, confiscate their illegal income, and impose fine of one to five times of the illegal income. If there is no illegal income or the amount of illegal income is less than RMB10,000, a fine ranging from RMB10,000 to RMB50,000 will be imposed.

On November 29, 2020, the State Council released the Regulations on the Administration of the Import and Export of Technology (2020 version). The Regulations stipulate the definition of technology export, which refers to the transfer of technology from China to foreign countries by means of trade, investment or economic and technical cooperation. According to the Regulations, the relevant departments may establish a catalog of technologies that are restricted or prohibited from export, and the export of technologies in the "prohibited" part of the catalog is prohibited. For technologies in the "restricted" part of the catalog, approval from the government is required before the parties conduct substantive negotiations and sign a contract on the export, and an export license must be obtained before the export can be made.

On August 28, 2020, the Ministry of Commerce and the Ministry of Science and Technology jointly issued the Catalogue of Technologies Prohibited or Restricted from Export by China, or the Catalogue, which has replaced its previous version issued in 2001. The main purpose of the Catalogue is to regulate the export of technologies, promote technological improvement and expand economic and technological exchanges with foreign countries while safeguarding national economic security. According to the Catalogue, for technologies which are categorized as the restricted export technology, an export license is required before export.

C. Organizational Structure

The following diagram illustrates our corporate structure, including our principal subsidiaries, variable interest entities and subsidiaries of variable interest entities as of the date of this annual report on Form 20-F.



- (1) The shareholders of Shenzhen Xinjie include Jay Wenjie Xiao (95%) and Wenbin Li (5%). Jay Wenjie Xiao is our chief executive officer and chairman of our board of directors, and Wenbin Li is a non-executive PRC employee.
- (2) The shareholders of Shenzhen Fenqile include Shenzhen Xinjie (68.7027%) and Jay Wenjie Xiao (31.2973%).
- (3) The shareholders of Beijing Lejiaxin include Jay Wenjie Xiao (99.87%) and Jared Yi Wu (0.13%). Jared Yi Wu is our president and director.
- (4) The shareholders of Qianhai Dingsheng include Kris Qian Qiao (60%), our chief financing cooperation officer and director, and Jianwei Wei (30%), a non-executive PRC employee, and Shenzhen Xinjie (10%).
- (5) The shareholders of Mengtian Technology include Jay Wenjie Xiao (62.5%), Xiaoting Zhou (17.5%), Kris Qian Qiao (7.5%), Jianwei Wei (7.5%) and Shan Xu (5%), Xiaoting Zhou is our non-executive PRC employee.
- (6) 97.6% of the equity interest of Shenzhen Lexin Financing Guarantee Co., Ltd. is directly held by Shenzhen Fenqile, 1.4% of which is held by Mengtian Technology, and the remaining 1% is held by Upside Limited.
- (7) The shareholders of Beihai Super Egg include Tao Yang (50%) and Chao Han (50%), and Tao Yang and Chao Han are all our non-executive PRC employees.

Contractual Arrangements with the Variable Interest Entities

PRC laws and regulations impose restrictions on foreign ownership and investment in internet-based businesses such as distribution of online information and other value-added telecommunications services. We are a Cayman Islands exempted company and our PRC subsidiaries are considered foreign-invested enterprises. To comply with PRC laws and regulations, we have entered into a series of contractual arrangements, mainly through Beijing Shijitong, Shenzhen Lexin Software Technology Co., Ltd. and Beihai Green Lemon Technology Co., Ltd., with the variable interest entities and the shareholders of the variable interest entities to obtain effective control over the variable interest entities and their subsidiaries.

We currently conduct our business through the variable interest entities and their subsidiaries based on these contractual arrangements, which allow us to:

- exercise effective control over the variable interest entities and their subsidiaries;
- receive substantially all of the economic benefits from the variable interest entities and their subsidiaries; and
- have an exclusive option to purchase all or part of the equity interests in the variable interest entities and when and to the extent permitted by PRC law.

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

The following is a summary of the currently effective contractual arrangements between our wholly owned PRC subsidiary, Beijing Shijitong, certain of the variable interest entities and their nominee shareholders. The contractual arrangements between (i) our wholly owned PRC subsidiary, Shenzhen Lexin Software Technology Co., Ltd., and the variable interest entity, Mengtian Technology, and its shareholders and (ii) our wholly owned PRC subsidiary, Beihai Green Lemon Technology Co., Ltd. and the variable interest entity, Beihai Super Egg, and its shareholders are of substantially the same terms and conditions.

Agreements that Allow Us to Receive Economic Benefits from the Variable Interest Entities

Exclusive Business Cooperation Agreements. Beijing Shijitong entered into exclusive business cooperation agreements with each of the variable interest entities. Pursuant to these agreements, Beijing Shijitong or its designated party has the exclusive right to provide the variable interest entities with comprehensive business support, technical support and consulting services. Without Beijing Shijitong's prior written consent, the variable interest entities shall not accept any consulting and/or services covered by these agreements from any third party. The variable interest entities agree to pay service fees in an amount determined by Beijing Shijitong based on respective profit calculated as revenue minus cost agreed and recognized by Beijing Shijitong of the variable interest entities for the relevant period on a yearly basis or other service fees for specific services as required and as otherwise agreed by both parties. Beijing Shijitong owns the intellectual property rights arising out of the services performed under these agreements. Unless Beijing Shijitong terminates these agreements or pursuant to other provisions of these agreements, these agreements will remain effective indefinitely. These agreements can be terminated by Beijing Shijitong through a 30-day advance written notice, the variable interest entities have no right to unilaterally terminate these agreements.

Agreements that Provide Us with Effective Control over the Variable Interest Entities

Power of Attorney. Through a series of power of attorney, each nominee shareholder of the variable interest entities irrevocably authorizes Beijing Shijitong or any person(s) designated by Beijing Shijitong to act as its attorney-in- fact to exercise all of such shareholder’s voting and other rights associated with the shareholder’s equity interest in the variable interest entities, including but not limited to, the right to attend shareholder meetings on behalf of such shareholder, the right to appoint legal representatives, directors, supervisors and chief executive officers and other senior management, and the right to sell, transfer, pledge and dispose of all or a portion of the shares held by such shareholder. The power of attorney is irrevocable and remains in force continuously upon execution.

Equity Pledge Agreements. Beijing Shijitong has entered into an equity pledge agreement with each nominee shareholder of the variable interest entities. Pursuant to these equity pledge agreements, each shareholder of the variable interest entities has pledged all of his, her or its respective equity interest in the variable interest entities to Beijing Shijitong to guarantee the performance by such nominee shareholder and the variable interest entities of their respective obligations under the exclusive business cooperation agreements, the power of attorney, the loan agreement, the exclusive option agreements, and any amendment, supplement or restatement to such agreements. If the variable interest entities or any of their nominee shareholders breach any obligations under these agreements, Beijing Shijitong, 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 nominee shareholders of variable interest entities agrees that before his, her or its obligations under the contractual arrangements are discharged, he, she or it will not dispose of the pledged equity interests, create or allow any encumbrance on the pledged equity interests, which may result in the change of the pledged equity that may have adverse effects on the pledgee’s rights under these agreements without the prior written consent of Beijing Shijitong. These equity pledge agreements will remain effective until the variable interest entities and their nominee shareholders discharge all their respective obligations under the contractual arrangements. As of the date of this annual report, the equity pledge between each shareholder of the variable interest entities and Beijing Shijitong has been registered with local PRC authorities.

Agreements that Provide Us with the Option to Purchase the Equity Interest in the Variable Interest Entities

Exclusive Option Agreements. Beijing Shijitong has entered into the exclusive option agreements with the variable interest entities. Pursuant to these exclusive option agreements, the nominee shareholders of the variable interest entities have irrevocably granted Beijing Shijitong or any third party designated by Beijing Shijitong an exclusive option to purchase all or part of their respective equity interests in the variable interest entities. The purchase price shall be the lowest price permitted by law. Without Beijing Shijitong’s prior written consent, the variable interest entities shall not, among other things, amend their articles of association, increase or decrease the registered capital, sell, dispose of or set any encumbrance on their assets, business or revenue, enter into any material contract outside the ordinary course of business, merge with any other persons or make any investments, distribute dividends or enter into any transactions which have material adverse effects on their business. The shareholders of the variable interest entities also jointly and severally undertake that they will not transfer, gift or otherwise dispose of their respective equity interests in the variable interest entities to any third party or create or allow any encumbrance on their equity interests within the term of these agreements. These agreements will remain effective until Beijing Shijitong and/or any third party designated by Beijing Shijitong has acquired all equity interests of the variable interest entities from their respective nominee shareholders.

Loan Agreements. Pursuant to the loan agreement between Beijing Shijitong and the shareholders of Qianhai Dingsheng, the loan agreements between Beijing Shijitong and the shareholders of Shenzhen Xinjie, the loan agreements between Beijing Shijitong and the shareholders of Shenzhen Fenqile, the loan agreement between Beijing Shijitong and the shareholders of Beijing Lejiacin, and the loan agreement between Shenzhen Lexin Software and the shareholders of Mengtian Technology, Beijing Shijitong and Shenzhen Lexin Software made certain loans to the nominee shareholders of our certain variable interest entities solely for the purpose of operating their respective businesses. Pursuant to these loan agreements, the nominee shareholders can only repay the loans by the transfer of all their equity interests in the applicable variable interest entities to Beijing Shijitong and Shenzhen Lexin Software (as applicable) or its designated person(s) pursuant to their respective exclusive option agreements. The nominee shareholders must pay all of the proceeds from transfer of such equity interests to Beijing Shijitong and Shenzhen Lexin Software (as applicable). In the event that nominee shareholders transfer their equity interests to Beijing Shijitong and Shenzhen Lexin Software (as applicable) or its designated person(s) with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to Beijing Shijitong and Shenzhen Lexin Software (as applicable) as the loan interest. The loans must be repaid immediately when permitted by PRC laws at Beijing Shijitong and Shenzhen Lexin Software (as applicable)’s request. The term of both loans are ten years and will be extended automatically for another ten years on each expiration.

In the opinion of Shihui Partners, our PRC counsel: the ownership structures of the variable interest entities currently do not result in any violation of the applicable PRC laws or regulations currently in effect; and the contractual arrangements among our PRC subsidiaries, the variable interest entities and their shareholders, are governed by PRC laws or regulations and are currently valid, binding and enforceable in accordance with the applicable PRC laws or regulations currently in effect, and do not result in any violation of the applicable PRC laws or regulations currently in effect. However, Shihui Partners 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. In particular, in March 2019, the NPC passed the PRC Foreign Investment Law, which became effective as of January 1, 2020. For the effect of the PRC Foreign Investment Law on us. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “—Risks Related to Doing Business in China—Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.”

D. Property, Plant and Equipment

Our corporate headquarters is located in Shenzhen, China, where we lease office space with an area of approximately 16,230 square meters as of the date of this annual report. For our user services, data verification services and collection services, we lease office space in six cities in China, namely Beijing, Shanghai, Wuhan, Nanchang, Changsha and Ji’an, with aggregate area of approximately 27,474 square meters. We also lease office space in various locations in the PRC, with an aggregate area of approximately 8,376 square meters. We lease our premises from unrelated third parties under operating lease agreements. The lease terms vary from 6 months to 6 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.

In February 2020, we successfully bid for a plot of land of 2,911.25 square meters in Shenzhen’s Nanshan district and entered into a land use purchase agreement with the municipal government. Total purchase price for the acquisition of the land plot is RMB1.032 billion. We expect to use this land to our continued growth and expansion, as we plan to build our new headquarters in this new location.

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 Information.” 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 online and offline consumption platform and a technology-driven service provider in China. Established in 2013, we leverage our profound understanding of consumers in China and the valuable experience of partnering with hundreds of financial institutions over the years, as well as our advanced technological capabilities, to connect fast-growing new generation consumers and SME owners with well-established national and regional funding partners.

We have expanded the scale of our platform rapidly since our inception. From our inception in August 2013 through the end of 2021, we cumulatively originated RMB659 billion (US\$103 billion) in loans. In 2019, 2020 and 2021, we originated RMB126 billion, RMB177 billion and RMB214 billion (US\$33.6 billion) in loans, respectively, representing a CAGR of 30.3%. As of December 31, 2019, 2020 and 2021, our outstanding principal balance of loans was approximately RMB60.6 billion, RMB76.5 billion and RMB85.9 billion (US\$13.5 billion), respectively. The weighted average tenor of loans originated on our platform in 2020 and 2021 was approximately 11.3 months and 11.1 months, respectively.

Key Operating Metrics

We regularly monitor a number of metrics in order to measure our current performance and project our future performance. These metrics aid us in developing and refining our growth strategies and making strategic decisions:

	As of or for the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Outstanding principal balance (in millions)	60,567	76,480	85,930	13,484
Outstanding principal balance by accounting treatment:				
Outstanding principal balance of on-balance sheet loans (in millions)	4,785	5,652	4,341	681
Outstanding principal balance of off-balance sheet loans (in millions)	55,782	70,828	81,589	12,803
Originations (in millions)	125,959	176,679	213,807	33,551
Number of active users who used our loan products (in thousands)	9,855	12,927	14,167	—

Outstanding principal balance. Outstanding principal balance represents the total amount of principal outstanding for loans originated on our platform at the end of the period. The accounting treatment with respect to outstanding principal balance of loans on our consolidated balance sheets varies, depending primarily on whether we are considered as the primary obligor in the lending relationship. See “Notes to Consolidated Financial Statements – Note 2 Significant Accounting Policies-Presentation for on- and off-balance sheet loans”.

Originations. Originations represent the total principal amount of the loans we originate during the period. Our users have the option to postpone or reschedule their monthly repayment. For originations, the principal amount postponed or rescheduled is calculated as a new loan principal amount. We treat off-balance sheet loans as part of our originations.

Number of active users and new active users using our loan products. We define an active user as a user who uses our loan products at least once during the relevant period. A new active user during a period is an active user during the period who did not use our loan products prior to the beginning of this period.

On- and Off-Balance Sheet Treatment of Loans

We access an array of diversified funding sources to ensure that we have scalable and stable funding. The accounting treatment of assets, liabilities and revenues arising from the loans we originate varies, depending primarily on whether we are considered as the primary obligor in the lending relationship.

We generate financing receivables from providing installment purchase loans and personal installment loans to users. The loans generated from our platform or mobile application are primarily funded by the following funding sources: (1) institutional funding partners; (2) the issuance of asset-backed securitized debts, and (3) historically, individual investors on *Juzi Licai*, the balance of which had been reduced to zero by December 2020. Depending on the arrangements among us, the borrowers and the funding sources, the underlying loans are accounted for as “on-balance sheet loans” or “off-balance sheet loans,” where applicable.

With respect to the loans funded by individual investors through *Juzi Licai* after our business model adjustments on April 24, 2018, and the loans funded by certain institutional funding partners, such as certain third-party commercial banks, we have determined that we are not the primary obligor in the lending relationship and thus do not record financing receivables from such loans. For certain off-balance sheet loans, we are obligated to compensate some institutional funding partners for the principal and interest repayment of loans in the event of a user default. We also provide full interest repayment to certain institutional funding partners according to the terms of the loan in the event that a user makes an early repayment of the loan. We account for our contracts with these institutional funding partners as a derivative under ASC Topic 815, Derivatives and Hedging, which is recognized on our consolidated balance sheets as either assets or liabilities. Other institutional funding partners do not require us to provide any guarantee pursuant to the loans facilitated. For individual investors on *Juzi Licai*, we set up an investor protection program called the risk safeguard scheme on April 24, 2018, replacing the quality assurance program. We concluded that we are the primary obligor in providing the guarantee services in relation to the risk safeguard scheme and records our obligations in accordance with ASC 460, Guarantees. The balance of risk safeguard fund is recorded as “restricted cash” on our consolidated balance sheets. We earned loan facilitation and servicing fees from our platform users and individual investors on *Juzi Licai*. See “Notes to Consolidated Financial Statements – Note 2 Significant Accounting Policies-Presentation for on- and off-balance sheet loans”.

General Factors Affecting Our Results of Operations

Our results of operations are affected by general factors driving the online consumer finance industry in China.

Regulatory environment in China

The online consumer finance industry in China is heavily regulated. Since mid-2015, relevant regulatory authorities have issued various laws and regulations governing the online consumer finance industry. See “Item 4. Information on the Company—B. Business Overview—Regulations.” It is expected that the online consumer finance market may be subject to closer scrutiny from regulators with more detailed rules and regulations to be introduced. We modified our operations recently to comply with relevant PRC laws and regulations. For example, in response to certain requirements under the Circular 141, we have made an adjustment to our cooperation model with institutional funding partners by cooperating with these institutional funding partners through our own financial guarantee companies qualified to provide financing guarantees for the users on our platform and to charge fees for the relevant guarantee services. In the future, we may be required to make further adjustment in our operations to comply with any relevant future PRC laws and regulations regarding the online consumer finance industry. These changes may have a material impact on our future financial results. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—If our current investor protection measures for institutional funding partners are deemed to violate the relevant laws and regulations, or if we are deemed to have operated financial guarantee business by the PRC regulatory authorities, our business, financial condition and results of operations would be materially and adversely affected.”

On the other hand, we have closely tracked the development and implementation of new rules and regulations that are likely to affect us. Tighter regulations may increase overall compliance costs of market players, promote more commercially reasonable and sensible credit products, enhance the competitive edge of established market players, and encourage consolidations within the industry. We believe these requirements have created entry barriers for many market players in China and further differentiated us from our competitors. We will continue to ensure timely compliance with existing and new laws and regulations applicable to our business. We believe that our ability to ensure timely and full compliance with these rules and regulations will improve our competitive position in the online consumer finance industry in China.

Economic and market conditions

While we believe we will continue to offer attractive value propositions to users and funding sources in changing economic environments, changes in the overall economic conditions may impact our business in several ways, including demand for our products, credit performance and funding costs.

The demand from our users and funding sources for our loan products is dependent upon interest rates offered and the return earned relative to other comparable or substitute products. For example, a significant interest rate increase could cause potential users to defer seeking loans as they wait for rates to settle. Additionally, if weakness in the economy occurs and actual or expected default rates increase, investors and institutional funding partners may delay or reduce their funding of loans on our platform. Furthermore, although we have access to diversified funding sources, in the event of an insufficient amount of liquidity in the financial markets, it may be difficult for us to obtain sufficient funding from our institutional funding partners at a reasonable cost.

In a strong economic climate, demand for our products and services may increase as consumer spending increases. In addition, additional potential users may qualify for a higher credit limit based on our credit assessment. Traditional lenders may also approve loans for a higher percentage of our potential users. Young professionals may receive higher and more stable salaries or other income, which may result in lower loan losses. In a weakening economic climate or recession, the opposite may occur. In particular, demand for our products and services may be materially and adversely impacted by severe and prolonged economic downturns as a result of the ongoing outbreak of COVID-19 and other factors. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19 in China” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—A severe or prolonged downturn in the Chinese or global economy and changes in the level of consumer confidence could reduce the demand for consumer loans and investments, which could materially and adversely affect our business and financial condition.”

Sudden changes in economic conditions as a result of the ongoing COVID-19 or other factors are likely to affect our actual loan losses. These effects may be partly mitigated by the fact each loan borrowed by our users is relatively small, which should be less affected by adverse economic conditions than if the principal amount of each loan were larger.

Key Specific Factors Affecting Our Results of Operations

Major specific factors affecting our results of operations include the following:

Ability to attract and retain users

Our total operating revenue was RMB10,604 million in 2019, RMB11,645 million in 2020, and RMB11,381 million (US\$1,786 million) in 2021, underpinned by the increase in loan originations. Our ability to grow depends on the addition of new users and increasing business from existing users. The number of active users grew from approximately 9.9 million in 2019 to approximately 12.9 million in 2020, and further grew to approximately 14.2 million in 2021. In 2021, we further optimized our customer acquisition model by enhancing segmentation and providing differentiated credit lines, pricing and billing terms. We anticipate that our future growth will continue to depend in part on attracting new users, including our ability to manage both online and offline acquisition channels, and to develop and improve our management of different customer cohorts.

In addition, we believe the repeat borrowing behavior of our existing users will be important to our future growth. We believe our ability to retain our repeat users is primarily due to our ability to address the credit needs of our targeted user cohort, the superior user experience on our platform and the competitiveness of loan pricing. The extent to which we generate repeat business from our users will be an important factor in our continued revenue growth.

Ability to satisfy our users' growing financial needs

Creating value by satisfying our users' growing financial needs will be an important component of our future performance. We seek to grow with our users and capture their long-term growth potential by effectively managing the mix of our product and service offerings to cater to their evolving consumption needs. In late 2014, we began to offer personal installment loans in addition to installment purchase loans on our platform. The outstanding principal balance of personal installment loans grew significantly from RMB58.2 billion as of December 31, 2019 to RMB75.2 billion as of December 31, 2020, and further grew to RMB85.1 billion (US\$13.4 billion) as of December 31, 2021. In addition, as new generation consumers build up their credit history with us and move up in the workforce, we offer them higher credit lines and the ability to borrow personal installment loans to obtain cash up to a higher limit, in anticipation of their expanding consumption requirements.

Ability to access diversified and scalable funding

The growth of our business is also dependent on our ability to ensure that we have access to diversified funding sources and secure scalable and stable funding to meet our users' needs. With our access to multiple funding sources and the ability to adjust allocation of funding needs to different sources, we are not dependent on any particular type of funding source, and we are able to withstand seasonality and fluctuations in the supply and costs of funding. In 2021, we cooperated with 14 new funding partners and as of December 31, 2021, we had cumulatively served over 130 funding partners, including commercial banks, consumer finance companies, and other licensed financial institutions, with many of which we developed long-term, stable business relationships. Since 2016, we have also offered six public and private asset-backed securitization programs. These diversification efforts have ensured adequate funding for our products and services so far, while the sustainable, reliable and scalable sources remain critical to our growth.

Ability to effectively manage risk

As one of the first companies in providing internet consumer finance services in China, we also have industry-leading experience and boast a wealth of consumer insights. We adopt an advanced and customized credit risk management approach driven by our proprietary *Hawkeye* credit assessment engine and strong risk management culture. We put great emphasis in improving our fraud detection capabilities, the accuracy of our credit assessment model and the collection effectiveness through the combination of our big-data analytical capabilities and the increasing amount of data we accumulate through our operations. The effectiveness of our risk management system also depends on our ability to collect delinquent loans. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—If our ability to collect delinquent loans is impaired, or if the collection efforts of our in-house team or third-party service providers are impaired, our business and results of operations might be materially and adversely affected."

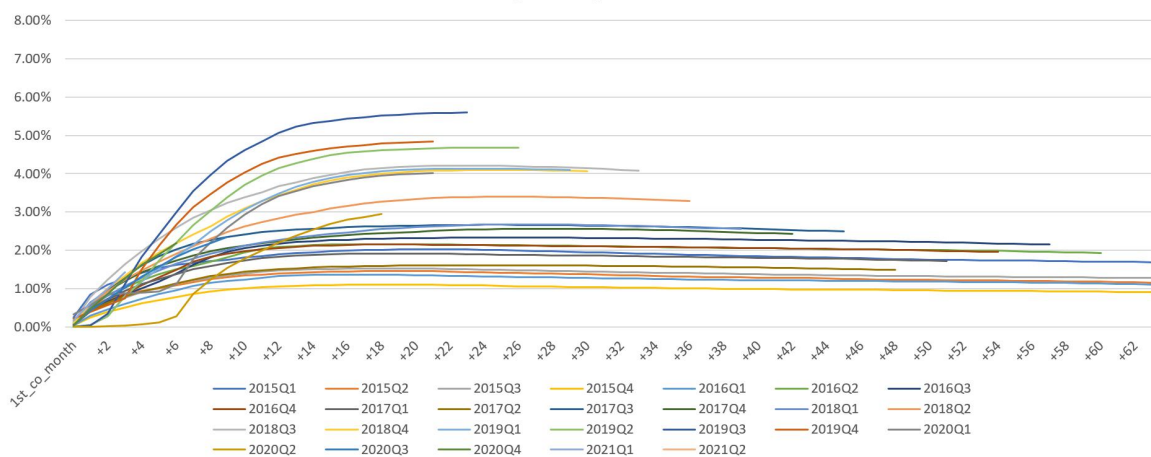
Loan Performance Data

We define 30 day+ and 90 day+ delinquency ratio as outstanding principal balance of on- and off-balance sheet loans that was over 30 and 90 calendar days past due as a percentage of the total outstanding principal balance of on- and off-balance sheet loans on our platform as of a specific date. Loans that are delinquent for 180 days or more are charged off and are not included in the delinquency rate calculation. The 30 day+ delinquency ratio was 3.45%, 3.40% and 3.99% as of December 31, 2019, 2020 and 2021 and 90 day+ delinquency ratio was 1.56%, 1.95% and 1.92% as of December 31, 2019, 2020 and 2021, respectively.

We also define vintage charge-off rates as, with respect to on- and off-balance set loans originated during a specified time period, which we refer to as a "vintage," the total outstanding principal balance of loans that are charged off during a specified period, divided by the total initial principal of the loans originated in such vintage.

The following chart displays our historical vintage charge-off rates as of December 31, 2021 for each vintage of a three-month period from January 1, 2015 to June 30, 2021.

Vintage Charge Off Curve



With the negative impact of COVID-19 on the general economic environment as well as on our collection efforts, we experienced an increase in both 90 day+ delinquency rates and charge-off rates primarily in the first quarter of 2020. Starting from the fourth quarter of 2020, a few waves of COVID-19 infections emerged in various regions of China, including the emergence of the Omicron variants affecting areas such as Xi'an, Jilin Province, and Shanghai in late 2021 and early 2022, and varying levels of travel restrictions were reinstated. As COVID-19 has negatively affected the broader Chinese economy and the global economy, China experienced lower domestic consumption in the first half of 2020 and is expected to experience lower consumption again in the first half of 2022 due to the spread of infections and restrictive measures, and may experience further economic uncertainty. As the future developments of the pandemic are outside our control, there are uncertainties with respect to the effectiveness of our loan performance management.

Key Components of Our Results of Operations

Operating revenue

Our operating revenue consist of online direct sales and services income, credit-oriented services income and platform-based services income. Among the three types of services (i.e., new consumption-driven, location-based services, technology-driven platform services, and credit-driven platform services) we provide, the revenue from our credit-driven platform services is recognized as credit-oriented services income, the revenue from our new consumption-driven, location-based services is primarily recognized as online direct sales and services income, and the revenue from our technology-driven platform services is primarily recognized as platform-based services income and, to a lesser extent, membership services and other services income under the online direct sales and services income category.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Online direct sales	3,623,991	34.2	1,900,835	16.3	1,661,156	260,672	14.6
Membership services	112,558	1.0	113,107	1.0	107,901	16,932	0.9
Other services	92,292	0.9	68,890	0.6	86,304	13,543	0.8
Online direct sales and services income	3,828,841	36.1	2,082,832	17.9	1,855,361	291,147	16.3
Loan facilitation and servicing fees-credit oriented	4,811,868	45.4	3,786,996	32.5	4,448,344	698,042	39.1
Interest and financial services income and other revenues	1,146,824	10.8	1,418,892	12.2	1,732,922	271,933	15.2
Guarantee income	—	—	2,319,693	19.9	774,544	121,543	6.8
Credit-oriented services income	5,958,692	56.2	7,525,581	64.6	6,955,810	1,091,518	61.1
Loan facilitation and servicing fees-performance based	648,516	6.1	1,930,835	16.6	2,289,452	359,265	20.1
Loan facilitation and servicing fees-volume based	167,458	1.6	106,007	0.9	279,902	43,923	2.5
Platform-based services income	815,974	7.7	2,036,842	17.5	2,569,354	403,188	22.6
Total operating revenue	10,603,507	100.0	11,645,255	100.0	11,380,525	1,785,853	100.0

Online direct sales and services income. We generate revenue from our e-commerce channel from online direct sales, membership services and other services. We engage in the online direct sales along with our new consumption-driven, location-based services. Revenue from online direct sales is recorded on a gross basis. Revenue from membership services consists of premium membership fees earned from subscribed members. Revenue from other services mainly consists of commissions earned from third-party sellers made on our online marketplace through our e-commerce channel and service fee earned from technology-driven platform service.

Credit-oriented services income

- *Interest and financial services income.* We generate interest and financial services income earned on installment purchase loans from the online direct sales on Fenqile's website and mobile apps and personal installment loans to borrowers, if these loans are determined to be on-balance sheet loans.
- *Loan facilitation and servicing fees-credit oriented.* With respect to off-balance sheet loans where we provide guarantee services, we take all credit risks of borrowers in respect of off-balance sheet loans through the relevant guarantee arrangements, and generate loan facilitation and servicing fees-credit oriented under credit-oriented model for provision of intermediary services to both the users and the funding partners, including loan facilitation and matching, account maintenance, collection, and payment processing services and financing guarantee services, if any.
- *Guarantee income.* The guarantee liabilities accounted for under ASC 460 are released from the underlying risk, i.e., as the underlying loan is repaid by the borrower or when the lender is compensated in the event of a borrower's default and recognized as guarantee income.

Platform-based services income

- *Loan facilitation and servicing fees-performance based.* With respect to off-balance sheet loans where we do not provide guarantee services and take no credit risks of borrowers in respect of principal and interests due to the lenders, we earn service fees for loan facilitation and servicing at predetermined rates based on the performance of the underlying off-balance sheet loans.
- *Loan facilitation and servicing fees-volume based.* With respect to off-balance sheet loans where we do not provide guarantee services and take no credit risks of borrowers in respect of principal and interests due to the lenders, we earn service fees primarily at predetermined rates of amount of loan originations upon successful matching of borrowing requests.

Operating cost

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Cost of sales	3,624,301	64.7	1,907,508	23.8	1,759,956	276,176	31.3
Funding cost	508,829	9.1	589,837	7.4	457,615	71,810	8.1
Processing and servicing cost	642,126	11.4	1,413,212	17.6	1,858,901	291,702	33.0
Provision for credit losses of financing and interest receivables	708,684	12.6	779,235	9.7	401,104	62,942	7.1
Provision for credit losses of contract assets and receivables	125,471	2.2	441,805	5.5	531,237	83,363	9.4
Provision for credit losses of contingent liabilities of guarantee	—	—	2,880,590	36.0	622,438	97,674	11.1
Total operating cost	5,609,411	100.0	8,012,187	100.0	5,631,251	883,667	100.0

Cost of sales. Our cost of sales consists of the purchase price of the products, shipping charges and handling costs, as well as inventory write-downs, which were not significant in 2019, 2020 and 2021.

Funding cost. Our funding cost consists of interest expenses paid to institutional funding partners and amortization of deferred debt issuance cost incurred in connection with obtaining these debts, such as origination fees and legal fees.

Processing and servicing cost. Our processing and servicing cost consist primarily of vendor costs related to credit assessment, user and system support, payment processing services and collection services associated with originating, facilitating and servicing loans, and related payroll cost for personnel engaged in processing and servicing activities.

Provision for credit losses of financing and interest receivables. We evaluate the creditworthiness and collectability of our on-balance sheet loan portfolio on a pooled basis. The provision for credit losses of financing and interest receivables represents an estimate of the losses inherent in our on-balance sheet loan portfolio.

Provision for credit losses of contract assets and receivables. We evaluate the collectability of our contract assets and service fees receivable related to loan facilitation and servicing fees. The provision for credit losses of contract assets and service fees receivable primarily represents an estimate of the losses inherent in our off-balance sheet loan portfolio.

Provision for credit losses of contingent liabilities of guarantee. After the adoption of ASC 326 on January 1, 2020, a separate contingent liability in full amount determined using current expected credit losses (“CECL”) lifetime methodology is accounted for in addition to and separately from the guarantee liabilities accounted for under ASC 460, and relevant credit losses are recorded as “Provision for credit losses of contingent liabilities of guarantee.” Before the adoption of ASC 326, gain or loss related to such financial guarantee was recorded in one combined financial statement line item within “Gain on guarantee liabilities, net.”

Operating expenses

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Sales and marketing expenses	1,538,698	65.0	1,274,402	57.9	1,658,904	260,318
Research and development expenses	415,995	17.6	474,265	21.6	549,286	86,195
General and administrative expenses	412,117	17.4	451,284	20.5	470,661	73,857
Total operating expenses	2,366,810	100.0	2,199,951	100.0	2,678,851	420,370

Sales and marketing. Sales and marketing expenses consist primarily of advertising costs and payroll and related share-based compensation expenses for personnel engaged in marketing and business development activities. Advertising costs consist primarily of costs of online advertising and offline promotional activities.

Research and development. Research and development expenses consist primarily of payroll and related share-based compensation expenses for IT professionals involved in developing our technology platform and website, depreciation of server and other equipment, bandwidth and data center costs.

General and administrative. General and administrative expenses consist of payroll and related share-based compensation expenses for employees engaged in general corporate functions, including finance, legal and human resources, costs associated with use of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. The Cayman Islands does not impose a withholding tax on payments of dividends to shareholders. There are no 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.

Hong Kong

Our subsidiaries incorporated in Hong Kong are 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 subsidiaries during the periods presented. Hong Kong does not impose a withholding tax on dividends. 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.

China

Generally, our PRC subsidiaries, variable interest entities and their subsidiaries, which are considered PRC resident enterprises under PRC tax law, are subject to enterprise income tax on their worldwide taxable income as determined under PRC tax laws and accounting standards at a rate of 25%, if they are not eligible for any preferential tax treatment. However, a High and New Technology Enterprise ("HNTE") is instead subject to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria, and will be subject to the regular 25% income tax rate for any year in which it does not meet the criteria. Beizhipiji is qualified as an HNTE for the three years ending December 31, 2017, 2018, and 2019. In March 2020, Mengtian Technology and Shenzhen Lexin Software Technology Co., Ltd. received confirmation from the relevant PRC government agencies that they qualify as HNTEs for the three years ending December 31, 2019, 2020, and 2021, and will need to re-apply for HNTE qualification in 2022. However, Mengtian Technology failed to satisfy the accreditation conditions concerning tax incentives of HNTEs in 2020, and the status of Beizhipiji as an HNTE expired in 2019 without obtaining such new qualification. As a result, both Mengtian Technology and Beizhipiji were subject to the uniform income tax rate of 25% in 2021.

The PRC Enterprise Income Tax Law and its implementing rules and other relevant regulations and rules provide that a “Software Enterprise” is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years, and each of Shenzhen Lexin Software Technology Co., Ltd. and Shenzhen Dingsheng Computer Technology Co., Ltd., a subsidiary of the variable interest entity, was qualified as “Software Enterprises” in 2017. Therefore, Shenzhen Dingsheng Computer Technology Co., Ltd. is entitled to an income tax exemption for the years of 2017 and 2018 and a preferential income tax rate of 12.5% from 2019 to 2021. Shenzhen Lexin Software Technology Co., Ltd. is entitled to an income tax exemption for the years of 2017 and 2018. With respect to the year of 2019, pursuant to the Circular on Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries, or the Circular 27, key software enterprises included in the state planning that have not benefited from the preferential treatment of tax exemption in the current year may be subject to enterprise income tax at a reduced rate of 10%, Shenzhen Lexin Software Technology Co., Ltd. was accredited as a key software enterprise so that it was subject to a 10% income tax rate in 2019. Shenzhen Lexin Software Technology Co., Ltd. was subject to 12.5% income tax rate as a “Software Enterprise” in 2020 and 2021. However, these enterprises shall go through record-filing with the tax authority at the time of final settlement each year and be subject to the examination by the relevant authorities in PRC. Beihai Aurora and Beihai Turing Technology Co., Ltd. are entitled for a preferential income tax rate of 15% for China’s Western Development Strategy, in the meantime, the local tax bureau in Guangxi exempted 40% of the income based on 15% from 2018 to 2022. Therefore, Beihai Aurora and Beihai Turing Technology Co., Ltd. applied a preferential income tax rate of 9% from 2018 to 2022 and 15% from 2023 to 2030.

Our online direct sales revenue from sales of electronic products, home appliance products and general merchandise products had been subject to a 17% value-added tax until May 1, 2018, when the rate was adjusted to 16%. The tax rate was further adjusted to 13% from April 1, 2019. Our financial services income from services to our customers in the PRC is subject to a 6% value-added tax.

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 Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income with respect to Taxes on Income and Capital 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.”

We do not intend to have any of the PRC subsidiaries or the VIEs distribute any undistributed profits of such subsidiaries or the VIEs to their direct overseas parent companies, but rather intend that such profits will be permanently reinvested by such subsidiaries and the VIEs for their PRC operations. Accordingly, no income tax was accrued on the undistributed earnings of our PRC subsidiaries, the variable interest entities or their subsidiaries as of December 31, 2019, 2020 and 2021.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. The period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Operating revenue:						
Online direct sales	3,623,991	34.2	1,900,835	16.3	1,661,156	260,672
Membership services	112,558	1.0	113,107	1.0	107,901	16,932
Other services	92,292	0.9	68,890	0.6	86,304	13,543
Online direct sales and services income	3,828,841	36.1	2,082,832	17.9	1,855,361	291,147
Loan facilitation and servicing fees-credit oriented	4,811,868	45.4	3,786,996	32.5	4,448,344	698,042
Interest and financial services income and other revenues	1,146,824	10.8	1,418,892	12.2	1,732,922	271,933
Guarantee income	—	—	2,319,693	19.9	774,544	121,543
Credit-oriented services income	5,958,692	56.2	7,525,581	64.6	6,955,810	1,091,518
Loan facilitation and servicing fees-performance based	648,516	6.1	1,930,835	16.6	2,289,452	359,265
Loan facilitation and servicing fees-volume based	167,458	1.6	106,007	0.9	279,902	43,923
Platform-based services income	815,974	7.7	2,036,842	17.5	2,569,354	403,188
Total operating revenue	10,603,507	100.0	11,645,255	100.0	11,380,525	1,785,853
Operating cost:						
Cost of sales	(3,624,301)	(34.1)	(1,907,508)	(16.4)	(1,759,956)	(276,176)
Funding cost	(508,829)	(4.8)	(589,837)	(5.1)	(457,615)	(71,810)
Processing and servicing cost ⁽¹⁾	(642,126)	(6.1)	(1,413,212)	(12.1)	(1,858,901)	(291,702)
Provision for credit losses of financing and interest receivables	(708,684)	(6.7)	(779,235)	(6.7)	(401,104)	(62,942)
Provision for credit losses of contract assets and receivables	(125,471)	(1.2)	(441,805)	(3.8)	(531,237)	(83,363)
Provision for credit losses of contingent liabilities of guarantee	—	—	(2,880,590)	(24.7)	(622,438)	(97,674)
Total operating cost	(5,609,411)	(52.9)	(8,012,187)	(68.8)	(5,631,251)	(883,667)
Gross profit	4,994,096	47.1	3,633,068	31.2	5,749,274	902,186
Operating expenses:						
Sales and marketing expenses ⁽¹⁾	(1,538,698)	(14.5)	(1,274,402)	(10.9)	(1,658,904)	(260,318)
Research and development expenses ⁽¹⁾	(415,995)	(3.9)	(474,265)	(4.1)	(549,286)	(86,195)
General and administrative expenses ⁽¹⁾	(412,117)	(3.9)	(451,284)	(3.9)	(470,661)	(73,857)
Total operating expenses	(2,366,810)	(22.3)	(2,199,951)	(18.9)	(2,678,851)	(420,370)
Change in fair value of financial guarantee derivatives and loans at fair value, net	(212,256)	(2.0)	(754,724)	(6.5)	(347,084)	(54,465)
Gain on guarantee liabilities, net	196,063	1.8	—	—	—	—
Interest expense, net	(39,215)	(0.4)	(77,542)	(0.7)	(63,125)	(9,906)
Investment-related impairment	—	—	(69,156)	(0.6)	—	—
Investment income	52,211	0.5	7,885	0.1	(4,160)	(653)
Others, net	82,422	0.8	146,029	1.3	113,480	17,807
Income before income tax expense	2,706,511	25.5	685,609	5.9	2,769,534	434,599
Income tax expense	(411,959)	(3.9)	(90,629)	(0.8)	(435,418)	(68,327)
Net income	2,294,552	21.6	594,980	5.1	2,334,116	366,272
Less: Net income attributable to non-controlling interests	—	—	—	—	193	30
Net income attributable to ordinary shareholders	2,294,552	21.6	594,980	5.1	2,333,923	366,242

(1) Share-based compensation expenses are allocated to processing and servicing cost and operating expense items as follows:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Processing and servicing cost	10,472	0.1	11,391	0.1	9,968	1,564
Sales and marketing expenses	28,611	0.3	32,486	0.3	30,508	4,787
Research and development expenses	42,977	0.4	46,116	0.4	39,413	6,185
General and administrative expenses	95,202	0.9	108,832	0.9	107,995	16,947

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

Operating revenue

Operating revenue decreased slightly by 2.3% from RMB11,645 million in 2020 to RMB11,381 million (US\$1,786 million) in 2021. This decrease in operating revenues was primarily attributable to a decrease in credit-oriented services income and online direct sales and services income, partially offset by an increase in platform-based services income for the year.

Online direct sales and services income. Online direct sales and services income decreased by 10.9% from RMB2,083 million in 2020 to RMB1,855 million (US\$291 million) in 2021.

- *Online direct sales.* Online direct sales decreased by 12.6% from RMB1,901 million in 2020 to RMB1,661 million (US\$261 million) in 2021. This decrease was primarily due to the decrease in the number of e-commerce orders in 2021.

Credit-oriented services income. Credit-oriented services income decreased by 7.6% from RMB7,526 million in 2020 to RMB6,956 million (US\$1,092 million) in 2021. The change was primarily due to the decrease of guarantee income, partially offset by the increase of loan facilitation and servicing fees-credit oriented income and interest and financial services income and other revenues.

- *Loan facilitation and servicing fees-credit oriented.* Loan facilitation and servicing fees-credit oriented increased by 17.5% from RMB3,787 million in 2020 to RMB4,448 million (US\$698 million) in 2021. This increase was primarily due to the increase in off-balance sheet loans originated under credit-oriented model as a result of the business growth, with the expansion of partnerships with institutional funding partners.
- *Interest and financial services income and other revenues.* Interest and financial services income and other revenues increased by 22.1% from RMB1,419 million in 2020 to RMB1,733 million (US\$272 million) in 2021, which was consistent with the business growth in 2021.
- *Guarantee income.* Guarantee income decreased by 66.6% from RMB2,320 million in 2020 to RMB775 million (US\$122 million) in 2021. The decrease was primarily due to the significant decrease of loan origination and outstanding balances of the off-balance sheet loans funded by certain institutional funding partners in 2021, which are accounted for under ASC 460, Guarantees.

Platform-based services income. Platform-based services income increased by 26.1% from RMB2,037 million in 2020 to RMB2,569 million (US\$403 million) in 2021. This increase was primarily contributed by the increase in both loan facilitation and servicing fees-performance based and loan facilitation and servicing fees-volume based.

- *Loan facilitation and servicing fees-performance based.* Loan facilitation and servicing fees-performance based increased by 18.6% from RMB1,931 million in 2020 to RMB2,289 million (US\$359 million) in 2021. This increase was primarily due to an increase in the origination of off-balance sheet loans under the performance-based model within platform-based services, driven by the increases in the number of active users on our platform.
- *Loan facilitation and servicing fees-volume based.* Loan facilitation and servicing fees-volume based increased significantly by 164% from RMB106 million in 2020 to RMB280 million (US\$43.9 million) in 2021. This increase was primarily due to an increase in the loan origination under the volume-based model within platform-based services.

Operating cost

Operating cost decreased by 29.7% from RMB8,012 million in 2020 to RMB5,631 million (US\$884 million) in 2021, primarily as a result of the decreases in cost of sales, funding cost, provision for credit losses of financing and interest receivables and provision for credit losses of contingent liabilities of guarantee, partially offset by the increases in processing and servicing cost and provision for credit losses of contract assets and receivables.

Cost of sales. Cost of sales decreased by 7.7% from RMB1,908 million in 2020 to RMB1,760 million (US\$276 million) in 2021, which was consistent with the decrease of online direct sales revenue.

Funding cost. Funding cost decreased by 22.4% from RMB590 million in 2020 to RMB458 million (US\$71.8 million) in 2021, which was consistent with the decrease of the funding debts to fund the on-balance sheet loans.

Processing and servicing cost. Processing and servicing cost increased by 31.5% from RMB1,413 million in 2020 to RMB1,859 million (US\$292 million) in 2021. This increase was primarily due to an increase in fees to third-party payment platforms, an increase in risk management and collection expenses, an increase in credit assessment cost, and an increase in salaries and personnel related costs.

Provision for credit losses of financing and interest receivables. Provision for credit losses of financing and interest receivables decreased by 48.5% from RMB779 million in 2020 to RMB401 million (US\$62.9 million) in 2021. The credit losses have reflected the most recent performance in relation to our on-balance sheet loans and we have continued to implement prudent credit assessment and risk management policies and procedures.

Provision for credit losses of contract assets and receivables. Provision for credit losses of contract assets and receivables increased by 20.2% from RMB442 million in 2020 to RMB531 million (US\$83.4 million) in 2021. This increase was mainly due to the significant increase in off-balance sheet loans originated as a result of the business growth.

Provision for credit losses of contingent liabilities of guarantee. Provision for credit losses of contingent liabilities of guarantee decrease by 78.4% from RMB2,881 million to RMB622 million (US\$97.7 million) in 2021. The decrease was primarily due to the significant decrease of loan origination of the off-balance sheet loans funded by certain institutional funding partners, which are accounted for under ASC 460, *Guarantees*.

Gross profit

Gross profit increased by 58.2% from RMB3,633 million in 2020 to RMB5,749 million (US\$902 million) in 2021. Our gross margin increased from 31.2% in 2020 to 50.5% in 2021. The increase in the gross profit is primarily due to the increase in platform-based services income, loan facilitation and servicing fees-credit oriented, and of interest and financial services income and other revenues, and the significant decrease of provision for credit losses of contingent liabilities of guarantee and provision for credit losses of financing and interest receivables, partially offset by the decrease in guarantee income and the increase in processing and servicing cost.

Operating expenses

Operating expenses increased by 21.8% from RMB2,200 million in 2020 to RMB2,679 million (US\$420million) in 2021, primarily due to the increases in all three categories of operating expenses.

Sales and marketing. Sales and marketing expenses increased by 30.2% from RMB1,274 million in 2020 to RMB1,659 million (US\$260 million) in 2021. This increase was primarily due to an increase of RMB230 million (US\$36.0 million) in online advertising cost and in salaries and personnel related costs.

Research and development. Research and development expenses increased by 15.8% from RMB474 million in 2020 to RMB549 million (US\$86.2 million) in 2021. This increase was primarily due to an increase of RMB56 million (US\$8.8 million) million in salaries and personnel related costs.

Change in fair value of financial guarantee derivatives and loans at fair value

Change in fair value of financial guarantee derivatives and loans at fair value was a loss of RMB347 million (US\$54.5 million) in 2021, as compared to a loss of RMB755 million in 2020. The changes in fair value was primarily due to the re- measurement of the expected loss rates and changes in the balances of the underlying outstanding off-balance sheet loans at the balance sheet date.

Income tax expense

Income tax expense for 2021 was RMB435 million (US\$68.3 million) in 2021, as compared to income tax expense of RMB90.6 million in 2020. The increase of the income tax expense was consistent with the increase of the taxable income from 2020.

Net income

As a result of the foregoing, our net income increased significantly by 292% from RMB595 million in 2020 to RMB2,334 million (US\$366 million) in 2021.

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

Operating revenue

Operating revenue increased by 9.8% from RMB10,604 million in 2019 to RMB11,645 million in 2020. This increase in operating revenues was primarily attributable to an increase in credit-oriented services income and platform-based services income for the year, driven by continuing increases in the number of active users on our platform, and the change in the presentation of guarantee income along with the adoption of ASC 326, partially offset by the decrease in online direct sales and services income. Before the adoption of ASC 326, gains or losses related to financial guarantee not accounted for as derivatives was recorded in one combined financial statement line item within “Gain on guarantee liabilities, net.” After the adoption of ASC 326, the gains released from the guarantee liabilities accounted for under ASC 460 is recorded as “Guarantee income” as a separate financial statement line item within revenues and the relevant credit losses are recorded as “Provision for credit losses of contingent liabilities of guarantee.”

Online direct sales and services income. Online direct sales and services income decreased by 45.6% from RMB3,829 million in 2019 to RMB2,083 million in 2020.

- *Online direct sales.* Online direct sales decreased by 47.5% from RMB3,624 million in 2019 to RMB1,901 million in 2020. This decrease was primarily due to the decrease in the number of e-commerce orders during 2020.
- *Membership services and other services.* Membership services increased by 0.5% from RMB112.6 million in 2019 to RMB113.1 million in 2020. Other services decreased by 25.4% from RMB92.3 million in 2019 to RMB68.9 million in 2020. The decrease was primarily due to the decrease of commission fee revenue.

Credit-oriented services income. Credit-oriented services income increased by 26.3% from RMB5,959 million in 2019 to RMB7,526 million in 2020. The increase was primarily resulted from the increase of RMB2,320 million due to change of presentation of guarantee income as aforementioned, partially offset by the decrease in loan facilitation and servicing fees-credit oriented.

- *Interest and financial services income and other revenues.* Interest and financial services income and other revenues increased by 23.7% from RMB1,147 million in 2019 to RMB1,419 million in 2020, while the outstanding principal balances of on-balance sheet loans increased by 16.1% from RMB4.4 billion as of December 31, 2019 to RMB5.1 billion as of December 31, 2020 due to the increase of on-balance sheet loans originated on our platform in 2020.
- *Loan facilitation and servicing fees-credit oriented.* Loan facilitation and servicing fees-credit oriented decreased by 21.3% from RMB4,812 million in 2019 to RMB3,787 million in 2020. This decrease was primarily due to the Company’s business strategy shift to increase the loan originations under the platform-based model.
- *Guarantee income.* *Guarantee income amounted to RMB2,320 million in 2020.* The guarantee liabilities accounted for under ASC 460 are released from the underlying risk as the underlying loan is repaid by the borrower or when the lender is compensated in the event of a borrower’s default.

Platform-based services income. Platform-based services income increased by 150% from RMB816 million in 2019 to RMB2,037 million in 2020. This increase was primarily due to an increase in the loan facilitation and servicing fees-performance based, partially offset by the decrease in loan facilitation and servicing fees-volume based.

- *Loan facilitation and servicing fees-performance based.* Loan facilitation and servicing fees-performance based increased by 198% from RMB649 million in 2019 to RMB1,931 million in 2020. This increase was primarily due to an increase in the origination of off-balance sheet loans under the performance-based model within platform-based services, driven by continuing increases in the number of active users on our platform.
- *Loan facilitation and servicing fees-volume based.* Loan facilitation and servicing fees-volume based decreased by 36.7% from RMB167 million in 2019 to RMB106 million in 2020. This decrease was primarily due to the decrease in the amount of loan originations facilitated under this model.

Operating cost

Operating cost increased by 42.8% from RMB5,609 million in 2019 to RMB8,012 million in 2020, primarily as a result of the increases in funding cost, processing and servicing cost, provision for credit losses of financing and interest receivables, provision for credit losses of contract assets and receivables, provision for credit losses of contingent liabilities of guarantee, partially offset by the decrease in cost of sales.

Cost of sales. Cost of sales decreased by 47.4% from RMB3,624 million in 2019 to RMB1,908 million in 2020, which was consistent with the decrease of online direct sales revenue.

Funding cost. Funding cost increased by 15.9% from RMB509 million in 2019 to RMB590 million in 2020. The increase in funding cost was consistent with the increase of the funding debts to fund the on-balance sheet loans.

Processing and servicing cost. Processing and servicing cost increased by 120% from RMB642 million in 2019 to RMB1,413 million in 2020. This increase was primarily due to an increase in fees to third-party insurance companies and guarantee companies, an increase in fees to third-party payment platforms, an increase in risk management and collection expenses, an increase in credit assessment cost, and an increase in salaries and personnel related costs.

Provision for credit losses of financing and interest receivables. Provision for credit losses of financing and interest receivables increased by 10.0% from RMB709 million in 2019 to RMB779 million in 2020. The credit losses have reflected the most recent performance in relation to the Company's on-balance sheet loans and the Company has continued to implement prudent credit assessment and risk management policies and procedures.

Provision for credit losses of contract assets and receivables. Provision for credit losses of contract assets and receivables increased by 252% from RMB125 million in 2019 to RMB442 million in 2020, mainly due to the significant increase in off-balance sheet loans originated as a result of the continuing growth of our business, earlier recognition of credit losses under ASC 326 as well as negative impact of the ongoing COVID-19 pandemic which began in 2020.

Provision for credit losses of contingent liabilities of guarantee. Provision for credit losses of contingent liabilities of guarantee was RMB2,881 million in 2020. After the adoption of ASC 326 on January 1, 2020, a separate contingent liability in full amount determined using CECL lifetime methodology is accounted for in addition to and separately from the guarantee liabilities accounted for under ASC 460, and relevant credit losses are recorded as "Provision for credit losses of contingent liabilities of guarantee." Before the adoption of ASC 326, gain or loss related to such financial guarantee was recorded in one combined financial statement line item within "Gain on guarantee liabilities, net."

Gross profit

Gross profit decreased by 27.3% from RMB4,994 million in 2019 to RMB3,633 million in 2020. Our gross margin decreased from 47.1% in 2019 to 31.2% in 2020. The decrease in the gross margin is primarily due to the significant increase of processing and servicing cost, provision for credit losses of contract assets and receivables and provision for credit losses of contingent liabilities of guarantee, partially offset by the increase in platform-based services income.

Operating expenses

Operating expenses decreased by 7.1% from RMB2,367 million in 2019 to RMB2,200 million in 2020 primarily due to a decrease in sales and marketing expenses, which was partially offset by increases in research and development expenses and general and administrative expenses.

Sales and marketing. Sales and marketing. Sales and marketing expenses decreased by 17.2% from RMB1,539 million in 2019 to RMB1,274 million in 2020. This decrease was primarily attributable to a decrease of RMB209 million in online advertising cost.

Research and development. Research and development expenses increased by 14.0% from RMB416 million in 2019 to RMB474 million in 2020. This increase was primarily attributable to an increase of RMB17.6 million in salaries and personnel related costs and an increase of RMB19.4 million in depreciation and amortization expenses.

General and administrative. General and administrative expenses increased by 9.5% from RMB412 million in 2019 to RMB451 million in 2020. This increase was primarily attributable to an increase of RMB26.2 million in salaries and personnel related costs.

Gain on guarantee liabilities, net

Gain on guarantee liabilities, net in 2020 was nil. Before the adoption of ASC 326, gain or loss related to financial guarantee not accounted for as derivatives was recorded in one combined financial statement line item within “Gain on guarantee liabilities, net.” After the adoption of ASC 326, the gain released from the guarantee liabilities accounted for under ASC 460 is recorded as “Guarantee income” as a separate financial statement line item within revenue and the relevant credit losses are recorded as “Provision for credit losses of contingent liabilities of guarantee.”

Interest expense, net

Interest expense, net in 2020 was RMB77.5 million, compared to RMB39.2 million in 2019. Net interest expense in 2020 was mainly associated with interest expense incurred for the convertible notes issued in September 2019.

Investment-related impairment

We recognized an investment-related impairment charge of RMB69.2 million on an equity investment in 2020 due to the equity investment’s unsatisfactory financial performance.

Investment income

We recorded investment income of RMB7.9 million in 2020, compared to RMB52.2 million in 2019. The investment income in 2019 and 2020 were mainly associated with observable price changes in orderly transaction for the identical investments for the same issuer for an equity investee, partially offset by investment losses in joint ventures.

Change in fair value of financial guarantee derivatives, net

Change in fair value of financial guarantee derivatives, net amounted to net loss of RMB707 million in 2020, compared to net loss of RMB212 million in 2019. The loss was primarily due to the re-measurement of the expected loss rates of the underlying outstanding off-balance sheet loans at the balance sheet date.

Change in fair value of loans at fair value

Change in fair value of loans at fair value was a loss of RMB47.3 million in 2020. Starting from the second quarter of 2020, for the loans we acquired/purchased from the relevant funding partners during the period, we accounted for them using the fair value option pursuant to ASC 825, Financial Instruments, and recorded them as “Loans at fair value”. Changes in fair value of these loans are reported net and recorded as “Change in fair value of loans at fair value”.

Income tax expense

Income tax expense for 2020 was RMB90.6 million, as compared to income tax expense of RMB412 million in 2019. The decrease in the income tax expense was consistent with the decrease of the taxable income from 2019. In addition, RMB16.2 million of income tax provision related to income tax expense in 2019 was reversed as a subsidiary of the Group was certified to be qualified for using a preferential tax rate of 10% for the 2019 annual tax clearance in the third quarter of 2020.

Net income

As a result of the foregoing, our net income decreased by 74.1% from RMB2,295 million in 2019 to RMB595 million in 2020.

Changes in Financial Position

The following table sets forth selected information from our consolidated balance sheets as of December 31, 2020 and 2021. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report.

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
	(in thousands)		
Assets:			
Cash and cash equivalents	1,563,755	2,664,132	418,060
Restricted cash-current	1,112,152	1,305,435	204,851
Restricted time deposits-current	1,779,458	1,745,898	273,969
Short-term financing receivables, net	4,918,548	3,772,975	592,062
Loans at fair value	381,393	252,970	39,697
Prepaid expenses and other current assets	1,004,845	941,150	147,687
Deposits to insurance companies and guarantee companies	1,066,281	1,378,489	216,315
Short-term guarantee receivables, net	756,197	543,949	85,357
Short-term contract assets and service fees receivable, net	3,707,649	3,942,700	618,696
Restricted cash-non-current	163,999	149,247	23,420
Long-term financing receivables, net	204,761	241,127	37,838
Long-term guarantee receivables, net	218,654	101,562	15,937
Long-term contract assets and service fees receivable, net	481,989	244,672	38,394
Long-term investments	521,802	469,064	73,606
Other assets	462,285	826,883	129,756
Total assets	20,345,165	21,026,194	3,299,466
Liabilities:			
Short-term borrowings	1,827,063	1,799,741	282,419
Short-term funding debts	4,685,935	3,101,381	486,674
Deferred guarantee income	694,582	419,843	65,883
Contingent guarantee liabilities	1,738,787	928,840	145,755
Accrued expenses and other current liabilities	2,926,347	3,873,657	607,861
Long-term funding debts	825,814	696,852	109,351
Convertible notes	1,920,227	1,882,689	295,435
Total liabilities	14,814,427	12,958,385	2,033,452
Total shareholders' equity	5,530,738	8,067,809	1,266,014

Cash and cash equivalents

Our cash and cash equivalents increased by 70.4% from RMB1,564 million as of December 31, 2020 to RMB2,664 million (US\$418 million) as of December 31, 2021, primarily due to net cash provided by operating activities, partially offset by net cash used in financing activities.

Restricted cash - current

Restricted cash mainly represents (i) cash received from users but not yet repaid to funding parties or received from funding parties but not yet remitted to users, which is not available to fund our general liquidity needs; and (ii) security deposits set aside for our partnering commercial banks or certain institutional funding partners in case of users' defaults.

Our current restricted cash increased by 17.4% from RMB1,112 million as of December 31, 2020 to RMB1,305 million (US\$204.9 million) as of December 31, 2021, primarily due to an increase in the security deposits placed with and set aside for our partnering commercial banks in case of users' defaults.

Short-term financing receivables, net

Our net short-term financing receivables decreased by 23.3% from RMB4,919 million as of December 31, 2020 to RMB3,773 million (US\$592 million) as of December 31, 2021, primarily due to the decrease associated with on-balance sheet loans originated on our platform in 2021.

Prepaid expenses and other current assets

Prepaid expenses and other current assets decreased by 6.3% from RMB1,005 million as of December 31, 2020 to RMB941 million (US\$148 million) as of December 31, 2021, primarily due to a decrease in deposits to institutional funding partners.

Deposits to insurance companies and guarantee companies

We engaged third-party licensed insurance companies and guarantee companies to provide assurance to some institutional funding partners, and are required to prepay certain amount of deposit as back-to-back guarantee to these insurance companies and guarantee companies in 2021. Such prepayment in the bank accounts of these insurance companies and guarantee companies is recorded as deposits to insurance companies and guarantee companies. Deposits to insurance companies and guarantee companies increased by 29.3% from RMB1,066 million as of December 31, 2020 to RMB1,378 million (US\$216 million) as of December 31, 2021.

Guarantee receivables

Our guarantee receivables decreased by 39.6% from RMB975 million as of December 31, 2020 to RMB646 million (US\$101 million) as of December 31, 2021, due to the decrease of loan origination of the off-balance sheet loans funded by certain institutional funding partners, which are accounted for under ASC 460, Guarantees.

Deferred guarantee income

Our deferred guarantee income decreased by 33.8% from RMB695 million as of December 31, 2020 to RMB420 million (US\$65.9 million) as of December 31, 2021, due to the decrease of loan origination of the off-balance sheet loans funded by certain institutional funding partners, which are accounted for under ASC 460, Guarantees.

Contingent guarantee liabilities

Our contingent guarantee liabilities decreased by 46.6% from RMB1,739 million as of December 31, 2020 to RMB929 million (US\$146 million) as of December 31, 2021, primarily due to the decrease of loan origination of the off-balance sheet loans funded by certain institutional funding partners, which are accounted for under ASC 460, Guarantees.

Short-term and long-term contract assets and service fees receivable, net

The contract assets and service fees receivable remained relatively stable at RMB4,187 million (US\$657 million) as of December 31, 2021, compared to RMB4,189 million as of December 31, 2020.

Long-term investments

Long-term investments decreased by 10.1% from RMB522 million as of December 31, 2020 to RMB469 million (US\$73.6 million) as of December 31, 2021, primarily due to a disposal of an investment in an India company in 2021.

Other assets

Other assets increased by 78.9% from RMB462 million as of December 31, 2020 to RMB827 million (US\$130million) as of December 31, 2021, primarily due to an increase in other long-term receivable as well as right-of-use assets.

Long-term financing receivables, net

Our net long-term financing receivables increased by 17.6% from RMB205 million as of December 31, 2020 to RMB241 million (US\$37.8 million) as of December 31, 2021, primarily due to the increase of our average tenor of the on-balance sheet loans balance.

Short-term borrowings

Short-term borrowings remained relatively stable at RMB1.8 billion (US\$282 million) as of December 31, 2021, compared to RMB1.8 billion as of December 31, 2020.

Short-term and long-term funding debts

Short-term funding debts decreased by 33.8% from RMB4,686 million as of December 31, 2020 to RMB3,101 million (US\$487 million) as of December 31, 2021, long-term funding debts decreased by 15.6% from RMB826 million as of December 31, 2020 to RMB697 million (US\$109 million) as of December 31, 2021, primarily due to the decrease in on-balance sheet loans originated in 2021.

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities increased by 32.4% from RMB2,926 million as of December 31, 2020 to RMB3,874 million (US\$608 million) as of December 31, 2021, primarily due to the increase in guarantee derivative liabilities, partially offset by decrease in payable for acquisition of land use rights.

Convertible notes

Convertible notes represented the US\$300 million convertible senior notes we issued through a private placement in September 2019. The notes will mature in seven years due by September 16, 2026, bearing interest at a rate of 2.0% per annum. The holder of the Notes may require us to repurchase all or part of their Notes in cash on September 16, 2023 or in the event of certain fundamental changes at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

Inflation

Since our inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2019, 2020 and 2021 were increases of 4.5%, 0.2% and 1.5%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

B. Liquidity and Capital Resources

To date, we have financed our operations primarily through cash generated by operating activities, the funding provided by institutional funding partners, the issuance of preferred shares in private placements, and issuance of convertible notes and asset-backed securities. In December 2017, we completed our initial public offering in which we issued and sold an aggregate of 12,000,000 ADSs, representing 24,000,000 Class A ordinary shares, resulting in net proceeds to us of approximately US\$93.7 million. In January 2018, as a result of the underwriters' exercise of their over-allotment option in full, we issued and sold an additional of 1,800,000 ADSs, representing 3,600,000 Class A ordinary shares, resulting in net proceeds of approximately US\$14.7 million. In September 2019, we issued and sold convertible notes in an aggregate principal amount of US\$300 million to PAGAC Lemongrass Holding I Ltd. through a private placement. As of December 31, 2019, 2020 and 2021, we had RMB2,085 million, RMB1,564 million and RMB2,664 million (US\$418.1 million), respectively, in cash and cash equivalents. Our cash and cash equivalents solely consist of demand deposits placed with banks or other financial institutions. We believe that our current cash and cash equivalents and our anticipated cash flows from operations and financing activities 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 or convertible loans 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. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—A severe or prolonged downturn in the Chinese or global economy and changes in the level of consumer confidence could reduce the demand for consumer loans and investments, which could materially and adversely affect our business and financial condition."

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

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our wholly foreign-owned subsidiaries in China only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans. In addition, our wholly foreign-owned subsidiaries in China may provide Renminbi funding to their respective subsidiaries through capital contributions and loans, and to the consolidated variable interest entities only through loans. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—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 making loans to our PRC subsidiaries and consolidated variable interest entities or making additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.” and “Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.”

Funding debts

Liabilities to institutional funding partners. As part of our arrangement with institutional funding partners, we typically agree on an aggregate amount of funds to be provided, the maximum credit limit given to an individual customer, the maximum borrowing term and an annualized interest rate. These liabilities mature between January 2022 and December 2023, and had weighted average interest rates of 9.7%, 9.3% and 9.2%, as of December 31, 2019, 2020 and 2021, respectively. As of December 31, 2019, 2020 and 2021, institutional funding partners funded an aggregate amount of RMB3,005 million, RMB5,092 million and RMB3,540 million (US\$555 million), in our outstanding financing receivables, respectively. As of December 31, 2020 and 2021, financing receivables amounting to RMB326 million and RMB1,193 million (US\$187 million) were pledged as collaterals, respectively. The increase in pledged collaterals in 2021 was due to the increase in the amount of funds provided by certain institutional funding partners.

Liabilities to individual investors on Juzi Licai. Historically, we offered individual investors on *Juzi Licai* various investment programs. As of December 31, 2019, the terms of those programs were all within 24 months with weighted average interest rate of 7.7%. As of December 31, 2019, 2020 and 2021, individual investors on *Juzi Licai* funded an aggregate amount RMB821 million, nil and nil, respectively, in our outstanding financing receivables.

The following table summarizes our outstanding funding debts on our consolidated balance sheets as of December 31, 2019, 2020 and 2021, respectively:

	As of or for the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Short-term:				
Liabilities to institutional funding partners	2,962,172	4,685,935	3,101,381	486,674
Liabilities to individual investors on Juzi Licai	793,356	—	—	—
Total short-term funding debts	3,755,528	4,685,935	3,101,381	486,674
Long-term:				
Liabilities to institutional funding partners	450,595	825,814	696,852	109,351
Total long-term funding debts	450,595	825,814	696,852	109,351

The following table summarizes the remaining contractual maturity dates of our funding debts on our consolidated balance sheets as of December 31, 2021 and associated interest payments.

	1-12	12-24	Total
	months	months	
	(RMB in thousands)		
Liabilities to institutional funding partners	3,101,381	696,852	3,798,233
Total funding debts	3,101,381	696,852	3,798,233
Interest payments ⁽¹⁾	247,104	48,012	295,116
Total interest payments	247,104	48,012	295,116

(1) Interest payments for funding debts with variable interest rates are calculated using the interest rate as of December 31, 2021.

Convertible notes

In September 2019, we issued and sold convertible notes in an aggregate principal amount of US\$300 million to PAGAC Lemongrass Holding I Ltd. through a private placement. The convertible notes have a term of seven years and bear interest at a rate of 2.0% per annum. The holder of the convertible notes has the right to require us to repurchase for cash all or any portion of the convertible notes on the fourth anniversary of the issuance date. The convertible notes are convertible in whole or in part into fully paid Class A Ordinary Shares or ADSs at the holder's option from the date that is six months after the issuance date to the third business day before the maturity date (i.e., September 16, 2026), at a conversion price of US\$14 per ADS.

The amount of interest expense recognized for the year ended December 31, 2021 totaled RMB44.9 million (US\$7.0 million). The carrying value of this convertible notes as of December 31, 2021 was RMB1.9 billion (US\$295 million).

Cash Flows

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

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
			(in thousands)	
Net cash (used in)/provided by operating activities	(778,504)	(211,019)	2,667,419	418,574
Net cash (used in)/provided by investing activities	(783,579)	(2,136,429)	414,615	65,062
Net cash provided by/(used in) financing activities	3,058,821	1,233,011	(1,779,534)	(279,249)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(8,246)	(27,970)	(23,592)	(3,699)
Net increase/(decrease) in cash, cash equivalents and restricted cash	1,488,492	(1,142,407)	1,278,908	200,688
Cash, cash equivalents and restricted cash at beginning of the year	2,497,134	3,985,626	2,839,906	445,643
Effect on the cash and cash equivalents at beginning of the year due to the adoption of ASC 326 (Note 2(g))	—	(3,313)	—	—
Cash, cash equivalents and restricted cash at end of the year	3,985,626	2,839,906	4,118,814	646,331

Operating Activities

Net cash provided by operating activities was RMB2,667 million (US\$419 million) in 2021. In 2021, the difference between net cash used in operating activities and our net income of RMB2,334 million (US\$366 million) mainly resulted from provision for credit losses of contingent liabilities of guarantee of RMB622 million (US\$97.7 million), provision for credit losses of contract assets and receivables of RMB531 million (US\$83.4 million), net change in fair value of financial guarantee derivatives of RMB459 million (US\$72.0 million), net change in fair value of loans at fair value of RMB112 million (US\$17.5 million), deferred income tax of RMB396 million (US\$62.2 million), provision for credit losses of financing and interest receivables of RMB401 million (US\$62.9 million), share-based compensation expenses of RMB188 million (US\$29.5 million), depreciation and amortization of RMB91 million (US\$14.2 million). Changes in operating assets and liabilities mainly included an increase in contract assets and service fees receivables of RMB473 million (US\$74.3 million), an increase in deposits to insurance companies and guarantee companies of RMB312 million (US\$49.0 million), an increase in other assets of RMB140 million (US\$22.0 million), a decrease in contingent guarantee liabilities of RMB1,432 million (US\$225 million), a decrease in financing receivables related to online direct sales of RMB179 million (US\$28.1 million), a decrease in guarantee receivables of RMB293 million (US\$45.9 million), a decrease in deferred guarantee income of RMB274 million (US\$43.1 million) and a decrease in other long-term liabilities of RMB110 million (US\$17.2 million), partially offset by an increase in accrued expenses and other current liabilities of RMB550 million (US\$86.3 million). The decrease in contingent guarantee liabilities primarily due to the decrease of loan origination of the off-balance sheet loans funded by certain institutional funding partners, which are accounted for under ASC 460. The increase in contract assets and service fees receivable and guarantee receivables was mainly due to the increase in off-balance sheet loans originated as a result of the continuing growth of our business.

Net cash used in operating activities was RMB211 million in 2020. In 2020, the difference between net cash used in operating activities and our net income of RMB595 million mainly resulted from provision for credit losses of financing and interest receivables of RMB779 million, share-based compensation expenses of RMB199 million, provision for credit losses of contingent liabilities of guarantee of RMB2,881 million, net change in fair value of financial guarantee derivatives of RMB707 million, provision for credit losses of contract assets and service fees receivable of RMB442 million, investment-related impairment of RMB69.2 million, depreciation and amortization of RMB53.4 million, amortization of the right-of-use assets of RMB53.9 million, foreign exchange gain of RMB85.2 million and changes in operating assets and liabilities. Changes in operating assets and liabilities mainly included an increase in contract assets and service fees receivable of RMB1,025 million, a decrease in deposits to insurance companies and guarantee companies of RMB185 million, a decrease in guarantee receivables of RMB275 million, an increase in accrued expenses and other current liabilities of RMB786 million, an increase in land use rights of RMB1.0 billion, an increase in other assets of RMB74.9 million, a decrease in funds payable to Individual Investors of RMB619 million, a decrease in prepaid expenses and other current assets of RMB273 million, a decrease in financing receivables related to online direct sales of RMB288 million, a decrease in inventories of RMB60.0 million, a decrease in accrued interest payable of RMB50.2 million, a decrease in accounts payable of RMB159 million, a decrease in deferred guarantee income of RMB787 million and a decrease in contingent guarantee liabilities of RMB3,566 million. The increase in contract assets and service fees receivable was mainly due to the increase in off-balance sheet loans originated as a result of the continuing growth of our business and loan facilitation and servicing fees recognized earlier in life of a contract as a result of the adoption of ASC 606. The change in contingent guarantee liabilities was primarily due to provision for credit losses of contingent liabilities of guarantee recognized earlier in life of a contract as a result of the adoption of ASC 326.

Net cash used in operating activities was RMB779 million in 2019. In 2019, the difference between net cash used in operating activities and our net income of RMB2,295 million mainly resulted from provision for credit losses of financing receivables and interest receivables of RMB709 million, share-based compensation expenses of RMB177 million, net change in fair value of financial guarantee derivatives of RMB212 million, net gain on guarantee liabilities of RMB196 million, provision for credit losses of contract assets and service fees receivable of RMB125 million, deferred income tax of RMB59.9 million, fair value changes of long-term investments of RMB51.3 million and changes in operating assets and liabilities. Changes in operating assets and liabilities mainly included an increase in contract assets and service fees receivable of RMB2,342 million, an increase in deposits to insurance companies and guarantee companies of RMB1,251 million, an increase in guarantee receivables of RMB981 million, an increase in other assets of RMB298 million, a decrease in funds payable to Individual Investors of RMB163 million, an increase in prepaid expenses and other current assets of RMB730 million, a decrease in accrued interest payable of RMB95.2 million, partially offset by an increase in guarantee liabilities of RMB1,494 million, an increase in accrued expenses and other current liabilities of RMB144 million and an increase in accounts payable of RMB66.0 million. The increase in contract assets and service fees receivable and guarantee receivables was mainly due to the increase in off-balance sheet loans originated as a result of the continuing growth of our business and loan facilitation and servicing fees recognized earlier in life of a contract as a result of the adoption of ASC 606. The increase in guarantee liabilities and deposits to insurance companies and guarantee companies was primarily due to the increase in outstanding off-balance sheet loans funded by certain institutional funding partners for which we guarantee the principal and interest payment.

Investing Activities

Net cash provided by investing activities was RMB415 million (US\$65.1 million) in 2021, which was primarily attributable to principal collection on financing receivables and recoveries (excluding receivables related to online direct sales) of RMB18,942 million (US\$2,972 million), collection of principals of loans at fair value of RMB4,052 million (US\$636 million) and withdraw of restricted time deposits of RMB2,504 million (US\$393 million), partially offset of financing receivables originated (excluding receivables related to online direct sales) of RMB18,421 million (US\$2,891 million), investments in loans at fair value or RMB3,852 million (US\$604 million), placement of restricted time deposits of RMB2,467 million (US\$387 million), cash paid on loans to third parties of RMB292 million (US\$45.9 million) and purchases of property, equipment and software of RMB122 million (US\$19.1 million).

Net cash used in investing activities was RMB2,136 million in 2020, which was primarily attributable to financing receivables originated and purchased (excluding receivables related to online direct sales) of RMB23,194 million, placement of restricted time deposits of RMB1,832 million, investments in loans at fair value of RMB7,067 million and cash paid on long-term investments of RMB97.2 million, partially offset by principal collection on financing receivables and recoveries (excluding receivables related to online direct sales) of RMB21,447 million, collection of principals of loans at fair value of RMB6,639 million and withdrawal of restricted time deposits of RMB2,015 million.

Net cash used in investing activities was RMB784 million in 2019, which was primarily attributable to financing receivables originated (excluding receivables related to online direct sales) of RMB10,632 million, placement of restricted time deposits of RMB2,487 million and cash paid on long-term investments of RMB388 million, partially offset by principal collection on financing receivables and recoveries (excluding receivables related to online direct sales) of RMB11,900 million and withdrawal of restricted time deposits of RMB864 million.

Financing Activities

Net cash used in financing activities was RMB1,780 million (US\$279 million) in 2021, which was primarily attributable to principal payments on funding debts of RMB19,981 million (US\$3,135 million) and principal payments on borrowings of RMB2,331 million (US\$366 million), partially offset by proceeds from funding debts of RMB18,221 million (US\$2,859 million) and proceeds from borrowings of RMB2,304 million (US\$362 million).

Net cash provided by financing activities was RMB1,233 million in 2020, which was primarily attributable to proceeds from funding debts of RMB20,546 million, proceeds from borrowings of RMB2,004 million and proceeds from non-controlling shareholders of RMB40.0 million, which were partially offset by principal payments on funding debts of RMB19,211 million and principal payments on borrowings of RMB2,155 million.

Net cash provided by financing activities was RMB3,059 million in 2019, which was primarily attributable to proceeds from funding debts of RMB8,374 million, proceeds from borrowings of RMB2,652 million and proceeds from issuance of convertible notes, net of debt discount of RMB2,096 million, which were partially offset by principal payments on funding debts of RMB8,947 million and principal payments on borrowings of RMB1,113 million.

Material Cash Requirements

Our material cash requirements as of December 31, 2021 and any subsequent interim period primarily include capital expenditures and contractual obligations, including funding debts, convertible notes, short-term borrowings, operating lease obligations, and commitment to purchase delinquent loans.

Capital Expenditures

We incurred capital expenditures of RMB49.9 million, RMB86.6 million and RMB122 million (US\$19.1 million) in 2019, 2020 and 2021, respectively. In these periods, our capital expenditures were mainly used for purchases of property, equipment and software, and in construction of our new headquarters located in Shenzhen. Our capital expenditures for 2022 are expected to be approximately RMB94.8 million, including RMB63.6 million payment in construction of our new headquarters located in Shenzhen, and RMB31.2 million in expansion and enhancement of our information technology infrastructure. We will continue to incur capital expenditures to meet the expected growth of our business.

In February 2020, we have successfully bid for a plot of land in Shenzhen's Nanshan district to support our continued growth. The total purchase price for the acquisition of the land use right is RMB1.032 billion and we have made the first installment payment of RMB516 million in February 2020. In February 2021, we paid the remaining 50% of the purchase price.

Contractual Obligations

The following table sets forth our contractual obligations, including interest payments, as of December 31, 2021:

	Payment Due by Period				
	Total	Less than 1 year	1— 2 years (RMB in thousands)	2 — 3 years	More than 3 years
Contractual Obligations:					
Debts obligations					
Funding debts	4,093,349	3,348,485	744,864	—	—
Convertible notes	1,987,624	38,254	1,949,370	—	—
Short-term borrowings	1,840,107	1,840,107	—	—	—
Operating lease obligations	212,957	55,088	45,155	41,129	71,585
Commitment to purchase delinquent loan	826,839	826,839	—	—	—
Total	8,960,876	6,108,773	2,739,389	41,129	71,585

Other than those shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2021. We intend to fund our existing and future material cash requirements with our existing cash balance. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

Off-Balance Sheet Arrangements

We provide services in connection with off-balance sheet loans, including account maintenance, collection and payment processing from user and distributions to certain institutional funding partners. Prior to November 2019, we were obligated to compensate the funding partners for the principal and interest repayment of loans in the event of a user default. We also provide full interest repayment according to the terms of the loan in the event that a user makes an early repayment of the loan to the funding partners. Therefore, we effectively provide guarantees to the funding partners against the credit risk and prepayment risk. See “Notes to Consolidated Financial Statements – Note 2 Significant Accounting Policies-Guarantee derivatives”. Since November 2019, we ceased to compensate interest repayment under the original terms of the loans to institutional funding partners in the event that borrowers repay their loans early. Therefore, according to relevant financial guarantee contracts with certain institutional funding partners, the guarantee provided by us is solely for the purpose of reimbursing them in the event that the borrowers fail to satisfy their required payment obligations. See “Notes to Consolidated Financial Statements – Note 2 Significant Accounting Policies-Guarantee receivables and liabilities”.

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

Holding Company Structure

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

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, 2021 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 condition.

E. Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires our management to make estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on our own historical experience and other assumptions that we believe are reasonable after taking account of our circumstances and expectations for the future based on available information. We evaluate these estimates on an ongoing basis.

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. There are other items within our financial statements that require estimation but are not deemed critical, as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. For a detailed discussion of our significant accounting policies and related judgments, see “Notes to Consolidated Financial Statements – Note 2 Significant Accounting Policies”.

Allowance for credit losses

The allowance for credit losses represents our estimate of expected credit losses on the financial assets measured at amortized cost and financial guarantees not accounted for as derivatives for off-balance sheet loans. The lifetime expected credit losses on these financial assets and contingent guarantee liabilities are determined using a pooled basis within respective credit risk classification levels of the underlying customers, taking into consideration the historical credit loss experience, the current credit quality of the portfolio and application of macroeconomic forecasts.

The allowance for credit losses is based on our significant judgment regarding:

- Probability of default. The expected probability of payment and time to default, which include assumptions about macroeconomic factors and recent performance; and
- Loss given default. The percentage of the expected balance due at default that is not recoverable. The loss given default takes into account the expected future recoveries.

The macroeconomic factors used in estimation include variables that have historically been key drivers of increases and decreases in credit losses, such as GDP and M2. M2 is a measurement of broad money supply including cash and deposits, which is published by People's Bank of China on a routine basis.

Changes in the probability of default and loss given default assumptions would affect the allowance for credit losses. The effect of the indicated increase/decrease in the assumptions for the consolidated statements of operations is as follows (in RMB thousands):

Assumption	Relative Change in Basis Point	Increase/(Decrease)
Probability of default (lifetime)	+/- 100 bps	8,336 / (8,336)
Loss given default	+/- 100 bps	26,184 / (26,184)

Fair value measurement of financial guarantee derivatives

Financial guarantee derivatives provided for off-balance sheet loans are recorded at fair value at the inception of the off-balance sheet loans and are subsequently remeasured at fair value on an ongoing basis. The estimated fair value of the financial guarantee derivatives is determined based on a discounted cash flow model, with reference to the estimates of expected loss rates and margins on cost of guarantee services.

Our estimate of fair value is based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. The significant assumptions in the determination of the fair value of financial guarantee derivatives include the expected loss rates for off-balance sheet loans and margins on cost of guarantee services. Changes in the assumptions may have a significant impact on the fair value of financial guarantee derivatives. The effect of the indicated increase/decrease in the assumption of the expected loss rates for off-balance sheet loans for the consolidated statements of operations is as follows (in RMB thousands):

Assumption	Relative Change in Basis Point	Increase/(Decrease)
Weighted average cumulative loss rate (i)	+/- 100 bps	36,222 / (36,222)

(i) Expressed as a percentage of the original principal balance of the loans.

Revenue recognition for loan facilitation and servicing fees

We provide intermediary services to the borrowers and funding partners as the lenders. The intermediary services provided include (i) loan facilitation and matching services, (ii) post-origination services (i.e. account maintenance, collection, and payment processing), and (iii) a financial guarantee, if any. We identify loan facilitation and matching services and post-origination services as distinct and separate performance obligations. A financial guarantee is recorded at fair value at inception of each loan. The total transaction price is first allocated to the financial guarantee based on the estimated fair value of the guarantee liability at the loan inception, the remaining consideration is allocated to each of the performance obligations based on relative standalone selling price, and include variable consideration in the estimated transaction price when it is probable that significant reversal of revenue recognized would not occur when the uncertainty associated with variable consideration is subsequently resolved. Revenues from loan facilitation and matching services are recognized at point-in-time upon the successful matching of the loans, and revenues from post-origination services are recognized ratably over the terms of the loans. Revenue from loan facilitation and servicing fees-performance based is recognized at predetermined revenue sharing rates based on the repayment collected from the borrowers by funding partners. Such revenue sharing rates are determined based on the performance of the underlying off-balance sheet loans.

Significant judgment is applied in allocation of transaction prices for each distinct performance obligation and in determination of variable considerations. We primarily use the expected cost plus a margin approach to determine the standalone selling price. A number of key factors were considered for the estimation of standalone selling price, including the estimated cost of providing the services and the estimated margins. The variable consideration of loan facilitation and servicing fees-performance based is estimated using the expected value method, i.e, based on revenue sharing rates and estimated repayment amount collectible from the borrowers by funding partners, taking into consideration of the expected loss rates of the underlying off-balance sheet loans. The increase in the expected loss rates of the underlying off-balance sheet loans will result in the decrease in revenue recognized. We update our estimate on a quarterly basis, and any adjustments to the estimate are recognized as adjustments to revenue using the cumulative catch-up method. The revenue recognition is sensitive to our estimates in these factors. Changes in our estimates of these factors may have a significant impact on the revenue recognized.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

Directors and Executive Officers	Age	Position/Title
Jay Wenjie Xiao	38	Chief Executive Officer and Chairman of the Board
Jared Yi Wu	42	President and Director
Sunny Rui Sun	50	Chief Financial Officer and Director
Kris Qian Qiao	43	Chief Financing Cooperation Officer and Director
Shirley Yunwen Yang	51	Chief Human Resources Officer
Jason Ming Zhao	46	Chief Marketing Officer
Erwin Yong Lu	47	Chief Technology Officer
Jayden Yang Qiao	43	Chief Risk Officer
Suining Xiao	74	Director
Wei Wu	57	Independent Director
Xiaoguang Wu	46	Independent Director
Neng Wang	48	Independent Director
Annabelle Yu Long	49	Independent Director

Mr. Jay Wenjie Xiao is our founder and has served as our chief executive officer and director since our inception. Mr. Xiao has served as chairman of the board since December 2017. Mr. Xiao has over 10 years of experience in the online finance industry. Prior to founding our company, Mr. Xiao served as product manager in the infrastructure platform department of Tenpay, a leading online payment platform in China owned by Tencent, and was responsible for product development and operations. Mr. Xiao received his bachelor's degree in design from Nanchang Hangkong University in 2005.

Mr. Jared Yi Wu has served as our president since May 2016 and as our director since November 2017. Prior to joining us, Mr. Wu served at Tencent for 9 years. From 2013 to 2016, Mr. Wu served as general manager of WeChat Pay, an integrated feature in Tencent's WeChat. From 2007 to 2013, Mr. Wu served first as the director of product development at Tenpay and then as its deputy general manager. Mr. Wu received his master's degree in computing and internet systems from King's College London in 2003 and his bachelor's degree in automation from South China University Technology in 2002. He obtained his EMBA degree from China Europe International Business School.

Ms. Sunny Rui Sun has served as our chief financial officer and our director since September 2021. Ms. Sun has more than 20 years of working experiences both abroad and in China in the area of financial management, corporate development and mergers & acquisitions across diversified industries. Prior to joining Lexin, Ms. Sun was the Chief Financial Officer of Medlinker Limited, a leading internet hospital in China and the Chief Financial Officer of Yitu Limited, a leading AI chip design and AI technology application company in China. Before that, Ms. Sun served as the Chief Growth Officer of Yum China (NYSE: YUMC) as well as other senior positions in the company. Before that, Ms. Sun was the Senior Managing Director of CVC Capital Partners, a private equity firm. Ms. Sun also worked at various executive positions at Daimler AG and Danone Asia. Ms. Sun holds an MBA degree from Said Business School of Oxford University.

Mr. Kris Qian Qiao has served as our chief financing cooperation officer since April 2016, and as our director since December 2020. He was our vice president from December 2013 to March 2016. Mr. Qiao has over 14 years of experience in finance and other related areas. Prior to joining our company, Mr. Qiao worked as senior manager of China Universal Asset Management Co., Ltd. from 2010 to 2012. Prior to that, Mr. Qiao was senior product manager for financing cooperation at Tenpay from 2005 to 2010. Mr. Qiao also served as software engineer and project manager at the Bank of China Software Development Center (Shenzhen) from 2002 to 2005. Mr. Qiao received his master's degree in business administration from the Hong Kong Polytechnic University and his bachelor's degree in applied computer science from Henan University. Mr. Qiao received his EMBA degree from Cheung Kong Graduate School of Business.

Ms. Shirley Yunwen Yang has served as our chief human resources officer since February 2019. Ms. Yang has over 15 years of experience in various senior human resources positions. Prior to joining us, she served as an Assistant General Manager at Tencent's Interactive Entertainment Group in charge of human resources for overseas business. Prior to that, she held senior human resources executive positions at major multinational companies including Walmart. Other than the Chinese mainland, she also has overseas working experience in North America and Hong Kong. Ms. Yang holds a college degree from Ningbo University and an MBA degree from the Hong Kong University of Science and Technology.

Mr. Jason Ming Zhao has served as our chief marketing officer since February 2020. Mr. Zhao joined Lexin in February 2017, and was our vice president in charge of public relations and marketing. Prior to joining Lexin, Mr. Zhao was responsible for public relations at Qihoo 360, where he was also the assistant president for 360 mobile phones. Mr. Zhao has led many notable communications campaigns in China, including initiating and implementing entertainment and sports marketing strategies for Qihoo 360. From 2010 to 2012, Mr. Zhao served as public relations lead at Youku (NYSE: YOKU), where he was responsible for brand promotion and public communications. During his time at Youku, Mr. Zhao led the strategic communications work for Youku's IPO on the NYSE and Youku's acquisition of Tudou. Mr. Zhao is also an independent director of Xianhe Environmental, a Chinese A-share listed company. Mr. Zhao holds a bachelor's degree in economics from Peking University.

Mr. Erwin Yong Lu has served as our chief technology officer since February 2021. Mr. Lu has over 20 years of experience in the technology sector and has held various senior positions. Prior to joining us, Mr. Lu served as the chief information officer of Ping An Life Insurance. Prior to that, he served as the chief technology officer and vice president for SINA mobile, a leading online media company in China. From 2016 to 2017, he was the chief technology officer of 51Talk (NYSE:COE), a leading online education platform in China. He also worked from 2014 to 2016 as the general manager of the advertisement division at Weibo Corporation, a Nasdaq listed leading Chinese social media company. From 2012 to 2014, Mr. Lu worked at Facebook in Seattle as a software engineer. Before that, Mr. Lu worked at Microsoft in Seattle from 2003 to 2012 as a senior software engineer. Mr. Lu received his master's degree in computer science from the University of Denver in 2003 and a master's degree in chemistry from Zhejiang University in 1998. Mr. Lu is also a named contributor in five IT patents in the United States.

Mr. Jayden Yang Qiao has served as our chief risk officer since July 2021. Mr. Qiao joined us in early 2021 as our vice president, responsible for our risk management. Mr. Qiao has over 15 years of experience in a variety of management positions in leading multinational and technology companies in different countries. Prior to joining us, Mr. Qiao held various senior positions with JD Digits from 2016 to 2020, including as the chief executive officer of JD Digits' subsidiary, ZRobot. From 2015 to 2016, Mr. Qiao was the co-founder and chief risk officer of Shanghai Niuwa Internet Financial Information Service. From 2006 to 2015, Mr. Qiao held various senior managerial and other positions with Discover Financial Services in both the U.S. and China. In addition, Mr. Qiao is the holder of numerous patents and copyrights for his inventions. Mr. Qiao received his bachelor's degree in economics from the University of Colorado, his dual master's degree in business administration and economics from the University of Iowa. In addition, Mr. Qiao is also a member of the expert advisory committee of the Chartered Global Financial Technology Master project at the Shanghai Advanced Institute of Finance (SAIF) of Shanghai Jiaotong University, a member of the "Young Experts" of the Internet Society of China (ISC), and a member of the evaluation committee of the Shenzhen Credit Professionals Association.

Mr. Suining Xiao has served as our director since September 2019. Mr. Xiao is a partner of PAG and chairman of PAG in China. Prior to joining PAG in 2013, Mr. Xiao served as the chairman of Ping An Bank from 2010 to 2012 and was a director and president of the Shenzhen Development Bank from 2007 to 2010. Prior to joining the Shenzhen Development Bank, Mr. Xiao spent 17 years at the Bank of Communications where he held numerous senior management positions, including as the president of the Bank of Communications Shenzhen Branch. Mr. Xiao also served as Independent Non-executive Director of Nan Hai Corporation Limited (HKSE:680) and Sino-i Technology Limited (HKSE:250). Mr. Xiao earned a college degree in business management from the Yunnan Economic Management Cadre College in 1987.

Mr. Wei Wu has served as our independent director since December 2017. Mr. Wu has over 17 years of experience in the investment banking industry. Mr. Wu held several senior positions at leading investment banks. He served as managing director from 2010 to 2017 and as executive director from 2008 to 2010 at Nomura International (Hong Kong) Limited, leading the coverage of TMT sector and general industrial sectors in China. From 2007 to 2008, Mr. Wu served as senior vice president at Lehman Brothers in Hong Kong. Mr. Wu received his bachelor's degree in economics from Peking University in 1988 and his MBA degree from Harvard Business School in 2000.

Mr. Xiaoguang Wu has served as our director since March 2018 and has become our independent director since August 2018. In June 2015, Mr. Wu established Welight Capital as a Founder. He was named as senior management adviser of Tencent in June 2015. Mr. Wu joined Tencent (SEHK: 00700) in 1999, and was a member of the founding team. He led the development and product planning for Tencent's core product, QQ, and served as project manager for the QQ research and development team. He also served as general manager of Tencent's IM product division and the internet business division. From 2012 to 2014, Mr. Wu served as chief executive officer of Tencent's e-commerce unit. Mr. Wu has extensive experience in product research and development, product planning, product operations and marketing internet products. He received his B.S. degree from Nanjing University in 1996, and an EMBA degree from China Europe International Business School in 2008.

Dr. Neng Wang has served as our independent director since March 2018. Dr. Wang has been Chong Khoon Lin Professor of Real Estate at Columbia Business School since July 2007, and a research associate at the National Bureau of Economic Research since 2009. He has widely published in leading economics, finance, and business journals. Among other awards and honors, he has won a Smith-Breeden Distinguished Paper Prize awarded by the Journal of Finance, and the Bettis Distinguished Scholar Award from Carey School of Business, Arizona State University. He was an editor in the Finance area at the Management Science and is currently an associate editor at the Journal of Finance, among others. Dr. Wang is also serving as an independent director of Puxin Limited (NYSE: NEW), a company operating in the after-school education industry. Dr. Wang received a B.S. in physical chemistry from Nanjing University, China in 1992, an M.S. in chemistry from California Institute of Technology in 1995, an M.A. in international relations from the University of California, San Diego in 1997, and a Ph.D. in finance from the Graduate School of Business at Stanford University in 2002.

Ms. Annabelle Yu Long has served as our independent director since August 2020. Ms. Long currently serves as the Founding and Managing Partner of BAI Capital. She also serves as a member of Bertelsmann Group Management Committee and the governor of China Venture Capital and Private Equity Association. Formerly, Ms. Long was the chief executive officer of Bertelsmann China Corporate Center and the managing partner of Bertelsmann Asia Investments. Prior to that, she was a Principal at Bertelsmann Digital Media Investments. She joined the international media, services, and education company via the Bertelsmann Entrepreneurs Program in 2005. Ms. Long is a member of the World Economic Forum's Young Global Leaders Advisory Council and its Global Agenda Council on the Future of Media, Entertainment & Information and was a member of the Stanford Graduate School of Business Advisory Council from May 2015 to May 2021. Ms. Long serves on the board of directors and as a member of the audit committee of Tapestry Inc. (NYSE: TPR, its portfolio includes Coach, Stuart Weitzman and Kate Spade) and Nio Inc. (NYSE:NIO), respectively. Ms. Long received a bachelor's degree in electrical engineering from the University of Electronic Science and Technology in China and an MBA from the Stanford Graduate School of Business.

B. Compensation

For the fiscal year ended December 31, 2021, we paid an aggregate of approximately RMB32.8 million (US\$5.2 million) in cash to our executive officers and an aggregate of approximately RMB1.3 million (US\$200 thousand) in cash to our non-executive directors. 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 variable interest entity 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, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan.

Share Incentive Plans

2014 Plan

In September 2014, our board of directors approved the Share Incentive Plan, or the 2014 Plan, to promote our success and the interests of our shareholders by providing a means through which we may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of recipients with those of our shareholders generally. Under the 2014 Plan, the maximum aggregate number of Class A Ordinary Shares which may be issued pursuant to all awards under the Share Incentive Plan is 35,456,559. Upon the adoption of the 2017 Plan as described below, we no longer grant any awards under the 2014 Plan and all future awards will be granted under the 2017 Plan. However, the outstanding awards under the 2014 Plan will not be affected.

The following paragraphs describe the principal terms of the 2014 Plan.

Types of Awards. The Share Incentive Plan permits the awards of option grants and share awards, including restricted share awards.

Plan Administration. Our board of directors or a committee of one or more members of the board of directors, or the plan administrator, will administer the Share Incentive Plan. The committee or the full board of directors, as applicable, will determine the eligibility and participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award Agreement. Generally, options and other awards granted under the plan are evidenced by an award agreement providing for the number of ordinary shares subject to the award, and the terms and conditions of the award, which must be consistent with the Share Incentive Plan.

Eligibility. We may grant awards only to those persons that the plan administrator determines to be eligible persons, which may include our officers, employees, directors of our company, or directors, individual consultants or advisors of the affiliates of our company.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than to us, to immediate family, by will or the laws of descent and distribution, or to a designated legal representative upon disability of the recipient.

Termination and Amendment of the Share Incentive Plan. Unless terminated earlier, the Share Incentive Plan has a term of ten years. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient.

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 22,859,634, plus an annual increase on the first day of each fiscal year of the Company during the ten-year term of the 2017 Plan commencing with the fiscal year beginning January 1, 2019, by an amount equal to 1.0% of the total number of shares issued and outstanding on the last day of the immediately preceding fiscal year. 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.

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 the 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 the date of this annual report, the outstanding options and restricted share units granted under the 2014 Plan and the 2017 Plan to our directors and executive officers.

Name	Ordinary Shares Underlying Options or Restricted Share Units Awarded	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Jay Wenjie Xiao	*	0.5	October 25, 2019	October 25, 2029
	*	0.5	January 15, 2021	January 15, 2031
Jared Yi Wu	*	0.0001	June 30, 2016	June 30, 2026
	*	0.5	October 25, 2019	October 25, 2029
	*	0.5	January 15, 2021	January 15, 2031
Sunny Rui Sun	*	0.5	November 25, 2021	November 25, 2031
Kris Qian Qiao	*	0.0001	November 8, 2017	November 8, 2027
	*	5.15	May 25, 2018	May 25, 2028
	*(1)	—	January 22, 2019	—
	*	0.5	October 25, 2019	October 25, 2029
	*	0.5	January 15, 2021	January 15, 2031
Shirley Yunwen Yang	*(1)	—	March 14, 2019	—
	*	0.5	October 25, 2019	October 25, 2029
	*	0.5	January 15, 2021	January 15, 2031
	*	0.5	January 18, 2022	January 18, 2032
Jason Ming Zhao	*	0.0001	November 8, 2017	November 8, 2027
	*(1)	—	January 22, 2019	—
	*	0.5	October 25, 2019	October 25, 2029
	*	0.5	January 15, 2021	January 15, 2031
	*	0.5	January 15, 2021	January 15, 2031
	*	0.5	January 18, 2022	January 18, 2032
Erwin Yong Lu	*	0.5	March 18, 2021	March 18, 2031
	*	0.5	January 18, 2022	January 18, 2032
Jayden Yang Qiao	*	0.5	March 18, 2021	March 18, 2031
	*	0.5	March 18, 2021	March 18, 2031
	*	0.5	January 18, 2022	January 18, 2032
Suining Xiao	—	—	—	—
Wei Wu	*	0.0001	November 8, 2017	November 8, 2027
	*(1)	—	March 29, 2022	—
Xiaoguang Wu	*(1)	—	March 29, 2022	—
Neng Wang	*(1)	—	March 29, 2022	—
Annabelle Yu Long	*(1)	—	August 18, 2020	—
All Directors and Executive Officers as a Group	7,583,336			

* Upon exercising of all options that are exercisable with 60 days after the date of this annual report and vesting of all restricted shares unites that are to be vested within 60 days after the date of this annual report, would beneficially own less than 1% of our total outstanding shares.

(1) Represents restricted share units.

C. Board Practices

Board of Directors

Our board of directors consists of nine directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract or transaction, proposed contract or transaction notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or transaction or proposed contract or transaction is considered. The directors may exercise all the powers of our company to raise or borrow money, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital or any part thereof, and to issue debentures, debenture stock, bonds or other securities, whether outright or as collateral security for any debt, liability or obligation of our 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 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 Mr. Wei Wu, Dr. Neng Wang, and Ms. Annabelle Yu Long. Mr. Wei Wu is the chairman of our audit committee. We have determined that Mr. Wei Wu, Dr. Neng Wang, and Ms. Annabelle Yu Long satisfy the "independence" requirements of Rule 5605(c) (2) of the Listing Rules of the Nasdaq Stock Market and Rule 10 A-3 under the Securities Exchange Act of 1934. 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 Mr. Wei Wu and Dr. Neng Wang. Mr. Wei Wu is the chairman of our compensation committee. We have determined Mr. Wei Wu and Dr. Neng Wang satisfy the "independence" requirements of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;

- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. Xiaoguang Wu, Mr. Wei Wu and Dr. Neng Wang. Mr. Xiaoguang Wu is the chairman of our nominating and corporate governance committee. Mr. Xiaoguang Wu, Mr. Wei Wu and Dr. Neng Wang satisfy the "independence" requirements of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market. 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
- 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.

Terms of Directors and Executive Officers

Our directors may be appointed by a resolution of our board of directors, or by an ordinary resolution of our shareholders. A director may be appointed on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between our company and the director, if any; but no such term shall be implied in the absence of express provision. Each director whose term of office expires shall be eligible for re-election at a meeting of the shareholders or re-appointment by the board of directors. A director may be removed from office by an ordinary 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 any other provision of our sixth amended and restated articles of association. Our officers are elected by and serve at the discretion of our board of directors.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our senior 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.

Board Diversity

Board Diversity Matrix (As of March 31, 2022)

Country of Principal Executive Offices:	People's Republic of China			
Foreign Private Issuer	Yes			
Disclose Prohibited Under Home Country Law	No			
Total Number of Directors	9			
Part I: Gender Identity	Female	Male	Non-Binary	Did Not Disclose Gender
Directors	2	7	—	—
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	—			
LGBTQ+	—			
Did Not Disclose Demographic Background	—			

D. Employees

The following table sets forth the numbers of our employees categorized by function as of December 31, 2021.

Functions:	As of December 31, 2021	
	Number	% of Total Employees
E-commerce and operations	198	5.1
Risk management	355	9.1
Research and development	765	19.6
Sales and marketing	2,308	59.2
General and administrative	270	6.9
Total number of employees	3,896	100

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 others, pension insurance, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan. 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 and confidentiality agreements with our senior management and core personnel. We maintain a good working relationship with our employees, and we have not experienced any material labor disputes. None of our employees are represented by labor unions.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares as of March 31, 2022 by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.

The calculations in the table below are based on 368,778,179 ordinary shares outstanding as of March 31, 2022, comprising of (i) 274,312,486 Class A ordinary shares, excluding the 12,118,460 Class A ordinary shares issued to the depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plan and the 2017 Share Incentive Plan, and (ii) 94,465,693 Class B ordinary shares.

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, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person. Ordinary shares held by a shareholder are determined in accordance with our register of members.

See “—B. Compensation” for more details on options and restricted shares granted to our directors and executive officers.

	Class A Ordinary Shares	Class B Ordinary Shares	Percentage of total ordinary shares on an as-converted basis †	Percentage of aggregate voting power††
Directors and Executive Officers**:				
Jay Wenjie Xiao ⁽¹⁾	5,908,616	94,465,693	27.2	78.0
Jared Yi Wu	*	—	*	*
Sunny Rui Sun	*	—	*	*
Kris Qian Qiao	*	—	*	*
Shirley Yunwen Yang	*	—	*	*
Jason Ming Zhao	*	—	*	*
Ervin Yong Lu	*	—	*	*
Jayden Yang Qiao	*	—	*	*
Suining Xiao ⁽²⁾	—	—	—	—
Wei Wu ⁽³⁾	*	—	*	*
Xiaoguang Wu ⁽⁴⁾	*	—	*	*
Dr. Neng Wang ⁽⁵⁾	*	—	*	*
Annabelle Yu Long ⁽⁶⁾	*	—	*	*
All Directors and Executive Officers as a Group	8,746,984	94,465,693	27.8	78.1
Principal Shareholders:				
Installment Payment Investment Inc. ⁽⁷⁾	5,766,950	94,465,693	27.2	78.0
K2 Partners entities ⁽⁸⁾	39,527,554	—	10.7	3.2
OceanLink Management Ltd. ⁽⁹⁾	26,419,590	—	7.2	2.2
OceanLink Partners Fund, LP ⁽¹⁰⁾	12,303,904	—	3.3	1.0

* Aggregate number of shares accounts for less than 1% of our total outstanding ordinary shares and aggregate voting power.

** Except for Suining Xiao, Wei Wu, Xiaoguang Wu, Dr. Neng Wang, and Annabelle Yu Long, the business address for our directors and executive officers is 27/ F CES Tower, No. 3099 Keyuan South Road, Nanshan District, Shenzhen 518057, the People's Republic of 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 as of March 31, 2022 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, 2022. The total number of ordinary shares outstanding as of March 31, 2022 is 368,778,179.

†† 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 ten 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 2,883,475 ADSs, representing 5,766,950 Class A ordinary shares, and 94,465,693 Class B ordinary shares held by The JX Chen Family Trust through Installment Payment Investment Inc., a company incorporated under the laws of the British Virgin Islands, as of March 31, 2022, and 141,666 Class A ordinary shares issuable to Mr. Wenjie Xiao upon exercise of options granted to within 60 days after March 31, 2022. The registered office address of Installment Payment Investment Inc. is Start Chambers, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands. The beneficiaries of The JX Chen Family Trust are Mr. Jay Wenjie Xiao and his family and therefore, Mr. Xiao may be deemed to be the beneficial owner of the shares held by Installment Payment Investment Inc. through the Trust.
- (2) The business address of Mr. Suining Xiao is Room 2604, Hantang Building, Oversea Chinese Town, Nanshan District, Shenzhen 518053, the People's Republic of China.
- (3) The business address of Mr. Wei Wu is Flat E, 9/F, Tower 5, The Visionary, 1 Ying Hong Street, Tung Chung, Lantau Island, Hong Kong.
- (4) The business address of Mr. Xiaoguang Wu is Flat 49A, Tower 6, Phase 4, Bel-Air On The Peak, South Island, Pokfulam, Hong Kong.
- (5) The business address of Dr. Neng Wang is Kravis 1102, 665 W 130th St, New York, NY 10027, USA.
- (6) The business address of Ms. Annabelle Yu Long is Unit 1610, 16/F, West Tower, Genesis Beijing, 8 Xinyuan South Road, Chaoyang District, Beijing 100027, the People's Republic of China.
- (7) Represents 5,766,950 Class A ordinary shares and 94,465,693 Class B ordinary shares beneficially owned by Mr. Jay Wenjie Xiao through The JX Chen Family Trust. See note (1) above.
- (8) Represents 39,527,554 Class A ordinary shares held by KPartners Limited and other K2 entities, including 29,468,844 Class A ordinary shares held by K2 Partners II Limited, as reported on Schedule 13D/A filed by KPartners Limited and K2 Partners II Limited, among others, on December 18, 2020. The registered office address of KPartners Limited is Osiris International Cayman Limited of Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, Po Box 32311, Grand Cayman KY1-1209, Cayman Islands. The registered office address of K2 Partners II Limited is Room C, 20/F., Lucky Plaza, 315-321, Lockhart Road, Wan Chai, Hong Kong.
- (9) Represents 26,419,590 Class A ordinary shares held by OLP Capital Management Limited. Richard Li and Di Fan Shen claimed shared voting power and shared dispositive power to the 26,419,590 Class A ordinary shares. The business address of OLP Capital Management Limited, Richard Li and Di Fan Shen is Unit 2430, 24/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. Information regarding beneficial ownership is reported as of December 31, 2021, based on the information contained in the Schedule 13G/A filed by OLP Capital Management Limited, Richard Li and Di Fan Shen with the SEC on February 14, 2022.
- (10) Represents 12,303,904 Class A ordinary shares held by OceanLink Partners Fund, LP, a Delaware limited partnership. OLP Capital Management Limited is the general partner of OceanLink Partners Fund, LP. The business address of OceanLink Partners Fund, LP is Unit 2430, 24/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. Information regarding beneficial ownership is reported as of December 31, 2021, based on the information contained in the Schedule 13G/A filed by OceanLink Partners Fund, LP with the SEC on February 14, 2022.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by the ADSs in our initial public offering.

As of March 31, 2022, 368,778,179 of our ordinary shares were issued and outstanding. To our knowledge, a total of 269,935,730 Class A ordinary shares, representing approximately 73.2% of our total outstanding ordinary shares, were held by one record shareholder in the United States, which is The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Except for the above, we are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

B. Related Party Transactions

Contractual Arrangements with the Variable Interest Entities and Their Shareholders

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 the variable interest entities and their subsidiaries

based on a series of contractual arrangements. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Variable Interest Entities.”

Transactions with Individual Directors and Officers

Certain individual directors and officers and/or his immediate family members participate in our investment programs offered to individual investors by the Company. As of December 31, 2019, 2020 and 2021, we had RMB40.8 million, RMB61.9 million and RMB15.0 million (US\$2.4 million) due to these related parties in connection with their investment. We believe that the terms of the transaction agreements with the related parties are comparable to those at arm’s-length transactions with third-party individual investors.

Transactions with JD.com, Ji’an Aojuxun, Ji’an Aoxinlian and Aileyou

In 2015, we entered into a strategic cooperation agreement with JD.com and a series of related agreements pursuant to which we source our products sold on our e-commerce channel and receive fulfillment and storage service from JD.com. In 2019, we purchased goods and received services from JD.com in a total amount of RMB828 million. In considering the equity interests of us held by JD, the transaction volumes between JD.com and us as well as other relevant factors, JD was no longer a related party of us starting from January 1, 2020. As of December 31, 2020 and 2021, we did not have any amount due to JD.com as a related party.

Ji’an Aojuxun Information Consulting Service Co., Ltd (“Ji’an Aojuxun”) and Ji’an Aoxinlian Information Consulting Service Co., Ltd (“Ji’an Aoxinlian”), which provide collection services to the Company, are controlled by the immediate family member of the Group’s senior management.

The transactions with the two entities for the year ended December 31, 2019, 2020 and 2021 were RMB9.3 million, RMB28.6 million and RMB20.5 million (US\$3.2 million) respectively. As of December 31, 2020, the amounts due to Ji’an Aoxinlian and Ji’an Aojuxun were RMB4.7 million and nil, respectively. As of December 31, 2021, the amounts due to Ji’an Aoxinlian and Ji’an Aojuxun were RMB4.8 million (US\$0.8 million) and nil, respectively.

Shenzhen Aileyou Information Technology Co., Ltd. (“Aileyou”) is an equity investment of the Group. The transaction with Aileyou for the year ended December 31, 2019, 2020 and 2021 were nil, RMB2.1 million and RMB7.7 million (US\$1.2 million), respectively. The amounts due to Aileyou as of December 31, 2020 and 2021 were RMB0.9 million and RMB3.3 million (US\$0.5 million), respectively.

Loan Agreement with L.P.

L.P. Technology Holdings Limited (“L.P”) is an equity investment of the Group. In 2020 and 2021, we entered into loan agreements with L.P. and agreed to provide loan to facilitate L.P.’s business operations. These loans carry a fixed rate of interest which approximated the market interest rate at the inception of the loans. As of December 31, 2020 and 2021, the amounts due from L.P. was RMB0.9 million and RMB6.1 million (US\$0.9 million), respectively.

Shareholders Agreement

We entered into our amended and restated shareholders agreement on October 21, 2017 with our then-existing shareholders. The shareholders agreement provides for certain preferential rights, including board representation rights, right of participation, co-sale rights and preemptive rights. Except for the registration rights, all the preferential rights terminated upon the completion of our initial public offering.

Registration Rights

Pursuant to our current shareholders agreement, we have granted certain registration rights to our shareholders. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights. Holders of at least 10% of our registrable securities have the right to demand in writing that we file a registration statement to register their registrable securities and registrable securities held by others who choose to participate in the offering. This right may be exercised at any time after our initial public offering. We are not obligated to effect a demand registration if, within the six-month period preceding the date of such request, we have already effected a registration pursuant to demand registration rights or Form F-3 registration rights, or holders had an opportunity to participate

pursuant to piggyback registration rights. If the underwriters determine in good faith that marketing factors require a limitation of the number of share to be underwritten, the underwriters may reduce as required and allocate the shares to be included in the registration statement among holders, subject to certain limitations.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities, we must offer holders of our registrable securities an opportunity to include in the registration the number of registrable securities of the same class or series as those proposed to be registered. If the underwriters determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, the registrable securities shall allocate first to us, second to each of holders requesting for the inclusion of their registrable securities pursuant to the piggyback registration.

Form F-3 Registration Rights. After our initial public offering, we shall use our best efforts to qualify for registration on Form F-3. After we are qualified to use Form F-3, holders of our securities may request to us in writing to effect a registration on Form F-3. We are not obligated to effect such registration if, among other things, (i) the anticipated aggregate offering price is less than US\$1,000,000, or (ii) we have already effected three registrations in the 6-month period preceding the date of the request. We may defer filing of a registration statement on Form F-3 no more than once during any 12-months period for up to 90 days if our board of directors determines in good faith that filing such registration statement will be materially detrimental to us and our shareholders.

Expenses of Registration. We will bear all registration expenses, other than underwriting discounts and selling commissions, incurred in connection with any demand, piggyback or F-3 registration.

Termination of Obligations. The registration rights set forth above shall terminate on the earlier of (i) the fifth anniversary of our initial public offering and (ii) with respect to any holder of registrable securities, the time when all registrable securities held by such holder may be sold pursuant to Rule 144 under the Securities Act without transfer restrictions.

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—B. Compensation”

Share Incentive Plans

See “Item 6. Directors, Senior Management and Employees—B. Compensation”

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

In September 2020, we and certain of our officers and directors were named as defendants in two putative federal securities class actions captioned *In re LexinFintech Holdings, LTD Sec. Litig.*, No. 3:20-cv-01562-SI (U.S. District Court for the District of Oregon, First Amended Complaint filed on September 18, 2020) (the “Oregon Action”) and *Ernesto Vela v. LexinFintech Holdings, Ltd. et al.*, No. 1:20-cv-12606 (U.S. District Court for the District of New Jersey, Complaint filed on September 11, 2020) (the “New Jersey Action”). Both actions alleged that the defendants made misstatements and omissions regarding our business, operations and financial performance in violation of the Securities Act and the Exchange Act. On November 9, 2020, plaintiffs in the New Jersey Action voluntarily dismissed their complaint. In November 2021, the Court

granted the Company's motion to dismiss the complaint in the Oregon Action, and in December 2021, the parties filed a joint stipulation whereby Plaintiffs agreed to voluntarily dismiss their complaint. For risks and uncertainties relating to legal proceedings, please see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We have been and may be subject to intellectual property infringement claims or other legal proceedings and claims in the ordinary course of which may be expensive to defend and may disrupt our business and operations."

Dividend Policy

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 either 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 on our ordinary shares, 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 our board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. 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 10. Additional Information—E. Taxation—People's Republic of China Taxation."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying the ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to the ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See "Item 12. Description of Securities Other Than Equity Securities—American Depositary Shares." Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

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. Offer and Listing

A. Offering and Listing Details

Our ADSs, each representing two Class A ordinary shares, have been listed on The Nasdaq Global Market since December 21, 2017 and on The Nasdaq Global Select Market since March 3, 2021. The ADSs trade under the symbol "LX."

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs have been listed on Nasdaq since December 21, 2017 under the symbol "LX."

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

The following are summaries of material provisions of our sixth amended and restated memorandum and articles of association, as well as the Companies Act (As Revised) insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc. 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.

Board of Directors

See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Board of Directors.”

Ordinary Shares

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. We may not issue bearer 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 profits 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 on a poll, each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at general meetings of the Company, and each Class B ordinary share shall entitle the holder thereof to ten votes on all matters subject to vote at general meetings of the Company. 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 shareholder holding not less than 10% of the votes attaching to the total ordinary shares present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present or by proxy, holding shares which represent, in aggregate, not less than one-third of the votes attaching to the issued and outstanding ordinary shares in our company entitled to vote at general meetings. 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 or a majority of our board of directors on its own initiative or upon a request to the directors by shareholders holding shares which represent, in aggregate, not less than one-third of all votes attaching to all issued and outstanding ordinary shares in our company entitled to vote at general meetings. Advance notice of at least seven calendar 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 of Class B Ordinary Shares. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by the holder to any non-affiliates of such holder, each of such Class B ordinary share will be automatically and immediately converted into one Class A ordinary share. If at any time Mr. Jay Wenjie Xiao and his affiliates collectively hold less than five percent (5%) of our issued and outstanding shares, each Class B ordinary share will automatically be re-designated into one Class A ordinary share, and no Class B ordinary shares shall be issued by us thereafter.

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 writing and 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 Nasdaq Global Select Market may determine to be payable or such lesser sum as our board of 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 calendar months after the date on which the instrument of transfer was lodged with us, 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 Nasdaq Global Select Market, 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 always, that the registration of transfers shall not be suspended nor the register closed for more than 30 calendar 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 ordinary shares held by them at the commencement of the winding up, subject to a deduction from those ordinary 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 the whole of the share capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the ordinary shares held by them. We are an exempted company with "limited liability" incorporated 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 amended and restated 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 ordinary shares in a notice served to such shareholders at least 14 calendar 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 amended and restated 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 a 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 (i) unless it is fully paid up, (ii) if such redemption or repurchase would result in there being no shares outstanding, or (iii) 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. If at any time, our share capital is divided into different classes of shares, all or any of the special rights attached to any class of shares may be materially adversely varied with the consent in writing of the holders of all of the issued shares of that class or with the sanction of an ordinary resolution passed by a majority of the votes cast at a separate meeting of the holders of the shares of that class. 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 materially adversely varied by the creation or issue of further shares ranking pari passu with or subsequent to such existing class of shares. In addition, the rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Issuance of Additional Shares. Our amended and restated memorandum and articles of association authorizes our board of directors to issue additional Class A ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our sixth amended and restated 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 approval from our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of Class A ordinary shares.

Inspection of Books and Records. Holders of our Class A 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 (save for our memorandum and articles of association, our register of mortgages and charges and special resolutions of our shareholders). 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 sixth 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 sixth amended and restated 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 calendar 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 one or more shareholders present in person or by proxy, or, if a corporation or other non-natural person, by its duly authorized representative, representing not less than one-third of all votes attaching to all issued and outstanding ordinary 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 sixth amended and restated memorandum and articles of association allows our shareholders holding shares representing in aggregate not less than one-third of the votes attaching to the issued and outstanding ordinary 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 amended and restated memorandum and articles of association does 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 sixth amended and restated articles of association 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 ordinary resolution. A director may be removed with or without cause by ordinary 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 sixth amended and restated 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 sixth amended and restated memorandum and articles of association provide that the board may 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 whether outright, or as collateral 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 incorporated 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.

“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, together with a statement of the shares held by each member, and such statement shall confirm (i) the amount paid or agreed to be considered as paid, on the shares of each member, (ii) the number and category of shares held by each member, and (iii) whether each relevant category of shares held by a member carries voting rights under the articles of association of the company, 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. Upon the closing of our initial public offering, our company’s register of members were immediately updated to record and give effect to the issue of Class A ordinary shares by us to the Depositary (or its nominee) as the depositary. Once our register of members has been updated, the shareholders recorded in the register of members will be 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” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Foreign Currency Exchange.”

E. Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in the 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 the ADSs or ordinary shares, such as the tax consequences under United States 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 tax.

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, or 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, 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 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 LexinFintech Holdings Ltd. meets all of the conditions above. LexinFintech Holdings Ltd. 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 LexinFintech Holdings Ltd. 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 Mainland of China and Hong Kong Special Administrative Region, 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 LexinFintech Holdings Ltd. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that LexinFintech Holdings Ltd. is treated as a PRC resident enterprise.

The PRC Enterprise Income Tax Law generally imposes a uniform income tax rate of 25% on all enterprises, but grants preferential treatment to “High and New Technology Enterprises,” or HNTEs, and qualified “Software Enterprises.” HNTEs are instead subject to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria, and will be subject to the regular 25% income tax rate for any year in which it does not meet the criteria. A qualified “Software Enterprise” is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. According to the Announcement on the Enterprise Income Tax Policies for Promoting the High-quality Development of the Integrated Circuit Industry and the Software Industry, key software enterprises encouraged by the state shall be exempt from the enterprise income tax from the first to the fifth year from the year when such enterprise makes profits, and be subject to the enterprise income tax levied at the reduced rate of 10% for subsequent years. However, these enterprises shall go through record-filing with the tax authority at the time of final settlement each year and be subject to the examination of the development and reform authority and the industry and information technology authority.

Provided that our Cayman Islands holding company, LexinFintech Holdings Ltd., 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 Circular 7, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by transfer of the equity interests of an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market) without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and the indirect equity transfer will be treated as a direct transfer. 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 Circular 7, and we may be required to expend valuable resources to comply with Circular 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 Taxation

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 acquires our ADSs in our initial public offering and 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 (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations and may be changed, possibly with retroactive effect. There can be no assurance that the Internal Revenue Service (the “IRS”) or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (for example, certain financial institutions, insurance companies, broker-dealers, traders in securities that have elected the mark-to-market method of accounting for their securities, partnerships and their partners, regulated investment companies, real estate investment trusts, and tax-exempt organizations (including private foundations)), investors who are not U.S. holders, United States expatriates, investors who own (directly, indirectly, or constructively) 10% or more of our stock (by vote or value), 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, or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this discussion does not discuss any non-United States, alternative minimum tax, state, or local tax or any non-income tax (such as the United States federal gift or estate tax) considerations, or the Medicare tax on net investment income. Each U.S. holder is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in 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” (a “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 is attributable to assets that 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 our 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 exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. A certain portion of our financial services income is treated as active income solely for purposes of the PFIC determination. Any change in the composition of the loans originated on our platform may affect the composition of our income for purposes of the PFIC determination. Assuming that we are the owner of our variable interest entities (including their subsidiaries) for United States federal income tax purposes, and based upon our current income and assets, including goodwill and unbooked intangibles, we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and do not presently anticipate becoming a PFIC in the current taxable year or the foreseeable future.

While we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and do not anticipate becoming a PFIC in the foreseeable future, no assurance can be given with respect to our PFIC status for the current taxable year or any future taxable years because the determination of whether we are or will become a PFIC will depend in part upon the value of our goodwill and other unbooked intangibles (which will depend upon the market price of our ADSs from time to time, which may be volatile). In particular, recent decline in the market price of our ADSs significantly increased our risk of becoming a PFIC. Among other matters, if our market capitalization continues to decline, we may be or become a PFIC for the current or future taxable years. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being or becoming a PFIC for the current or one or more future taxable years.

The determination of whether we will be or become a PFIC will also depend, in part, on the nature and composition of our income and assets, which may be affected by how, and how quickly, we use our liquid assets. If our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or if we determine not to deploy significant amounts of cash for active purposes or if we were treated as not owning our variable interest entities for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and our PFIC status for any taxable year is a factual determination that can be made only after the close of a taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. If we are a PFIC for any year during which a U.S. holder holds our ADSs or ordinary shares, we will generally continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our ADSs or ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we will not be or become a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under “Passive Foreign Investment Company Rules.”

Dividends

Any cash distributions paid on our ADSs or ordinary shares (including the amount of any tax withheld) 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 depositary, 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, we will generally report any distribution paid as a dividend for United States federal income tax purposes. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Individuals and other non-corporate recipients of dividend income from a “qualified foreign corporation” will generally be subject to tax at a reduced United States federal income 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 will generally be considered to be a qualified foreign corporation (i) 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, or (ii) 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. Our ADSs are readily tradable on the Nasdaq Global Select Market, which is an established securities market in the United States. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. 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. However, 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 (the “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 as well as our 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 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.

Sale or Other Disposition of ADSs or Ordinary Shares

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 gains of individuals and other non-corporate U.S. holders generally are 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 Treaty may elect to treat the gain as PRC source income. Pursuant to recently issued 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 the ADSs or ordinary shares. U.S. holders are advised to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit or deduction under their particular circumstances, its eligibility for benefits under the Treaty and the potential impact of the recently issued Treasury Regulations.

Passive Foreign Investment Company Rules

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.

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 our ADSs, provided that the ADSs are regularly traded on a qualified exchange or other market, as defined in applicable United States Treasury regulations. Our ADSs, but not our ordinary shares, are listed on the Nasdaq Global Select Market, which is qualified securities exchange for this purpose. We anticipate that our ADSs would qualify as being regularly traded, but no assurances may be given in this regard. Because a mark-to-market election cannot 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 U.S. holder makes a mark-to-market election 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. Further, 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 it is intended that only the ADSs and not the ordinary shares will be listed on the Nasdaq Global Select Market. Consequently, if a U.S. holder holds ordinary shares that are not represented by ADSs, such holder will generally 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 or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC. 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.

We will furnish the Bank of New York Mellon, the depository of the 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.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at <http://ir.lexin.com>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

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 users to seek lower-priced loans from other channels. A high interest rate environment may lead to an increase in competing investment options and dampen investors' 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 and Industry—Fluctuations in interest rates could negatively affect our business."

Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your 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 RMB into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, RMB has fluctuated against the U.S. dollar, at certain times significantly and unpredictably. With the development of the foreign exchange market progressing towards interest rate liberalization and Renminbi internationalization and economic uncertainties in both China and the world, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

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

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

The Bank of New York Mellon, as depositary, will register and deliver American Depositary shares, also referred to as ADSs. Each ADS will represent two Class A ordinary shares (or a right to receive two Class A ordinary shares) deposited with The Hong Kong and Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The deposited Class A ordinary shares together with any other securities, cash or other property held by the depositary are referred to as the

deposited securities. The depositary's principal executive office is located at 240 Greenwich Street, New York, New York 10286.

Persons depositing or withdrawing Class A ordinary shares or ADS holders must pay:	For:
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of Class A ordinary shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$0.05 (or less) per ADS	Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been Class A ordinary shares and the Class A ordinary shares holders had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS
\$0.05 (or less) per ADS per calendar year	Depository services
Registration or transfer fees	Transfer and registration of Class A ordinary shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw Class A ordinary shares
Expenses of the depositary	Cable and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or Class A ordinary shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. For 2021, we expected to receive approximately US\$1.8 million (after tax) reimbursement from the depositary for our expenses incurred in connection with investor relationship programs related to the ADS facility.

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

Evaluation of 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 13 a-1 5 (e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13 a-1 5 (b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2021, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish 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 file or submit under the Exchange Act is 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 13 a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP, and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) 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. Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021, as required by Rule 13 a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting 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 and procedures may deteriorate.

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, 2021 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. Wei Wu, an independent director (under the standards set forth in Nasdaq Stock Market Rule 5605(c)(2) and Rule 10 A-3 under the Exchange Act) and chairman 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, employees and advisors in October 2017. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.lexin.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 auditor, and other firms in the PwC Network for the periods indicated.

	For the year ended December 31,	
	2020	2021
Audit fees ⁽¹⁾	US \$ 2,697,318	US \$ 2,630,602
Tax fees ⁽²⁾	US \$ 67,824	US \$ 85,828
Other service fees ⁽³⁾	US \$ 63,383	US \$ 308,285

- (1) "Audit fees" means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditor for the audit or review of our annual financial statements or quarterly financial information and review of documents filed with the SEC. In 2020 and 2021, the audit refers to financial statement audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.
- (2) "Tax fees" means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditor for tax compliance, tax advice, and tax planning.
- (3) "Other service fees" means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditor and other firms in the PwC Network, such as due diligence service.

The policy of our audit committee or our board of directors 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.

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 March 16, 2022, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$50 million of our ADSs or ordinary shares over the twelve-month period through March 16, 2023. The share repurchase program was publicly announced on March 16, 2022.

As of March 31, 2022, we had repurchased a total of approximately 1.4 million ADSs under this share repurchase program. The table below is a summary of the shares repurchased by us from March 16, 2022 to March 31, 2022. All shares were repurchased in the open market pursuant to the share repurchase program announced on March 16, 2022.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS (US\$)	Total Number of ADSs Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of ADSs that May Yet be Purchased Under the Plan
March 16 to March 31, 2022	1,398,881	2.8594	1,398,881	46,000,004

Item 16F. Change in Registrant’s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a Cayman Islands exempted company listed on Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. See “Item 3. Key Information—D. Risk Factors—Risks Related to the American Depositary Shares—We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.”

Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholders meetings every year. We followed and intend to continue to follow our home country practice in lieu of the requirement to hold an annual meeting of shareholders no later than one year after the end of a fiscal year under Nasdaq Rule 5620(a).

In addition, as a “controlled company” as defined under the Nasdaq Stock Market Rules, we are permitted to elect to rely, and are currently relying, on certain exemptions from corporate governance rules. Currently, the majority of our board of directors are not independent directors. As a result, you do not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.”

Item 16H. Mine Safety Disclosure

Not applicable.

Item 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

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 LexinFintech Holdings Ltd., its subsidiaries and its consolidated affiliated entities are included at the end of this annual report.

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<u>Sixth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
2.1	<u>Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
2.2	<u>Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
2.3	<u>Deposit Agreement dated December 20, 2017 among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 of our registration statement on Form S-8 (file no. 333-225322) filed with the Securities and Exchange Commission on May 31, 2018)</u>
2.4	<u>Fourth Amended and Restated Shareholders Agreement dated October 21, 2017 between the Registrant and other parties thereto (incorporated by reference to Exhibit 4.4 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
2.5	<u>Description of American Depositary Shares of the Registrant (incorporated by reference to Exhibit 2.5 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020)</u>
4.1	<u>The 2017 Share Incentive Plan of the Registrant (incorporated by reference to Exhibit 10.2 of our Registration Statement on Form F-1 (file no. 333-221509) filed with the Securities and Exchange Commission on November 13, 2017)</u>
4.3	<u>Indemnification Agreement between the Registrant and its directors and executive officers (incorporated by reference to Exhibit 10.4 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
4.4	<u>Employment Agreement between the Registrant and its executive officers (incorporated by reference to Exhibit 10.3 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
4.5	<u>English translation of Exclusive Business Cooperation Agreement between Beijing Shijitong Technology Co., Ltd. and Shenzhen Fenqile Network Technology Co., Ltd. dated November 4, 2014 (incorporated by reference to Exhibit 10.5 of our registration statement on Form F-1 (file no. 333-221509), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017)</u>
4.6	<u>English translation of Exclusive Option Agreement among Beijing Shijitong Technology Co., Ltd. Shenzhen Fenqile Network Technology Co., Ltd. and shareholders of Shenzhen Fenqile Network Technology Co. Ltd. dated April 10, 2020 (incorporated by reference to Exhibit 4.6 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020)</u>

- 4.7 [English translation of Equity Pledge Agreement among Beijing Shijitong Technology Co., Ltd., Shenzhen Fenqile Network Technology Co., Ltd. and shareholders of Shenzhen Fenqile Network Technology Co., Ltd. dated April 10, 2020 \(incorporated by reference to Exhibit 4.7 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.8 [English translation of the Power of Attorney Agreement between Beijing Shijitong Technology Co., Ltd. and the shareholders of Shenzhen Fenqile Network Technology Co., Ltd. dated April 10, 2020 \(incorporated by reference to Exhibit 4.8 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.9 [English translation of Loan Agreement among Beijing Shijitong Technology Co., Ltd. and shareholders of Shenzhen Fenqile Network Technology Co., Ltd. dated May 29, 2018 \(incorporated by reference to Exhibit 4.9 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2019\)](#)
- 4.10 [English translation of Exclusive Business Cooperation Agreement between Beijing Shijitong Technology Co., Ltd. and Beijing Lejiixin Network Technology Co., Ltd. dated July 18, 2014 \(incorporated by reference to Exhibit 10.9 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.11 [English translation of Exclusive Option Agreement among Beijing Shijitong Technology Co., Ltd., Beijing Lejiixin Network Technology Co., Ltd. and shareholders of Beijing Lejiixin Network Technology Co., Ltd. dated April 10, 2020 \(incorporated by reference to Exhibit 4.11 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.12 [English translation of Equity Pledge Agreement among Beijing Shijitong Technology Co., Ltd. Beijing Lejiixin Network Technology Co., Ltd. and shareholders of Beijing Lejiixin Network Technology Co., Ltd. dated April 10, 2020 \(incorporated by reference to Exhibit 4.12 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.13 [English translation of the Power of Attorney Agreement between Beijing Shijitong Technology Co., Ltd. and the shareholders of Beijing Lejiixin Network Technology Co., Ltd. dated April 10, 2020 \(incorporated by reference to Exhibit 4.13 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.14 [English translation of Loan Agreement among Beijing Shijitong Technology Co., Ltd. and shareholders of Beijing Lejiixin Network Technology Co., Ltd. dated April 10, 2020 \(incorporated by reference to Exhibit 4.14 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.15 [English translation of Exclusive Business Cooperation Agreement between Beijing Shijitong Technology Co., Ltd. and Shenzhen Xinjie Investment Co., Ltd. dated December 22, 2015 \(incorporated by reference to Exhibit 10.13 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.16 [English translation of Exclusive Option Agreement among Beijing Shijitong Technology Co., Ltd. Shenzhen Xinjie Investment Co., Ltd. and shareholders of Shenzhen Xinjie Investment Co., Ltd. dated March 10, 2017 \(incorporated by reference to Exhibit 10.14 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.17 [English translation of Equity Pledge Agreement among Beijing Shijitong Technology Co., Ltd. Shenzhen Xinjie Investment Co., Ltd. and shareholders of Shenzhen Xinjie Investment Co., Ltd. dated June 1, 2018 \(incorporated by reference to Exhibit 4.17 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2019\)](#)
- 4.18 [English translation of Power of Attorney by the shareholders of Shenzhen Xinjie Investment Co., Ltd. dated June 1, 2018 \(incorporated by reference to Exhibit 4.18 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2019\)](#)
- 4.19 [English translation of Loan Agreements among Beijing Shijitong Technology Co., Ltd. and shareholders of Shenzhen Xinjie Investment Co., Ltd. dated May 10, 2017 and June 1, 2018 \(incorporated by reference to Exhibit 4.19 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2019\)](#)

- 4.20 [English translation of Exclusive Business Cooperation Agreement between Beijing Shijitong Technology Co., Ltd. and Shenzhen Qianhai Dingsheng Asset Management Co., Ltd. dated January 13, 2016 \(incorporated by reference to Exhibit 10.18 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.21 [English translation of Exclusive Option Agreement among Beijing Shijitong Technology Co., Ltd., Shenzhen Qianhai Dingsheng Asset Management Co., Ltd. and shareholders of Shenzhen Qianhai Dingsheng Asset Management Co., Ltd. dated March 9, 2017 \(incorporated by reference to Exhibit 10.19 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.22 [English translation of Equity Pledge Agreement among Beijing Shijitong Technology Co., Ltd., Shenzhen Qianhai Dingsheng Asset Management Co., Ltd. and shareholders of Shenzhen Qianhai Dingsheng Asset Management Co., Ltd. dated March 9, 2017, and its Supplementary Agreement dated April 13, 2017 \(incorporated by reference to Exhibit 10.20 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.23 [English translation of Power of Attorney by the shareholders of Shenzhen Qianhai Dingsheng Asset Management Co., Ltd. dated March 9, 2017 \(incorporated by reference to Exhibit 10.21 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.24 [English translation of Loan Agreement among Beijing Shijitong Technology Co., Ltd. and shareholders of Qianhai Dingsheng Asset Management Co., Ltd. dated April 13, 2017 \(incorporated by reference to Exhibit 10.22 of our registration statement on Form F-1 \(file no. 333-221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.25 [English translation of Exclusive Business Cooperation Agreement between Shenzhen Lexin Software Technology Co., Ltd. and Shenzhen Mengtian Technology Co., Ltd. dated August 27, 2018 \(incorporated by reference to Exhibit 4.25 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2019\)](#)
- 4.26 [English translation of Exclusive Option Agreement among Shenzhen Lexin Software Technology Co., Ltd., Shenzhen Mengtian Technology Co., Ltd. and shareholders of Shenzhen Mengtian Technology Co., Ltd. dated April 15, 2020 \(incorporated by reference to Exhibit 4.26 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.27 [English translation of Equity Pledge Agreement among Shenzhen Lexin Software Technology Co., Ltd., Shenzhen Mengtian Technology Co., Ltd. and shareholders of Shenzhen Mengtian Technology Co., Ltd. dated April 15, 2020 \(incorporated by reference to Exhibit 4.27 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.28 [English translation of Power of Attorney Agreement between Shenzhen Lexin Software Technology Co. Ltd. and the shareholders of Shenzhen Mengtian Technology Co., Ltd. dated January 25, 2019 and April 15, 2020 \(incorporated by reference to Exhibit 4.28 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.29 [English translation of Loan Agreement among Shenzhen Lexin Software Technology Co., Ltd. and shareholders of Shenzhen Mengtian Technology Co., Ltd. dated April 15, 2020 \(incorporated by reference to Exhibit 4.29 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)
- 4.30 [English translation of Agreement of Long-Term Sales of Goods between Shenzhen Fenqile Trading Co., Ltd. and Guangzhou Jingdong Trading Co., Ltd. dated May 1 2017 \(incorporated by reference to Exhibit 10.23 of our registration statement on Form F-1 \(file no. 333221509\), as amended, initially filed with the Securities and Exchange Commission on November 13, 2017\)](#)
- 4.31 [Convertible Note Purchase Agreement between the Registrant and PAGAC Lemongrass Holding I Ltd. dated September 11, 2019 \(incorporated by reference to Exhibit 4.31 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\) \(incorporated by reference to Exhibit 4.31 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020\)](#)

4.32	<u>Registration Rights Agreement between the Registrant and PAGAC Lemongrass Holding I Ltd. dated September 16, 2019 (incorporated by reference to Exhibit 4.32 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020)</u>
4.33	<u>English translation of Headquarter Project Development Supervision Agreement between Shenzhen Fenqile Network Technology Co., Ltd. and Shenzhen Nanshan People's Government dated February 25, 2020 (incorporated by reference to Exhibit 4.33 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020)</u>
4.34	<u>English summary of Nanshan Land Usage Rights Purchase Agreement between Shenzhen Fenqile Network Technology Co., Ltd. and the Planning and Natural Resources Administration of Shenzhen dated February 26, 2020 (incorporated by reference to Exhibit 4.34 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2020)</u>
4.35	<u>English translation of Exclusive Business Cooperation Agreement between Beihai Green Lemon Technology Co., Ltd. and Beihai Super Egg E-Commerce Co., Ltd. dated June 26, 2018 (incorporated by reference to Exhibit 4.35 to the annual report on Form 20-F filed with the Securities and Exchange Commission on April 29, 2021)</u>
4.36*	<u>English translation of Exclusive Option Agreement among Beihai Green Lemon Technology Co., Ltd., Beihai Super Egg E-Commerce Co., Ltd. and shareholders of Beihai Super Egg E-Commerce Co., Ltd. dated November 4, 2021</u>
4.37*	<u>English translation of Equity Pledge Agreement among Beihai Green Lemon Technology Co., Ltd., Beihai Super Egg E-Commerce Co., Ltd. and shareholders of Beihai Super Egg E-Commerce Co., Ltd. dated November 4, 2021</u>
4.38*	<u>English translation of Power of Attorney Agreement between Beihai Green Lemon Technology Co., Ltd. and shareholders of Beihai Super Egg E-Commerce Co., Ltd. dated November 4, 2021</u>
4.39*	<u>English translation of Loan Agreement among Beihai Green Lemon Technology Co., Ltd. and shareholders of Beihai Super Egg E-Commerce Co., Ltd. dated November 4, 2021</u>
8.1*	<u>List of Principal Subsidiaries and Consolidated Affiliated Entities</u>
11.1	<u>Code of Business Conduct and Ethics(incorporated by reference to Exhibit 99.1 of our Registration Statement on Form F-1 (file no. 333221509) filed with the Securities and Exchange Commission on November 13, 2017)</u>
12.1*	<u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm</u>
15.2*	<u>Consent of Shihui Partners</u>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith
** Furnished herewith

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.

LEXINFINTECH HOLDINGS LTD.

By: /s/ Jay Wenjie Xiao

Name: Jay Wenjie Xiao

Title: Chief Executive Officer and
Chairman of the Board

Date: April 29, 2022

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of LexinFintech Holdings Ltd.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of LexinFintech Holdings Ltd. and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 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, 2021, 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 instruments 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.

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 for loan facilitation and servicing fees

As described in Note 2(m) to the consolidated financial statements, revenues from loan facilitation and servicing fees were RMB7,018 million for the year ended December 31, 2021. The Company has assessed and concluded that loan facilitation and matching services and post-origination services are distinct and separate performance obligations. A financial guarantee is recorded at fair value at inception of each loan. The remaining consideration is allocated to each of the performance obligations based on relative standalone selling price. Revenues from loan facilitation and matching services are recognized at point-in-time upon the successful matching of the loans, and revenues from post-origination services are recognized ratably over the terms of the loans. Revenue from loan facilitation and servicing fees-performance based is recognized at predetermined revenue sharing rates based on the repayment collected from the borrowers by funding partners. Such revenue sharing rates are determined based on the performance of the underlying off-balance sheet loans.

The principal considerations for our determination that performing procedures relating to revenue recognition for loan facilitation and servicing fees is a critical audit matter are the significant judgment by management in the allocation of transaction prices and determination of variable considerations. This in turn led to a high degree of auditor judgment, subjectivity and audit effort in performing procedures and evaluating audit evidence relating to management's determination of the fair value of the financial guarantee, the relative standalone selling prices of the loan facilitation and matching services and post-origination services, as well as the estimated variable considerations. The audit effort involved the use of 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 the revenue recognition process, including controls relating to the determination of the fair value of the financial guarantee, the relative standalone selling prices, and the estimated variable considerations. These procedures also included, among others, testing management's process for developing the fair value of the financial guarantee, including testing the appropriateness and mathematical accuracy of the fair value calculation; testing the completeness, accuracy, and relevance of data used in the calculation; and evaluating the reasonableness of significant assumptions used by management related to the expected loss rates at loan inception and the expected margins on cost of guarantee services. These procedures also included testing management's process for developing the estimated standalone selling prices and determining variable considerations, and evaluating the reasonableness of significant assumptions used by management related to the estimated cost of providing the services and the estimated margins, as well as the expected loss rates of the underlying off-balance sheet loans. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's model and significant assumptions to determine the fair value of the financial guarantee at loan inception and the variable consideration of expected loss rates for underlying off-balance sheet loans.

Expected credit losses on financial assets and contingent guarantee liabilities

As described in Notes 2(g), 2(j), 3 and 4 to the consolidated financial statements, the Company has financial assets and financial guarantees provided for off-balance sheet loans that are subject to credit losses. The current expected credit losses (“CECL”) methodology also applies to the off-balance sheet credit exposures of financial guarantees not accounted for as derivatives. As of December 31, 2021, allowance for credit losses related to financing receivables, contract assets and service fees receivable, and guarantee receivables were RMB327 million, RMB222 million and RMB25 million, respectively; the contingent guarantee liabilities provided for off-balance sheet loans were RMB929 million. The lifetime expected credit losses on these financial assets and contingent guarantee liabilities are determined using a pooled basis within respective credit risk classification levels of the underlying customers, taking into consideration the historical credit loss experience, the current credit quality of the portfolio and application of macroeconomic forecasts.

The principal considerations for our determination that performing procedures relating to expected credit losses on financial assets and contingent guarantee liabilities is a critical audit matter are the significant judgment by management in the determination of the expected loss rates on the financial assets and contingent guarantee liabilities. This in turn led to a high degree of auditor judgment, subjectivity and audit effort in performing procedures and evaluating audit evidence relating to management’s determination of expected credit losses. The audit effort involved the use of 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 the determination of expected credit losses. These procedures also included, among others, testing management’s process for estimating the expected credit losses, including evaluating the appropriateness of the models and methodology, testing the completeness and accuracy of data used in the models, including historical data and current data at the measurement date of the respective financial assets and contingent guarantee liabilities in estimating the expected loss rates at the date of the consolidated financial statements, and evaluating the reasonableness of significant assumptions used by management. Evaluating management’s assumptions related to the expected loss rates involved evaluating whether the assumptions used by management were reasonable considering (i) the historical default rates with the appropriateness of historical period selection, historical lifetime recovery information and other relevant data; and (ii) application of macroeconomic forecasts with the consideration of changes in future economics and market environment. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of management’s methodology and significant assumptions to determine the expected loss rates.

Fair value measurement of financial guarantee derivatives

As described in Note 2(l), 9 and 12 to the consolidated financial statements, guarantee derivative liabilities provided for off-balance sheet loans were RMB1,474 million as of December 31, 2021. Financial guarantee derivatives are recorded at fair value at the inception of the off-balance sheet loans and are subsequently remeasured at fair value on an ongoing basis. The estimated fair value of the financial guarantee derivatives is determined by the Company based on a discounted cash flow model, with reference to the estimates of expected loss rates and margins on cost of guarantee services.

The principal considerations for our determination that performing procedures relating to fair value measurement of financial guarantee derivatives is a critical audit matter are the significant judgment by management in the determination of the fair value of financial guarantee derivatives as of the date of the consolidated financial statements. This in turn led to a high degree of auditor judgment, subjectivity and audit effort in performing procedures and evaluating audit evidence relating to management’s determination of the fair value of the financial guarantee derivatives, including estimates of the expected loss rates and margins on cost of guarantee services as of the date of the consolidated financial statements. The audit effort involved the use of 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 the determination of fair value of financial guarantee derivatives. These procedures also included, among others, testing management’s process for estimating the fair value of the financial guarantee derivatives, including evaluating the appropriateness of the models and methodology, testing the completeness and accuracy of data used in the models, including historical data and current data in estimating the expected loss rates at the date of the consolidated financial statements, and evaluating the reasonableness of significant assumptions used by management related to the expected loss rates and margins on cost of guarantee services. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of management’s methodology and significant assumptions to determine the expected loss rates.

/s/PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
April 29, 2022

We have served as the Company's auditor since 2016.

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share data)

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$ Note 2(e)
ASSETS			
Current assets			
Cash and cash equivalents	1,563,755	2,664,132	418,060
Restricted cash	1,112,152	1,305,435	204,851
Restricted time deposits	1,779,458	1,745,898	273,969
Short-term financing receivables, net of allowance for credit losses of RMB508,013 and RMB307,341 as of December 31, 2020 and December 31, 2021, respectively	4,918,548	3,772,975	592,062
Loans at fair value	381,393	252,970	39,697
Accrued interest receivable, net of allowance for credit losses of RMB1,681 and RMB1,367 as of December 31, 2020 and December 31, 2021, respectively	79,793	53,513	8,397
Prepaid expenses and other current assets	1,004,845	941,150	147,687
Amounts due from related parties	941	6,337	994
Deposits to insurance companies and guarantee companies	1,066,281	1,378,489	216,315
Short-term guarantee receivables, net of allowance for credit losses of RMB58,771 and RMB21,006 as of December 31, 2020 and December 31, 2021, respectively	756,197	543,949	85,357
Short-term contract assets and service fees receivable, net of allowance for credit losses of RMB65,607 and RMB187,261 as of December 31, 2020 and December 31, 2021, respectively	3,707,649	3,942,700	618,696
Inventories, net	47,170	47,816	7,503
Total current assets	16,418,182	16,655,364	2,613,588
Non-current assets			
Restricted cash	163,999	149,247	23,420
Long-term financing receivables, net of allowance for credit losses of RMB21,149 and RMB19,523 as of December 31, 2020 and December 31, 2021 respectively	204,761	241,127	37,838
Long-term guarantee receivables, net of allowance for credit losses of RMB16,994 and RMB4,061 as of December 31, 2020 and December 31, 2021, respectively	218,654	101,562	15,937
Long-term contract assets and service fees receivable, net of allowance for credit losses of RMB18,970 and RMB34,973 as of December 31, 2020 and December 31, 2021, respectively	481,989	244,672	38,394
Property, equipment and software, net	125,694	195,330	30,652
Land use rights, net	1,000,467	966,067	151,597
Long-term investments	521,802	469,064	73,606
Deferred tax assets	747,332	1,176,878	184,678
Other assets	462,285	826,883	129,756
Total non-current assets	3,926,983	4,370,830	685,878
TOTAL ASSETS	20,345,165	21,026,194	3,299,466
LIABILITIES			
Current liabilities			
Accounts payable (including amounts of the consolidated VIEs of RMB42,961 and RMB15,705 as of December 31, 2020 and December 31, 2021, respectively)	42,961	15,705	2,464
Amounts due to related parties (including amounts of the consolidated VIEs of RMB67,514 and RMB23,102 as of December 31, 2020 and December 31, 2021, respectively)	67,514	23,102	3,625
Short-term borrowings (including amounts of the consolidated VIEs of RMB1,751,633 and RMB1,735,931 as of December 31, 2020 and December 31, 2021, respectively)	1,827,063	1,799,741	282,419
Short-term funding debts (including amounts of the consolidated VIEs of RMB4,685,935 and RMB3,101,381 as of December 31, 2020 and December 31, 2021, respectively)	4,685,935	3,101,381	486,674
Accrued interest payable (including amounts of the consolidated VIEs of RMB26,972 and RMB15,900 as of December 31, 2020 and December 31, 2021, respectively)	36,484	24,851	3,900
Deferred guarantee income (including amounts of the consolidated VIEs of RMB694,582 and RMB419,843 as of December 31, 2020 and December 31, 2021, respectively)	694,582	419,843	65,883
Contingent guarantee liabilities (including amounts of the consolidated VIEs of RMB1,738,787 and RMB928,840 as of December 31, 2020 and December 31, 2021, respectively)	1,738,787	928,840	145,755
Accrued expenses and other current liabilities (including amounts of the consolidated VIEs of RMB2,509,671 and RMB3,393,092 as of December 31, 2020 and December 31, 2021, respectively)	2,926,347	3,873,657	607,861
Total current liabilities	12,019,673	10,187,120	1,598,581

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS (Continued)
(In thousands, except for share and per share data)

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$ Note 2(e)
Non-current Liabilities			
Long-term funding debts (including amounts of the consolidated VIEs of RMB825,814 and RMB696,852 as of December 31, 2020 and December 31, 2021, respectively)	825,814	696,852	109,351
Deferred tax liabilities (including amounts of the consolidated VIEs of RMB21,046 and RMB53,630 as of December 31, 2020 and December 31, 2021, respectively)	21,046	54,335	8,526
Convertible notes	1,920,227	1,882,689	295,435
Other long-term liabilities (including amounts of the consolidated VIEs of RMB23,218 and RMB92,256 as of December 31, 2020 and December 31, 2021, respectively)	27,667	137,389	21,559
Total non-current liabilities	2,794,754	2,771,265	434,871
TOTAL LIABILITIES	14,814,427	12,958,385	2,033,452
Commitments and contingencies (Note 21)			
SHAREHOLDERS' EQUITY:			
Class A Ordinary Shares (\$0.0001 par value per share; 1,889,352,801 shares authorized, 268,935,832 shares issued, 267,356,928 shares outstanding as of December 31, 2020; 1,889,352,801 shares authorized, 286,430,946 shares issued, 273,270,100 shares outstanding as of December 31, 2021)	176	180	28
Class B Ordinary Shares (\$0.0001 par value per share; 110,647,199 shares authorized, 96,727,057 shares issued and outstanding as of December 31, 2020; 110,647,199 shares authorized, 94,465,693 shares issued and outstanding as of December 31, 2021)	58	57	9
Additional paid-in capital	2,724,006	2,918,993	458,054
Statutory reserves	649,234	901,322	141,437
Accumulated other comprehensive income	3,308	11,273	1,769
Retained earnings	2,113,956	4,195,791	658,411
Total equity attributable to owners of the company	5,490,738	8,027,616	1,259,708
Non-controlling interests	40,000	40,193	6,306
TOTAL SHAREHOLDERS' EQUITY	5,530,738	8,067,809	1,266,014
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	20,345,165	21,026,194	3,299,466

The accompanying notes are an integral part of these consolidated financial statements.

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for share and per share data)

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
				Note 2(e)
Operating revenue:				
Online direct sales	3,623,991	1,900,835	1,661,156	260,672
Membership services	112,558	113,107	107,901	16,932
Other services (including commission fee from a related party of nil, RMB2,087 and RMB7,731 for the years ended December 31, 2019, 2020 and 2021, respectively)	92,292	68,890	86,304	13,543
Online direct sales and services income	3,828,841	2,082,832	1,855,361	291,147
Loan facilitation and servicing fees-credit oriented	4,811,868	3,786,996	4,448,344	698,042
Interest and financial services income and other revenues	1,146,824	1,418,892	1,732,922	271,933
Guarantee income	—	2,319,693	774,544	121,543
Credit-oriented services income	5,958,692	7,525,581	6,955,810	1,091,518
Loan facilitation and servicing fees-performance based	648,516	1,930,835	2,289,452	359,265
Loan facilitation and servicing fees-volume based	167,458	106,007	279,902	43,923
Platform-based services income	815,974	2,036,842	2,569,354	403,188
Total operating revenue	10,603,507	11,645,255	11,380,525	1,785,853
Operating cost:				
Cost of sales (including cost of goods purchased from a related party of RMB827,809, nil and nil for the years ended December 31, 2019, 2020 and 2021, respectively)	(3,624,301)	(1,907,508)	(1,759,956)	(276,176)
Funding cost	(508,829)	(589,837)	(457,615)	(71,810)
Processing and servicing cost (including collection service fee from related parties of RMB9,291, RMB28,645 and RMB20,493 for the years ended December 31, 2019, 2020 and 2021, respectively)	(642,126)	(1,413,212)	(1,858,901)	(291,702)
Provision for credit losses of financing and interest receivables	(708,684)	(779,235)	(401,104)	(62,942)
Provision for credit losses of contract assets and receivables	(125,471)	(441,805)	(531,237)	(83,363)
Provision for credit losses of contingent liabilities of guarantee	—	(2,880,590)	(622,438)	(97,674)
Total operating cost	(5,609,411)	(8,012,187)	(5,631,251)	(883,667)
Gross profit	4,994,096	3,633,068	5,749,274	902,186
Operating expenses:				
Sales and marketing expenses	(1,538,698)	(1,274,402)	(1,658,904)	(260,318)
Research and development expenses	(415,995)	(474,265)	(549,286)	(86,195)
General and administrative expenses	(412,117)	(451,284)	(470,661)	(73,857)
Total operating expenses	(2,366,810)	(2,199,951)	(2,678,851)	(420,370)
Change in fair value of financial guarantee derivatives, net	(212,256)	(707,442)	(458,846)	(72,003)
Change in fair value of loans at fair value	—	(47,282)	111,762	17,538
Gain on guarantee liabilities, net	196,063	—	—	—
Interest expense, net	(39,215)	(77,542)	(63,125)	(9,906)
Investment-related impairment	—	(69,156)	—	—
Investment income/(loss)	52,211	7,885	(4,160)	(653)
Others, net	82,422	146,029	113,480	17,807
Income before income tax expense	2,706,511	685,609	2,769,534	434,599
Income tax expense	(411,959)	(90,629)	(435,418)	(68,327)
Net income	2,294,552	594,980	2,334,116	366,272
Less: Net income attributable to non-controlling interests	—	—	193	30
Net income attributable to ordinary shareholders	2,294,552	594,980	2,333,923	366,242
Net income per ordinary share				
Basic	6.45	1.63	6.33	0.99
Diluted	6.14	1.56	5.73	0.90
Net income per ADS				
Basic	12.90	3.26	12.67	1.99
Diluted	12.29	3.13	11.46	1.80
Weighted average number of ordinary shares outstanding				
Basic	355,625,970	364,733,164	368,460,867	368,460,867
Diluted	375,831,131	411,229,810	414,992,716	414,992,716
Share-based compensation expenses included in:				
Processing and servicing cost	10,472	11,391	9,968	1,564
Sales and marketing expenses	28,611	32,486	30,508	4,787
Research and development expenses	42,977	46,116	39,413	6,185
General and administrative expenses	95,202	108,832	107,995	16,947

The accompanying notes are an integral part of these consolidated financial statements.

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except for share and per share data)

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
				Note 2(e)
Net income	2,294,552	594,980	2,334,116	366,272
Other comprehensive income				
Foreign currency translation adjustments, net of tax	7,020	10,596	7,965	1,250
Total comprehensive income	2,301,572	605,576	2,342,081	367,522
Less: net income attributable to non-controlling interests	—	—	193	30
Total comprehensive income attributable to ordinary shareholders	2,301,572	605,576	2,341,888	367,492

The accompanying notes are an integral part of these consolidated financial statements.

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except for share and per share data)

	Class A Ordinary Shares		Class B Ordinary Shares		Additional Paid-in Capital	Statutory Reserves	Accumulated Other Comprehensive (loss)/income	Retained Earnings	Non-controlling interests	Total Shareholders' Equity
	Shares	Amount	Shares	Amount						
Balances at December 31, 2018	243,090,108	160	108,147,199	66	2,328,716	200,262	(14,308)	1,591,896	—	4,106,792
Net income	—	—	—	—	—	—	—	2,294,552	—	2,294,552
Share-based compensation expenses	—	—	—	—	177,262	—	—	—	—	177,262
Exercise of share-based awards	8,180,022	5	—	—	13,908	—	—	—	—	13,913
Redesignation of Class B Ordinary Shares into Class A Ordinary Shares	7,420,142	5	(7,420,142)	(5)	—	—	—	—	—	—
Appropriation to statutory reserves	—	—	—	—	—	152,051	—	(152,051)	—	—
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	7,020	—	—	7,020
Balances at December 31, 2019	258,690,272	170	100,727,057	61	2,519,886	352,313	(7,288)	3,734,397	—	6,599,539
Cumulative effect of changes in accounting policies	—	—	—	—	—	—	—	(1,918,500)	—	(1,918,500)
Net income	—	—	—	—	—	—	—	594,980	—	594,980
Share-based compensation expenses	—	—	—	—	198,825	—	—	—	—	198,825
Exercise of share-based awards	4,666,656	3	—	—	5,295	—	—	—	—	5,298
Redesignation of Class B Ordinary Shares into Class A Ordinary Shares	4,000,000	3	(4,000,000)	(3)	—	—	—	—	—	—
Appropriation to statutory reserves	—	—	—	—	—	296,921	—	(296,921)	—	—
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	10,596	—	—	10,596
Establishment of a partially held subsidiary	—	—	—	—	—	—	—	—	40,000	40,000
Balances at December 31, 2020	267,356,928	176	96,727,057	58	2,724,006	649,234	3,308	2,113,956	40,000	5,530,738
Net income	—	—	—	—	—	—	—	2,333,923	193	2,334,116
Share-based compensation expenses	—	—	—	—	187,884	—	—	—	—	187,884
Exercise of share-based awards	3,651,808	3	—	—	7,103	—	—	—	—	7,106
Redesignation of Class B Ordinary Shares into Class A Ordinary Shares	2,261,364	1	(2,261,364)	(1)	—	—	—	—	—	—
Appropriation to statutory reserves	—	—	—	—	—	252,088	—	(252,088)	—	—
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	7,965	—	—	7,965
Balances at December 31, 2021	273,270,100	180	94,465,693	57	2,918,993	901,322	11,273	4,195,791	40,193	8,067,809

The accompanying notes are an integral part of these consolidated financial statements.

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$ Note 2(e)
Cash flows from operating activities:				
Net income	2,294,552	594,980	2,334,116	366,272
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of debt issuance costs and discounts	2,039	6,911	6,446	1,012
Share-based compensation expenses	177,262	198,825	187,884	29,483
Amortization of the right-of-use assets	47,895	53,860	54,552	8,560
Depreciation and amortization	39,945	53,433	90,751	14,241
Provision for credit losses of financing and interest receivables	708,684	779,235	401,104	62,942
Provision for credit losses of contract assets and receivables	125,471	441,805	531,237	83,363
Provision for credit losses of contingent liabilities of guarantee	—	2,880,590	622,438	97,674
Change in inventory provision	(1,007)	(394)	46	7
Net change in fair value of financial guarantee derivatives	212,256	707,442	458,846	72,003
Net change in fair value of loans at fair value	—	47,282	(111,762)	(17,538)
Net gain on guarantee liabilities	(196,063)	—	—	—
Deferred income tax	59,923	(503,520)	(396,257)	(62,181)
Investment-related impairment	—	69,156	—	—
(Gain)/loss on disposal of long-term investments	(6,128)	(8,553)	1,984	311
Fair value changes of long-term investments	(51,263)	(19,071)	—	—
Share of results of equity investees	5,180	9,032	3,967	623
Fair value changes of other assets	—	10,707	(1,791)	(281)
Foreign exchange gain	(23,367)	(85,245)	(12,666)	(1,988)
Gain on disposal of loans at fair value and financing receivables	—	—	(2,532)	(397)
Changes in operating assets and liabilities:				
Financing receivables related to online direct sales	36,076	287,660	178,957	28,082
Accrued interest receivable	28,659	(27,190)	26,594	4,173
Prepaid expenses and other current assets	(730,038)	272,813	74,320	11,662
Deposits to insurance companies and guarantee companies	(1,251,003)	184,722	(312,208)	(48,992)
Amounts due from related parties	—	(941)	(5,396)	(847)
Guarantee receivables	(981,449)	274,799	292,760	45,940
Contract assets and service fees receivable	(2,342,245)	(1,025,303)	(473,324)	(74,275)
Other long-term liabilities	(34,394)	(177)	109,722	17,218
Inventories	(48,578)	60,005	(692)	(109)
Other assets	(297,900)	(74,898)	(140,492)	(22,046)
Accounts payable	65,989	(158,876)	(27,256)	(4,277)
Amounts due to related parties	1,354	(3,333)	1,408	221
Accrued interest payable	(95,192)	(50,189)	(11,581)	(1,817)
Guarantee liabilities	1,493,860	—	—	—
Deferred guarantee income	—	(787,232)	(274,739)	(43,113)
Contingent guarantee liabilities	—	(3,566,157)	(1,432,385)	(224,772)
Other payable to Individual Investors	(163,360)	(618,749)	(56,365)	(8,845)
Land use rights ⁽¹⁾	—	(1,000,467)	—	—
Accrued expenses and other current liabilities ⁽¹⁾	144,338	786,019	549,733	86,265
Net cash (used in)/ provided by operating activities	(778,504)	(211,019)	2,667,419	418,574
Cash flows from investing activities:				
Cash proceed for disposal of loans at fair value and financing receivables	—	—	43,272	6,790
Cash paid on long-term investments	(387,705)	(97,200)	(38,657)	(6,066)
Proceeds from disposal of investments and refund of prepayment on long-term investments	9,000	39,698	65,537	10,284
Purchases of property, equipment and software	(49,865)	(86,573)	(121,533)	(19,071)
Financing receivables originated and purchased (excluding receivables related to online direct sales)	(10,632,362)	(23,193,607)	(18,420,894)	(2,890,640)
Principal collection on financing receivables and recoveries (excluding receivables related to online direct sales)	11,899,784	21,447,154	18,942,385	2,972,474
Investments in loans at fair value	—	(7,067,271)	(3,851,997)	(604,462)
Collection of principals of loans at fair value	—	6,638,596	4,051,776	635,812
Placement of restricted time deposits	(2,486,643)	(1,831,869)	(2,467,239)	(387,164)
Withdrawal of restricted time deposits	864,212	2,014,643	2,504,282	392,976
Cash paid on loans to third parties	—	—	(292,317)	(45,871)
Net cash (used in)/ provided by investing activities	(783,579)	(2,136,429)	414,615	65,062

LEXINFINTech HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands)

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	Note 2(e)			
Cash flows from financing activities:				
Proceeds from non-controlling shareholders	—	40,000	—	—
Proceeds from borrowings	2,652,191	2,003,977	2,304,068	361,559
Principal payments on borrowings	(1,112,510)	(2,154,605)	(2,331,390)	(365,846)
Proceeds from funding debts	8,373,790	20,546,221	18,221,528	2,859,355
Principal payments on funding debts	(8,946,714)	(19,210,552)	(19,980,864)	(3,135,434)
Proceeds from issuance of convertible notes, net of debt discount	2,096,408	—	—	—
Payment of debt issuance costs	(24,048)	—	—	—
Exercise of share-based awards	10,968	7,970	7,124	1,117
Proceeds from receivables from Pre-IPO Series C-1 preferred shareholders	348,264	—	—	—
Repayment of liabilities to Pre-IPO Series C-1 preferred shareholders	(339,528)	—	—	—
Net cash provided by/(used in) financing activities	3,058,821	1,233,011	(1,779,534)	(279,249)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(8,246)	(27,970)	(23,592)	(3,699)
Net increase/(decrease) in cash, cash equivalents and restricted cash	1,488,492	(1,142,407)	1,278,908	200,688
Cash, cash equivalents and restricted cash at beginning of the year	2,497,134	3,985,626	2,839,906	445,643
Including:				
Cash and cash equivalents at beginning of the year	1,148,292	2,085,234	1,563,755	245,387
Restricted cash at beginning of the year	1,348,842	1,900,392	1,276,151	200,256
Effect on the cash and cash equivalents at beginning of the year due to the adoption of ASC 326 (Note 2(g))	—	(3,313)	—	—
Cash, cash equivalents and restricted cash at end of the year	3,985,626	2,839,906	4,118,814	646,331
Including:				
Cash and cash equivalents at the end of the year	2,085,234	1,563,755	2,664,132	418,060
Restricted cash at the end of the year	1,900,392	1,276,151	1,454,682	228,271
Supplemental disclosure of cash flows information				
Cash paid for interest expense of borrowings and convertible notes	32,252	120,125	96,837	15,196
Cash paid for income tax expense	222,411	300,232	522,915	82,057
Cash paid for land use rights ⁽¹⁾	—	516,000	516,000	80,972

The accompanying notes are an integral part of these consolidated financial statements.

- (1) In 2020, the Group obtained the land use rights from local authorities with a cash consideration of RMB1.0 billion. The Group has made the first installment payment of RMB516.0 million in February 2020, and the second installment payment of RMB516.0 million in February 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

LexinFintech Holdings Ltd. (“Lexin” or the “Company”), formerly known as Staging Finance Holding Ltd., was incorporated in the Cayman Islands on November 22, 2013. The Company is a holding company and conducts its business mainly through its subsidiaries, variable interest entities (“VIEs”) and subsidiaries of the VIEs (collectively referred to as the “Group”). The Group offers online direct sales with installment payment terms and offers installment purchase loans and personal installment loans mainly through its online consumption and consumer finance platform (“Platform”), *www.fenqile.com*, and its mobile application (“APP”) to new generation consumers (“Borrowers”) in the People’s Republic of China (“PRC”).

The Group addresses the Borrowers’ credit needs by offering installment purchase loans and personal installment loans. Installment purchase loans are loans offered to Borrowers who want to finance their online direct purchase from the Platform and APP with general terms between one month and thirty-six months. Personal installment loans are loans provided to Borrowers who have consumption needs (other than online direct purchase) with terms generally ranging from one month to thirty-six months.

The Group primarily finances the loans to Borrowers with proceeds from third-party commercial banks, consumer finance companies, our microcredit company and other licensed financial institutions (collectively “Institutional Funding Partners”). The Group also finances the loans through the establishment of consolidated trusts (“Trusts”) and issuance of asset-backed securitized debts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2021, the Company's principal subsidiaries, consolidated VIEs and subsidiaries of the VIEs are as follows:

	Date of Incorporation/ Establishment	Place of Incorporation/ Establishment	Percentage of Direct or Indirect Economic Interest	Principal Activities
Subsidiaries				
Installment (HK) Investment Limited ("Installment HK")	December 9, 2013	Hong Kong, PRC	100%	Investment holding
Beijing Shijitong Technology Co., Ltd. ("Beijing Shijitong")	July 1, 2014	Beijing, PRC	100%	Technical support and consulting services
Shenzhen Lexin Software Technology Co., Ltd. ("Shenzhen Lexin Software")	March 1, 2017	Shenzhen, PRC	100%	Software development
VIEs				
Beijing Lejiixin Network Technology Co., Ltd. ("Beijing Lejiixin")	October 25, 2013	Beijing, PRC	100%	Investment holding
Shenzhen Xinjie Investment Co., Ltd. ("Shenzhen Xinjie")	December 22, 2015	Shenzhen, PRC	100%	Investment holding
Shenzhen Qianhai Dingsheng Data Technology Co., Ltd. ("Qianhai Dingsheng")	January 13, 2016	Shenzhen, PRC	100%	Financial technology services
Shenzhen Mengtian Technology Co., Ltd. ("Mengtian Technology")	August 9, 2016	Shenzhen, PRC	100%	Software development
Beihai Super Egg E-Commerce Co., Ltd. ("Beihai Super Egg")	May 31, 2018	Beihai, PRC	100%	Investment holding
Subsidiaries of the VIEs				
Shenzhen Fenqile Network Technology Co., Ltd. ("Shenzhen Fenqile")	August 15, 2013	Shenzhen, PRC	100%	Online direct sales and online consumer finance
Shenzhen Beizhipiji Technology Co., Ltd. ("Beizhipiji")	June 26, 2014	Shenzhen, PRC	100%	Online investment platform
Ji'an Fenqile Network Microcredit Co., Ltd. ("Ji'an Microcredit")	December 2, 2016	Ji'an, PRC	100%	Online consumer credit
Shenzhen Fenqile Trading Co., Ltd. ("Shenzhen Fenqile Trading")	December 30, 2016	Shenzhen, PRC	100%	Online direct sales
Shenzhen Dingsheng Computer Technology Co., Ltd. ("Shenzhen Dingsheng Technology")	March 23, 2017	Shenzhen, PRC	100%	Financial technology services
Shenzhen Lexin Financing Guarantee Co., Ltd. ("Shenzhen Lexin Financing Guarantee")	September 14, 2017	Shenzhen, PRC	100%	Financing guarantee services
Beihai Aurora Technology Co., Ltd. ("Beihai Aurora")	June 19, 2018	Beihai, PRC	100%	Financial technology services
Beihai Turing Technology Co., Ltd. ("Beihai Turing")	June 11, 2018	Beihai, PRC	100%	Financial technology services
Ganjiang New Area Mengtian Financing Guarantee Co., Ltd.	October 24, 2019	Ganjiang, PRC	100%	Financing guarantee services

History of the Group and Basis of Presentation

The Group commenced operations through Shenzhen Fenqile in August 2013. Beijing Lejiixin was incorporated in October 2013 and established its wholly owned subsidiary Beizhipiji (former name "Qianhai Juzi") in June 2014 in order to launch the Group's online investment platform *Juzi Licai*, which offers Investment Programs to the Individual Investors.

In November 2013, the Company was incorporated under the Laws of the Cayman Islands to be an offshore holding company for the Group. To comply with PRC laws and regulations which prohibit or restrict foreign ownership of Internet content, the Company obtained control over Shenzhen Fenqile and Beijing Lejiixin through Beijing Shijitong by entering into a series of contractual arrangements with Shenzhen Fenqile, Beijing Lejiixin and their nominee shareholders in July 2014. As a result, Shenzhen Fenqile and Beijing Lejiixin became the consolidated VIEs through the contractual arrangements. The nominee shareholders are defined as legal owners of an entity; however, the rights of the shareholders have been transferred to the Company through contractual arrangements.

The Company obtained control over Shenzhen Xinjie and Qianhai Dingsheng through Beijing Shijitong in December 2015 and January 2016 respectively by entering into a series of contractual arrangements with Shenzhen Xinjie, Qianhai Dingsheng and their nominee shareholders. As a result, Shenzhen Xinjie and Qianhai Dingsheng became the consolidated VIEs through the contractual arrangements. Shenzhen Fenqile then became one of the subsidiaries of Shenzhen Xinjie.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In August 2018, Mengtian Technology, which previously was a subsidiary of one of the consolidated VIEs, became a consolidated VIE by entering into a series of contractual arrangements with its nominee shareholders and Shenzhen Lexin Software.

Management concluded that the Company is entitled to substantially all of the economic benefits from the VIEs and is obligated to absorb all of their expected losses. As such, the Company is the ultimate primary beneficiary of the VIEs and shall consolidate the financial results of these VIEs and their subsidiaries in the Group's consolidated financial statements. Refer to Note 2(b) to the consolidated financial statements for the basis of consolidation.

Initial Public Offering

On December 26, 2017, the Company completed its initial public offering ("IPO") on the NASDAQ Global Market in the United States of America. In this offering, 12,000,000 American Depositary Shares ("ADSs"), representing 24,000,000 Class A ordinary shares ("Class A Ordinary Shares"), were issued and sold to the public at a price of US\$9.00 per ADS.

In January 2018, the underwriters of the Company's IPO exercised the options to purchase an additional 1,800,000 ADSs, representing 3,600,000 Class A Ordinary Shares, par value US\$0.0001 per share, of the Company to cover over-allotments in full. The net proceeds in connection with 1,800,000 ADSs received by the Company was RMB95.1 million (US\$14.7 million), which represents a total gross capital raise of RMB105.2 million (US\$16.2 million) less underwriting discounts and commissions and offering expenses in the aggregate amount of RMB10.1 million (US\$1.5 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

Out-of-period adjustment

For the year ended December 31, 2019, the Group recorded an out-of-period adjustment of RMB66.1 million to reduce financial services income, and corresponding RMB63.6 million of financing receivables and RMB2.5 million of contract assets and service fees receivable in the first quarter of 2019, to correct the cumulative effect of errors in recording discounts and interests waived in the periods prior to December 31, 2018. The Group has evaluated the effects of this out-of-period adjustment, both qualitatively and quantitatively, and concluded that the correction of this amount was not material to the Group’s financial position or results of operations for any prior periods or for the year ended December 31, 2019.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIEs and subsidiaries of the VIEs for which the Company is the 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.

A consolidated VIE is an entity in which the Company, or its subsidiaries, through contractual arrangements, has the power to direct the activities that most significantly impact the entity’s economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiaries is the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries, the VIEs and subsidiaries of the VIEs have been eliminated upon consolidation.

VIE Companies (excluding the consolidated Trusts and asset-backed securitized debts as discussed in Note 2(f))**(i) Contractual agreements with VIEs**

The following is a summary of the contractual agreements (collectively, “Contractual Agreements”) that the Company’s relevant PRC subsidiaries entered into with the VIEs and their nominee shareholders. Through the Contractual Agreements, the VIEs are effectively controlled by the Company.

Exclusive Option Agreements. Pursuant to the Exclusive Option Agreements, the nominee shareholders of the VIEs have irrevocably granted the Group’s relevant PRC subsidiaries an exclusive option to purchase all or part of their respective equity interests in the VIEs. The purchase price shall be the lowest price permitted by law. Without prior written consent of the Group’s relevant PRC subsidiaries, the VIEs shall not, among other things, amend their articles of association, increase or decrease the registered capital, sell, dispose of or set any encumbrance on their assets and equity interests in the VIEs, business or revenue, enter into any material contract outside the ordinary course of business, merge with any other persons or make any investments, distribute dividends, or enter into any transactions which have material adverse effects on their business. These agreements will remain effective until the Group’s relevant PRC subsidiaries and/or any third party designated by the Group’s relevant PRC subsidiaries have acquired all equity interests of the VIEs from their respective nominee shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Power of Attorney. Pursuant to the Power of Attorney, each nominee shareholder of the VIEs irrevocably authorizes the Group's relevant PRC subsidiaries to act as its attorney-in-fact to exercise all of such shareholder's voting and other rights associated with the shareholder's equity interests in the VIEs, including but not limited to, the right to attend shareholder meetings on behalf of such shareholder, the right to appoint legal representatives, directors, supervisors and chief executive officers and other senior management, and the right to sell, transfer, pledge and dispose of all or a portion of the shares held by such shareholder. The power of attorney is irrevocable and remains in force continuously upon execution.

Exclusive Business Cooperation Agreements. Pursuant to these Exclusive Business Cooperation Agreements, the Group's relevant PRC subsidiaries have the exclusive right to provide the VIEs with comprehensive business support, technical support and consulting services. Without prior written consent of the Group's relevant PRC subsidiaries, the VIEs shall not accept any services covered by these agreements from any third party. The VIEs agree to pay service fees in an amount determined by the Group's relevant PRC subsidiaries based on respective profits calculated as operating revenue minus operating cost of the VIEs for the relevant period on a yearly basis or other service fees for specific services as required and as otherwise agreed by both parties. The Group's relevant PRC subsidiaries own the intellectual property rights arising out of the services performed under these agreements. Unless the Group's relevant PRC subsidiaries terminate these agreements or pursuant to other provisions of these agreements, these agreements will remain effective indefinitely. These agreements can be terminated by the Group's relevant PRC subsidiaries through a 30-day advance written notice, the VIEs have no right to unilaterally terminate these agreements.

Loan Agreements. Pursuant to the relevant loan agreements, the Group's relevant PRC subsidiaries have granted loans to the relevant nominee shareholders of the VIEs solely for the purpose of providing funds necessary for capital injection into the VIEs to operate their respective businesses. Pursuant to these loan agreements, the nominee shareholders can only repay the loans by the transfer of all their equity interests in the VIEs to the Group's relevant PRC subsidiaries. The nominee shareholders of the VIEs must pay all of the proceeds from transfer of such equity interests to the Group's relevant PRC subsidiaries. In the event that the nominee shareholders transfer their equity interests to the Group's relevant PRC subsidiaries or their designated person(s) with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to the Group's relevant PRC subsidiaries as the loan interest. The loans must be repaid immediately when permitted by PRC laws at the request of the Group's relevant PRC subsidiaries. Term of both loans is ten years and will be extended automatically for another ten years on each expiration.

Equity Pledge Agreements. Pursuant to these Equity Pledge Agreements, each nominee shareholder of the VIEs has pledged all of his, her or its respective equity interests in the VIEs to the Group's relevant PRC subsidiaries to guarantee the performance by such nominee shareholder and the VIEs of their respective obligations under the Exclusive Option Agreements, the Power of Attorney, the Loan Agreements, where applicable, and the Exclusive Business Cooperation Agreements, and any amendment, supplement or restatement to such agreements. If the VIEs or any of their nominee shareholders breach any obligations under these agreements, the Group's relevant PRC subsidiaries, 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 nominee shareholders of the VIEs agrees that before his, her or its obligations under the Contractual Agreements are discharged, he, she or it will not dispose of the pledged equity interests, create or allow any encumbrance on the pledged equity interests, which may result in the change of the pledged equity that may have adverse effects on the pledgee's rights under these agreements without the prior written consent of the Group's relevant PRC subsidiaries. These Equity Pledge Agreements will remain effective until the VIEs and their nominee shareholders discharge all their respective obligations under the Contractual Agreements.

(ii) Risks in relation to the VIE structure

Under the Contractual Agreements with the VIEs, the Company has the power to direct activities of the VIEs and the VIEs' subsidiaries and can have assets transferred out of the VIEs and the VIEs' subsidiaries. Therefore, the Company considers itself the ultimate primary beneficiary of the VIEs and there is no asset of the VIEs that can only be used to settle obligations of the VIEs and the VIEs' subsidiaries except for registered capitals and PRC statutory reserves of the consolidated VIEs amounting to RMB5,848.0 million as of December 31, 2021. Since the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIEs. However, as the Company is conducting certain businesses mainly through the consolidated VIEs and the VIEs' subsidiaries, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the opinion of the Company's management, the contractual arrangements among its subsidiaries, the VIEs and their respective nominee shareholders are in compliance with current PRC laws and are legally 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. As a result, the Company may be unable to consolidate the VIEs and the VIEs' subsidiaries in the consolidated financial statements.

In March 2019, the Foreign Investment Law was approved by the National People's Congress on March 15, 2019, effective on January 1, 2020. In December 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, effective on January 1, 2020, and further clarified and elaborated the relevant provisions of the Foreign Investment Law. Given that there still exist uncertainties in relation to the interpretation and implementation of the Foreign Investment Law and its implementation regulations, the possibility that the VIEs will be deemed as foreign-invested enterprise and subject to relevant restrictions in the future shall not be excluded.

The Company's ability to control the VIEs also depends on the power of attorney the Group's relevant PRC subsidiaries have to vote on all matters requiring shareholders' approvals in the VIEs. As noted above, the Company believes this power of attorney is legally binding and enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure or the contractual arrangements with the VIEs were found to be in violation of any existing PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict its operations;
- restrict the Group's right to collect revenues;
- block the Group's websites;
- require the Group to restructure its operations, re-apply for the necessary licenses or relocate the Group's businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

The imposition of any of these restrictions or actions may result in a material adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these restrictions causes the Group to lose the right to direct the activities of the VIEs or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIEs. In the opinion of management, the likelihood of losing the benefits in respect of the Group's current ownership structure or the contractual arrangements with its VIEs is remote.

All of the consolidated VIEs are incorporated and operated in the PRC, which are effectively controlled by the Company through a series of contractual agreements entered into among the Company's relevant PRC subsidiaries, the VIEs and their nominee shareholders. The Company believes the possibility that it will no longer be able to control and consolidate the VIEs as a result of the aforementioned risks and uncertainties are remote.

Summary of Financial Information of the Consolidated VIEs

The following table sets forth the assets, liabilities, results of operations and changes in cash and cash equivalents and restricted cash of the VIEs and their subsidiaries taken as a whole, which were included in the Group's consolidated financial statements. The financial information of the consolidated trusts and asset-backed securities ("ABS") were also included in the following table, as the consolidated VIE companies are considered the primary beneficiary of these trusts and ABS plans:

As of December 31,	
2020	2021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(RMB in thousands)

Consolidating Schedule of Financial Position		
ASSETS		
Cash and cash equivalents	1,300,220	2,132,402
Restricted cash	1,274,718	1,423,233
Restricted time deposits	509,600	424,678
Financing receivables, net	5,123,309	4,014,102
Loan at fair value	381,393	252,970
Amounts due from Group companies ⁽¹⁾	219,807	58,050
Deposits to insurance companies and guarantee companies	1,066,281	1,378,489
Contract assets, service fees receivable and guarantee receivables	5,103,246	4,661,403
Property, equipment and software, net	58,812	129,769
Land use rights, net and right of use assets	1,056,444	1,096,579
Long-term investments	435,790	448,886
Other assets	2,219,213	2,675,389
TOTAL ASSETS	18,748,833	18,695,950
LIABILITIES		
Amounts due to Group companies ⁽¹⁾	4,930,414	6,452,376
Short-term borrowings	1,751,633	1,735,931
Funding debts	5,511,749	3,798,233
Deferred guarantee income	694,582	419,843
Contingent guarantee liabilities	1,738,787	928,840
Other liabilities	2,754,100	3,593,686
TOTAL LIABILITIES	17,381,265	16,928,909
Total equity attributable to owners of the company	1,327,568	1,726,848
Non-controlling interests	40,000	40,193
TOTAL SHAREHOLDERS' EQUITY	1,367,568	1,767,041
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	18,748,833	18,695,950

For the Year Ended December 31,

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Condensed Consolidating Schedule of Results of Operations			
Operating revenue:			
Third-party revenues	10,603,507	11,579,992	11,091,978
Inter-group revenues ⁽²⁾	5,210	449	11,429
Total Operating revenue	10,608,717	11,580,441	11,103,407
Operating cost:			
Third-party costs	(5,575,251)	(7,959,095)	(5,520,994)
Inter-group costs ⁽²⁾	(58,469)	(21,817)	(1,636)
Total operating cost	(5,633,720)	(7,980,912)	(5,522,630)
Gross profit	4,974,997	3,599,529	5,580,777
Operating expense:			
Third-party expenses	(1,692,792)	(1,360,975)	(1,689,151)
Inter-group expenses ⁽²⁾	(1,285,727)	(2,387,176)	(3,047,627)
Total operating expenses	(2,978,519)	(3,748,151)	(4,736,778)
Others	11,202	(798,733)	(369,200)
Income/(Loss) before income tax	2,007,680	(947,355)	474,799
Income tax (expenses)/benefits	(316,661)	131,242	(142,201)
Net income/(loss)	1,691,019	(816,113)	332,598
Less: net income attributable to non-controlling interests	—	—	193
Net income/(loss) attributable to ordinary shareholders of the Company	1,691,019	(816,113)	332,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Net cash used in operating activities	(1,250,380)	(1,750,611)	(298,268)
Net cash (used in)/provided by transactions with external parties	(118,606)	670,707	3,839,254
Net cash used in transactions with inter-group entities for technical service charges and others ⁽³⁾	(1,131,774)	(2,421,318)	(4,137,522)
Net cash provided by/(used in) investing activities	579,207	(2,190,303)	622,696
Net cash provided by/(used in) transactions with external parties	763,395	(2,389,743)	472,228
Net cash (used in)/provided by funds to Group companies ⁽⁴⁾	(184,188)	199,440	150,468
Net cash provided by financing activities	1,006,844	3,720,373	656,269
Net cash provided by/(used in) transactions with external parties	573,227	1,203,610	(1,775,038)
Net cash provided by funds from Group companies ⁽⁵⁾	433,617	2,516,763	2,431,307
Net increase/(decrease) in cash, cash equivalents and restricted cash	335,671	(220,541)	980,697
Cash, cash equivalents and restricted cash at beginning of the year	2,462,134	2,797,805	2,574,938
Cumulative effect due to the adoption of ASC 326 (Note 2(e))	—	(2,326)	—
Cash, cash equivalents and restricted cash at end of the year	2,797,805	2,574,938	3,555,635

Amounts included in the above disclosure and previously reported for the years ended December 31, 2019 and 2020 have been revised to correct an error which, in the opinion of management, is immaterial. For the year ended December 31, 2019, cash flows from operating activities and financing activities were increased by RMB49 million and RMB135 million, respectively, and cash flows from investing activities were decreased by RMB184 million from the amounts previously reported. For the year ended December 31, 2020, cash flows from operating activities were decreased by RMB3,193 million, and cash flows from investing activities and financing activities were increased by RMB715 million and RMB2,478 million, respectively, from the amounts previously reported. The impact of the errors was eliminated in consolidation. Accordingly, there is no impact on the previously reported consolidated cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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- (1) The amounts due from Group companies represent the funds provided by the consolidated VIEs to WFOEs, and the operating receivables resulting from the provision of goods and services to WFOEs;
The amounts due to Group companies represent the funds provided by group companies to the consolidated VIEs, and the operating payables resulting from the technical service fees charged by WFOEs.
 - (2) The inter-group revenues and inter-group costs recognized by the consolidated VIEs were related to the goods and services between the consolidated VIEs and WFOEs;
The inter-group expenses incurred by the consolidated VIEs represent the technical service fees charged by WFOEs.
 - (3) For the years ended December 31, 2019, 2020 and 2021, cash paid by the VIEs to WFOEs for technical service fees were RMB1,140 million, RMB2,422 million and RMB4,140 million, respectively. Cash received by the VIEs to WFOEs for the provision of goods and services were RMB8.3 million, RMB0.7 million and RMB2.5 million, respectively.
 - (4) Net cash (used in)/provided by funds to Group companies represent the funds provided by the consolidated VIEs to WFOEs, and the collections from the WFOEs for the funds previously provided by the consolidated VIEs.
 - (5) Net cash (used in)/provided by funds from Group companies represent the funds provided by WFOEs to the consolidated VIEs.

(c) Use of estimates

The preparation of the Group's consolidated financial statements is in conformity with the U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of financial statement and reported revenues and expenses during the reported periods. Significant accounting estimates include, but are not limited to (i) revenue recognition; (ii) allowance for credit losses on the financial assets measured at amortized cost and financial guarantees and (iii) initial recognition and subsequent measurement of guarantee derivatives at fair value. Actual results could materially differ from these estimates.

(d) Functional currency and foreign currency translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in Hong Kong is United States dollars ("US\$") and the functional currencies of the PRC entities in the Group are RMB.

In the consolidated financial statements, the financial information of the Company and its subsidiaries incorporated in Hong Kong have been translated into RMB at the exchange rates quoted by the People's Bank of China (the "PBOC"). Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the period. Translation adjustments arising from these are reported as foreign currency translation adjustments, and are shown as a component of accumulated other comprehensive income on the Consolidated Statements of Changes in Shareholders' Equity and a component of other comprehensive income on the Consolidated Statements of Comprehensive Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign currency exchange gain or loss resulting from the settlement of such transactions and from remeasurement at period-end is recognized in “Others, net” on the Consolidated Statements of Operations.

Foreign currency translation adjustments included in the Group’s Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2020 and 2021 were gain of RMB7.0 million, gain of RMB10.6 million, and gain of RMB8.0 million respectively. Foreign currency translation adjustments recorded was immaterial for each of the periods presented.

(e) Convenience translation

Translations of balances on the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows from RMB into US\$ as of and for the year ended December 31, 2021 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB6.3726, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 30, 2021. 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 31, 2021, or at any other rate.

(f) Presentation for on- and off-balance sheet loans

The Group finances the loans with the proceeds from various funding partners, which primarily include: (1) the Institutional Funding Partners; (2) the Individual Investors on *Juzi Licai*; (3) third-party investors of the consolidated Trusts and asset-backed securitized debts. Depending on the arrangements among the Group, the Borrowers and the funding partners, the underlying loans are accounted for as “on-balance sheet loans” or “off-balance sheet loans”, where applicable.

On-balance sheet loans**(a) Loans funded by individual investors on Juzi Licai under the Old Model (as defined hereinafter) or certain Institutional Funding Partners**

For loans funded by the proceeds from the Group's own online investment platform *Juzi Licai* under the Old Model (as defined hereinafter), which offered the Individual Investors various Investment Programs with different terms and estimated rates of return, or from certain Institutional Funding Partners, the Group's roles included: (1) collecting the investment principal from the Individual Investors or Institutional Funding Partners and lending the funds to Borrowers, (2) collecting monthly repayment from the Borrowers and repaying the Individual Investors or Institutional Funding Partners according to the terms (i.e. interest rate and scheduled repayment dates) of respective Investment Programs or agreements (“Investment Agreements”) between the Individual Investors or Institutional Funding Partners and the Group.

The Group noted that the terms of the underlying loan agreements between the Individual Investors or Institutional Funding Partners and the Borrowers (“Underlying Loan Agreements”) did not necessarily match the terms of the Investment Programs or Agreements. The mismatch was mainly due to the fact that some Individual Investors or Institutional Funding Partners may invest in the programs that had shorter investment periods than the terms of the Underlying Loan Agreements. Depending on the types of Investment Programs the Individual Investors choose or the Investment Agreements the Institutional Funding Partners entered into with the Group, the investing periods could be as short as one week and as long as twenty-fourth months. Pursuant to the Investment Programs or Agreements, the Individual Investors or Institutional Funding Partners agreed on a rate of return with the Group which was normally lower than the coupon interest rate stipulated in the Underlying Loan Agreement, given the shorter periods of those Investment Programs or Agreements. The Group considered the terms of the Investment Programs or Agreements, which drove the return of the investments, and concluded the Group had liabilities to the Individual Investors or Institutional Funding Partners when the funds from the Investment Programs or Agreements were received. Accordingly, the Group was considered as the primary obligor to the Individual Investors or Institutional Funding Partners in the lending relationship and therefore recorded the liabilities to the Individual Investors or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Institutional Funding Partners as “Funding Debts” (Note 2(h)) on its Consolidated Balance Sheets. The underlying loans were recorded as “Financing receivables, net” on the Consolidated Balance Sheets.

As of December 31, 2020 and 2021, loans funded by the Individual Investors on Juzi Licai under the Old Model were nil.

(b) Loans funded by establishment of the consolidated Trusts and issuance of asset-backed securitized debts

The Group establishes business relationships with Trusts from time to time. Pursuant to applicable arrangements, the Group invested in the financing receivables using funds from the consolidated Trusts. The Trusts are administered by third-party trust companies, which act as the trustees, with funds contributed by the Group and/or the third-party investors for the purposes of providing returns to the beneficiary of the Trusts. Since these Trusts only invest in financing receivables generated from the Group’s Platform and APP, the Group has power to direct the activities of the Trusts. 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 Trusts are considered consolidated VIEs of the Group under Accounting Standards Codification (“ASC”) 810, *Consolidation*.

The Group also issues private asset-backed securities (“ABS”) to diversify its funding sources. The Group is considered the primary beneficiary of these ABS plans as it has power to direct the activities that most significantly impact economic performance of the ABS plans, and consolidated the ABS plans in the consolidated financial statements under ASC 810, *Consolidation*.

Therefore, loans funded by the consolidated Trusts and asset-backed securitized debts remain at the Group and are recorded as “Financing receivables, net” on the Consolidated Balance Sheets. The proceeds received from third-party investors of the consolidated Trusts and asset-backed securitized debts are recorded as “Funding Debts” (Note 2(h)). Cash received via consolidated Trusts that has not yet been distributed is recorded as “Restricted cash”.

Off-balance sheet loans

(a) Loans funded by certain Institutional Funding Partners such as third-party commercial banks or consumer finance companies

For loans funded by the proceeds from certain Institutional Funding Partners such as third-party commercial banks or consumer finance companies, each underlying loan and Borrower has to be approved by the third-party commercial banks or consumer finance companies individually. Once the loan is approved by and originated by the third-party commercial bank or consumer finance company, the fund is provided by the third-party commercial bank or consumer finance company to the Borrower and a lending relationship between the Borrower and the third-party commercial bank or consumer finance company is established through a loan agreement. Effectively, the Group offers loan facilitation and matching services to the Borrowers who have credit needs and the commercial banks or consumer finance companies who originate loans directly to Borrowers referred by the Group. The Group continues to provide account maintenance and payment processing services to the Borrowers over the term of the loan agreement. Under this scenario, the Group determines that it is not the legal lender or borrower in the loan origination and repayment process. Accordingly, the Group does not record financing receivables arising from these loans nor Funding Debts to the Institutional Funding Partners.

(b) Loans funded by the Individual Investors on Juzi Licai under the New Model (as defined hereinafter)

In late April 2018, the Group made some adjustments to its business model for new loans funded by the Individual Investors on Juzi Licai (the “New Model”, and the “Old Model” referred to the business model of Juzi Licai before such adjustments). Under the New Model, the Group’s roles included: (1) matching the borrowing requests from the Borrowers with the Individual Investors on Juzi Licai, (2) processing monthly repayment from the Borrowers according to the terms of the Underlying Loan Agreements through third-party custodian bank accounts, and (3) providing ongoing management services to the Individual Investors over the terms of respective Investment Programs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the New Model, the Group acted as an intermediary between the Borrower and the Individual Investors. Pursuant to the Underlying Loan Agreement and the Investment Programs, the Individual Investors were entitled to all the interests generated from the underlying loans. Such interests were not generated until the lending relationship has been established between the Borrowers and the Individual Investors as the lenders, upon entering into the Underlying Loan Agreements. The existing Individual Investor cannot exit from any lending relationship of outstanding loan unless the underlying loan was fully repaid or the outstanding loan principal with the remaining term was successfully re-matched with other Individual Investors. The Group provided ongoing matching and re-matching services to the Individual Investors over the terms of respective Investment Programs while it did not have any obligations to ensure such successful re-matching.

The Group considered the terms of the Underlying Loan Agreements and the Investment Programs under the New Model and concluded that the Group was not the legal lender or borrower in the loan origination and repayment process. Accordingly, the Group did not record financing receivables arising from these loans nor Funding Debts to the Individual Investors.

The balances of funds payable to Individual Investors represented the investment funds received from the Individual Investors on *Juzi Licai* under the New Model but not yet matched with and transferred to the Borrowers due to the settlement time lag.

The Company has ceased facilitating new loans with funding from individual investors on *Juzi Licai* since November 2019 and cleared the outstanding balance of loans invested by individual investors in December 2020. As of December 31, 2020 and 2021, loans funded by the Individual Investors on *Juzi Licai* and the balance of funds payable to Individual Investors were nil.

Measurement of financing receivables

Financing receivables are measured at amortized cost and reported on the Consolidated Balance Sheets at outstanding principal adjusted for any charge-offs, the allowance for credit losses, and net deferred origination fees on originated financing receivables. The Group recognizes interest and financial services income over the terms of the financing receivables using the effective interest rate method. Refer to Note 2(m) for details. For financing receivables initially generated from online sales with installment payment terms on the Group's Platform or APP, if they are subsequently funded by on-balance sheet loans, the Group considers that the financing receivables are not settled or extinguished, and therefore continues to account for these financing receivables according to the installment payment terms. If the financing receivables are subsequently funded by off-balance sheet loans, the Group considers that these financing receivables are settled and extinguished with the proceeds from the off-balance sheet loans as facilitated by the Group.

(a) Accrued interest receivable

Accrued interest income on financing receivables is calculated based on the contractual interest rate of the loan and recorded as interest and financial services income as earned. Financing receivables are placed on non-accrual status upon reaching 90 days past due. When a financing receivable is placed on non-accrual status, the Group stops accruing interest and reverses all accrued but unpaid interest as of such date.

(b) Nonaccrual financing receivables and charged-off financing receivables

The Group considers a financing receivable to be delinquent when a monthly payment is one day past due. When the Group determines it is probable that it will be unable to collect unpaid principal amount on the receivable, the remaining unpaid principal balance is charged off against the allowance for credit losses. Generally, charge-offs occur after the 180th day of delinquency. Interest and financial services income for nonaccrual financing receivables is recognized on a cash basis. Cash receipt of non-accrual financing receivables would be first applied to any unpaid principal, late payment fees, if any, before recognizing interest and financial services income. The Group does not resume accrual of interest after a loan has been placed on nonaccrual status.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(g) Allowance for credit losses

The Group mainly has the following types of financial assets that are subject to credit losses of the customers: financing receivables, accrued interest receivable, contract assets, service fees receivable, and guarantee receivables.

Before the adoption of Accounting Standards Codification (“ASC”) 326 on January 1, 2020

The Group assessed the creditworthiness and collectability of the portfolios of respective financial assets, mainly based on historical charge offs of respective underlying on- and off-balance sheet loans, where applicable, using an established systematic process on a pooled basis within each credit risk levels of the Borrowers. The Group considered location, education background, income level, outstanding external borrowings, and external credit references when assigning Borrowers into different credit risk levels. Also, each portfolio of respective financial asset subject to credit losses within each credit risk level consisted of individually small amount of on- and off-balance sheet loans. In the consideration of above factors, the Group determined that each portfolio of respective financial asset subject to credit losses within each credit risk level was homogenous with similar credit characteristics.

The Group’s allowance for credit losses of financial assets was calculated separately within each credit risk level of the Borrowers, taking into considerations of flexible repayment options of the underlying on- and off-balance sheet loans, where applicable. For each credit risk level, the Group estimated the probable incurred loss rate based on delinquency status of the respective financial assets within that level: current, 1 to 29, 30 to 59, 60 to 89, 90 to 119, 120 to 149, 150 to 179 calendar days past due. These loss rates in each delinquency status were based on average historical loss rates of financial assets subject to credit losses associated with each of the abovementioned delinquency categories. The probable incurred loss rate of the specific delinquency status category within each risk level was applied to the applicable outstanding balances of respective financial assets within that level to determine the allowance for credit losses for each reporting period. In addition, the Group considered other general economic conditions, if any, when determining the allowance for credit losses.

After the adoption of ASC 326 on January 1, 2020

Effective January 1, 2020, the Group adopted Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance replaces the existing “incurred loss” methodology, and introduces a forward-looking expected loss approach referred to as a current expected credit losses (“CECL”) methodology. Under the incurred loss methodology, credit losses are recognized only when the losses are probable of having been incurred. The CECL methodology requires that the full amount of expected credit losses for the lifetime be recorded at the time the financial asset is originated or acquired, and adjusted for changes in expected lifetime credit losses subsequently, which requires earlier recognition of credit losses.

The Group’s CECL model and methodologies are based on the likelihood of customers defaulting (i.e., Probability of Default, or PD) and the resulting losses of customers’ defaults (i.e. Loss Given Default, or LGD) and Exposure at Default (“EAD”), or $CECL = PD * LGD * EAD$. The Group considers the PD with its historical information of customers’ payment behaviors and loan performance, and further adjusts for the impacts from observed industry experience. PDs are based on respective internal risk grades assigned to each of the customers by the Group. LGD is determined based on historical information of the extent of loss on a defaulted exposure. EAD is calculated based on the amounts the Group expected to be owed at the time of default, over the term of the loans. The Group also incorporates the forward-looking information in the CECL, taking into account a range of forecasts of macroeconomic conditions over the expected life of the loans. The macroeconomic factors used in model include variables that have historically been key drivers of increases and decreases in credit losses, such as Gross Domestic Product and M2 (a measurement of broad money supply including cash and deposits, which is published by People’s Bank of China on a routine basis). The expected life of each loan is determined based on the contractual term. The allowance for credit losses also includes management overlays which allow management to reflect the uncertain nature of economic forecasting and account for model imprecision and concentration risk.

The CECL methodology is applicable to estimation of credit losses of financial assets measured at amortized cost, primarily including financing receivables, contract assets, service fees receivable, and guarantee receivables of the Group. As a result, the Group recognized the cumulative effect as a decrease of approximately RMB0.3 billion to the opening balances of retained earnings, and an increase of the corresponding amount to the credit allowance of financial assets measured at amortized cost, which is primarily driven by the longer estimated periods of underlying loans under the CECL lifetime methodology compared to incurred loss methodology before the adoption of the new standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The CECL methodology also applies to certain off-balance sheet credit exposures, such as financial guarantees not accounted for as derivatives. The financial guarantees provided for the Group's off-balance sheet loans accounted for under ASC 460 are in the scope of ASC 326 and subject to the CECL methodology. After the adoption, the expected credit losses (the contingent aspect) of the guarantee shall be accounted for in addition to and separately from the guarantee liability (the noncontingent aspect) accounted for under ASC 460. Before the adoption, the guarantee liabilities subsequent to initial recognition were measured at the greater of the amount determined based on ASC 460 and the amount determined under ASC 450. An excess liability was recorded when the aggregate contingent liabilities under ASC 450 exceeded the balance of guarantee liabilities determined under ASC 460. The initial adoption resulted in a recognition of a separate contingent liability in full amount, in addition to financial guarantee liabilities measured under ASC 460. Further, the contingent liability is determined using CECL lifetime methodology compared to incurred loss methodology before the adoption. Consequently, the Company recognized the cumulative effect as a decrease of approximately RMB2.0 billion to the opening balances of retained earnings. The carrying amount of financial guarantee liabilities under ASC 460 upon the initial adoption has continued to be reduced by recording a credit to net income as the guarantor is released from the guaranteed risk in accordance with ASC 460, but no longer subject to the recording of an excess contingent liability under ASC 450.

The financial impacts described above totaled approximately RMB2.3 billion along with the associated deferred tax impact of approximately RMB0.4 billion. As a result, the Group recognized the cumulative effect of approximately RMB1.9 billion, net of tax, as a decrease to the opening balances of retained earnings on January 1, 2020.

The following table sets forth the cumulative effect of the changes on the Group's Consolidated Balance Sheet as of January 1, 2020 due to the adoption of ASC 326:

(RMB in thousands)	As of December 31, 2019	Adjustments due to the adoption of ASC 326	As of January 1, 2020
Assets			
Cash and cash equivalents	2,085,234	(1,465)	2,083,769
Restricted cash	1,900,392	(1,848)	1,898,544
Restricted time deposits	1,966,643	(1,921)	1,964,722
Financing receivables, net	4,411,488	(229,661)	4,181,827
Accrued interest receivable, net	54,284	(1,681)	52,603
Guarantee receivables, net	1,464,977	(40,388)	1,424,589
Prepaid expenses and other current assets	1,324,924	(12,077)	1,312,847
Deposits to insurance companies and guarantee companies	1,251,003	(3,060)	1,247,943
Contract assets and service fees receivable, net	3,454,851	(26,045)	3,428,806
Other assets	454,421	(2,466)	451,955
Long-term investments	511,605	(3,588)	508,017
Liabilities			
Guarantee liabilities ⁽¹⁾	(1,726,368)	1,726,368	—
Deferred guarantee income ⁽¹⁾	—	(1,481,814)	(1,481,814)
Contingent guarantee liabilities ⁽¹⁾	—	(2,214,128)	(2,214,128)
Total impact to allowance for credit losses		(2,293,774)	
Deferred tax assets	157,138	78,803	235,941
Deferred tax liabilities	(309,646)	296,471	(13,175)
Total retained earnings impact		(1,918,500)	

(1) Before the adoption of ASC 326, the guarantee liabilities subsequent to initial recognition were measured at the greater of the amount determined based on ASC 460 and the amount determined under ASC 450. An excess liability was recorded when the aggregate contingent liabilities under ASC 450 exceeded the balance of guarantee liabilities determined under ASC 460.

After the adoption of ASC 326, a contingent liability in full amount determined using CECL lifetime methodology of the guarantee (i.e., the contingent aspect recorded as "Contingent guarantee liabilities") shall be accounted for in addition to and separately from the guarantee liability (i.e., the noncontingent aspect recorded as "Deferred guarantee income") accounted for under ASC 460.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) As of December 31, 2019, the Group determined that the aggregate contingent liabilities under ASC 450 (RMB1,726.4 million) exceeded the balance of guarantee liabilities (RMB1,481.8 million) under ASC 460 and recorded an excess liability of RMB244.6 million. As a result of the adoption, RMB1,481.8 million of guarantee liabilities previously under ASC 460 was recorded as “Deferred guarantee income,” and RMB2,214.1 million of contingent guarantee liabilities is determined using CECL lifetime methodology compared to incurred loss methodology before the adoption.

(h) Funding debts

For the proceeds received from the funding partners, including the third-party investors of the consolidated Trusts and asset-backed securitized debts, and certain Institutional Funding Partners, to fund the Group’s on-balance sheet loans, the Group records them as funding debts (“Funding Debts”) on its Consolidated Balance Sheets.

(i) Accrued interest payable

Accrued interest payable is calculated based on the contractual interest rates of funding debts and convertible notes.

(j) Guarantee receivables and liabilities

For the off-balance sheet loans funded by certain Institutional Funding Partners, the Group provides deposits and replenish such deposits from time to time to the Institutional funding partners by directly compensating them for principal and interest payment in the event of the Borrowers’ defaults, which are accounted for as guarantee liabilities under ASC 460, *Guarantees*.

Starting from 2019, the Group started to cooperate with third-party insurance companies and guarantee companies that directly provide guarantee services to certain Institutional Funding Partners, and no longer replenished the deposits made to these Institutional Funding Partners. According to relevant financial guarantee arrangements, third-party insurance companies and guarantee companies will provide the principal and interest payment to these Institutional Funding Partners, in case of Borrowers’ defaults. However, the Group is required to provide deposits and replenish such deposits from time to time to the bank accounts of these insurance companies and guarantee companies, in the event that such insurance companies and guarantee companies perform their guarantee obligations upon the Borrowers’ defaults. Effectively, the Group provides back-to-back guarantee to the insurance companies and guarantee companies and takes on all of the credit risk of the Borrowers. These financial guarantee contracts are accounted for as guarantee liabilities under ASC 460, *Guarantees*, provided that the scope exception under ASC 815-10-15-58 is met.

For the off-balance sheet loans funded by certain other Institutional Funding Partners, these Institutional Funding Partners retain the credit exposure of the loans facilitated by the Group and do not require the Group to provide any guarantee pursuant to relevant arrangements. Therefore, the Group does not record guarantee receivables nor guarantee liabilities for the off-balance sheet loans funded by these Institutional Funding Partners.

Before the adoption of ASC 326 on January 1, 2020

Before the adoption of ASC 326, guarantee liabilities under ASC 460 were comprised of two components: (i) ASC 460 component; and (ii) ASC 450 component. In accordance with ASC 460-10-25-2 and ASC 460-10-30-3, the non-contingent and contingent aspect of the financial guarantee must both be considered at initial measurement. Accordingly, the guarantee liabilities were required to be measured at fair value at inception and reduced as the Group was released from the underlying risk, i.e., as the underlying loan was repaid by the Borrower or when the lender was compensated in the event of a Borrower’s default. This component was a stand ready obligation which was not subject to the probable threshold used to record a contingent obligation. The estimated fair value of the guarantee liabilities at inception of the loans was determined by the Group based on a discounted cash flow model, with reference to estimates of probable incurred loss rate and expected margins on cost of guarantee services. The other component was a contingent liability determined based on historical loss rates, representing the obligation to make future payouts, measured using the guidance in ASC 450, *Contingencies*. The ASC 450 contingent component considered the actual and expected performance of the loans on a pool basis when estimating the contingent liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Subsequent to initial recognition, the guarantee liabilities were measured at the greater of the amount determined based on ASC 460 and the amount determined based on ASC 450. ASC 460 does not prescribe a method for subsequently measuring and recording the noncontingent guarantee liabilities. However, as stated in ASC 460-10-35-1, the guarantee liabilities should generally be reduced by recording a credit to net income as the guarantor is released from the guaranteed risk. As the risk was reduced as each monthly payment was made, guarantee liabilities were recognized by a systematic and rational amortization method, i.e. over the terms of the underlying loans, as “Gain on guarantee liabilities, net” on the Consolidated Statements of Operations. At each reporting date, on a portfolio basis, when the aggregate contingent liabilities required to be recognized under ASC 450 exceeded the balance of guarantee liabilities determined under ASC 460, the Group recorded the excess against “Gain on guarantee liabilities, net” on its Consolidated Statements of Operations.

Guarantee receivables were recognized and measured at inception at fair value. For loans with original terms greater than 12 months, the Group determines a significant financing component exists in the arrangements. The discount rate, which reflects the credit risk of the customers, was used in adjusting the guarantee receivables at inception. Interest income resulting from the significant financing component is recorded as “Interest and financial services income and other revenues” on the Consolidated Statements of Operations.

At each reporting date, the Group assessed whether there is any indicator of impairment to the guarantee receivables. An impairment loss was recorded if the carrying amounts of the guarantee receivables exceeded the expected collections.

After the adoption of ASC 326 on January 1, 2020

As discussed in Note 2(g) above, the financial guarantees provided for the Group’s off-balance sheet loans accounted for under ASC 460 are in the scope of ASC 326 and subject to the CECL methodology.

After the adoption, the estimated fair value of the guarantee liabilities at inception of the loans continues to be determined based on a discounted cash flow model, but with reference to estimates of expected loss rates using CECL lifetime methodology. Subsequent to initial recognition, the guarantee liabilities continue to be reduced by recording a credit to net income as the guarantor is released from the guaranteed risk over the terms of the underlying loans, as “Guarantee income” on the Consolidated Statements of Operations.

The expected credit losses of the guarantee (the contingent aspect recorded as “Contingent guarantee liabilities”) are accounted for in addition to and separately from the guarantee liability (the noncontingent aspect recorded as “Deferred guarantee income”) accounted for under ASC 460. The contingent guarantee liabilities are determined using CECL lifetime methodology, compared to incurred loss methodology before the adoption, and recognized in full amount at loan inceptions. At each reporting date, the Group measures the contingent guarantee liabilities of the underlying loans, on a portfolio basis, and the relevant credit losses of guarantee are recorded as “Provision for credit losses of contingent liabilities of guarantee” on the Consolidated Statements of Operations.

The following table sets forth the activities of the Group’s obligations associated with the guarantee liabilities for the year ended December 31, 2019 prior to the adoption of ASC 326:

	For the year ended December 31, 2019
	(RMB in thousands)
Opening balances	456,276
Fair value of guarantee liabilities at inception of new loans	1,024,331
Release of guarantee liabilities upon the Borrowers’ repayment	(424,962)
Transfer from guarantee previously accounted for as derivatives*	1,325,935
Contingent liability	179,417
Payouts during the period	(2,926,080)
Recoveries during the period	2,091,451
Ending balances	1,726,368

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Since November 2019, the Group ceased to compensate interest repayment under the original terms of the loans to the Institutional Funding Partners, in the event that Borrowers early repay their loans. According to relevant financial guarantee contracts with certain Institutional Funding Partners, the guarantee provided by the Group met the scope exception under ASC 815-10-15-58 thereafter. Consequently, this financial guarantee previously provided for the outstanding off-balance sheet loans and accounted for as derivatives under ASC 815 was derecognized and accounted for as guarantee liabilities thereafter under ASC 460, which resulted in an increase in guarantee liabilities of RMB1.3 billion and corresponding guarantee receivables of RMB0.8 billion during the year ended December 31, 2019.

The following table sets forth the activities of the Group's obligations associated with the deferred guarantee income for the years ended December 31, 2020 and 2021 after the adoption of ASC 326:

	For the Year Ended December 31, 2020	For the Year Ended December 31, 2021
	(RMB in thousands)	
Opening balances	-	694,582
Cumulative effect due to the adoption of ASC 326 (Note 2(g))	1,481,814	—
Fair value of deferred guarantee income at inception of new loans	1,532,461	499,805
Release of deferred guarantee income	(2,319,693)	(774,544)
Ending balances	694,582	419,843

The following table sets forth the activities of the Group's obligations associated with the contingent guarantee liabilities for the year ended December 31, 2020 and 2021 after the adoption of ASC 326:

	For the Year Ended December 31, 2020	For the Year Ended December 31, 2021
	(RMB in thousands)	
Opening balances	—	1,738,787
Cumulative effect due to the adoption of ASC 326 (Note 2(g))	2,214,128	—
Provision for credit losses of contingent liabilities of guarantee	2,880,590	622,438
Net cash payout	(3,355,931)	(1,432,385)
Ending balances	1,738,787	928,840

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(k) Loans at fair value

From time to time, the Group acquires the loans when they are one day past due, or purchases the entire loans with certain monthly repayments that are past due over certain days consecutively or cumulatively, from certain funding partners, according to the relevant cooperation agreements with respective funding partners.

For those loans the Group acquired or purchased from the relevant funding partners, the Group accounts for them using fair value option pursuant to ASC 825, *Financial Instruments*, and records them on the Consolidated Balance Sheets as “Loans at fair value.”

As the loans acquired or purchased are not traded in an active market with readily observable prices, the Group estimates the fair value of loans acquired or purchased from funding partners using a discounted cash flow valuation methodology by discounting the estimated future net cash flows using an appropriate discount rate. The future net cash flows are estimated based on the contractual cash flows, taking into consideration of estimated future credit recoveries of the loans upon acquisition or repurchase. Changes in fair value of loans are reported net and recorded in “Change in fair value of loans” on the Consolidated Statements of Operations.

(l) Guarantee derivatives

In order to determine the accounting treatment of the guarantee, the Group considered the criteria of scope exception under ASC 815-10-15-58. In order to qualify for this scope exception, the financial guarantee contracts must meet all three of the following criteria: (a) provide for payments to be made solely to reimburse the guaranteed party for failure of the debtor to satisfy its required payment obligations either at prescriptive payment dates or accelerated payment dates as a result of the occurrence of an event of default or notice of acceleration being made to the debtor by the creditor; (b) payment be made only if the debtor’s obligation to make payments as a result of conditions as described in (a) is past due; and (c) the guaranteed party is, as a precondition in the contract for receiving payment of any claim under the guarantee, exposed to the risk of non-payment both at inception and throughout its term either through direct legal ownership or through a back-to-back arrangement.

For the financial guarantee provided by the Group that does not meet the scope exception under ASC 815-10-15-58, the Group accounts for the financial guarantee contracts with these Institutional Funding Partners as derivatives under ASC 815, *Derivatives and Hedging*, and records them on the Consolidated Balance Sheets as either assets or liabilities at fair value.

Derivative assets and liabilities within the scope of ASC 815 are required to be recorded at fair value at inception and remeasured at fair value on an ongoing basis in accordance with ASC 820, *Fair Value Measurement*. Therefore, the financial guarantee derivatives will be subsequently marked to market at the end of each reporting period with gains and losses recognized as change in fair value of financial guarantee derivatives. The estimated fair value of the financial guarantee derivatives is determined by the Group based on a discounted cash flow model, with reference to estimates of cumulative loss rates and margins on cost of guarantee services.

(m) Revenue recognition

The Group considered relevant accounting guidance and concluded that arrangements for its on-balance sheet loans and guarantee services provided for its off-balance sheet loans are out of scope of ASC 606, *Revenue from Contracts with Customers*. Therefore, “Interest and financial services income and other revenues” and “Guarantee income” included in “Credit-oriented services income” on the Consolidated Statements of Operations should be accounted for in accordance with ASC 310, *Receivables* and ASC 460, *Guarantees*, respectively. Other revenue streams are accounted for in accordance with ASC 606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services, net of value-added tax. The Group identifies its contracts with customers and all performance obligations within those contracts. The Group then determines the transaction price and allocates the transaction price to the performance obligations within the Group's contracts with customers, recognizing revenue when, or as, the Group satisfies its performance obligations. For considerations with original payment terms greater than 12 months, the Group determines a significant financing component exists in the arrangements. The discount rate, which reflects the credit risk of the customers, is used in adjusting the consideration at inception for revenue recognition. Interest income resulting from a significant financing component is recorded as "Interest and financial services income and other revenues" on the Group's Consolidated Statements of Operations.

The Group's revenue recognition policies under ASC 606 are as follows:

Online direct sales and services*Online direct sales*

The Group engages in the online direct sales of electronic products, and to a lesser extent, home appliance products and general merchandise products with installment payment terms mainly through its retail website www.fenqile.com and its APP.

Online direct sales revenues are recognized at point-in-time when control of promised goods or services is transferred to the customers, which generally occurs upon the acceptance of the goods or services by the customers. For arrangements where the Group controls the goods or services before they are transferred to the customers as a principal, as it is primarily responsible for fulfilling the promise to provide the goods or services, is subject to inventory risk, and has discretion in establishing prices, revenues are recorded on a gross basis. Otherwise, revenues are recorded on a net basis. The goods or services are generally sold with a right of return, which is accounted for as variable consideration when determining the amount of revenue to recognize. Return allowances are estimated based on historical experiences and insignificant for all of the periods presented.

For these transactions, the Group generates financing receivables due from the Borrowers who place orders. The online direct sales revenues and related financing receivables are accounted for as sales of products or services to the Borrowers with extended payment terms and recorded at present value of the contractual cash flows when the Group's performance obligations are satisfied.

The financing receivables initially generated from online direct sales may be subsequently funded with the proceeds from on- or off-balance sheet loans as discussed in Note 2(f).

Membership services

The Group offers membership packages to the subscribing members with access to benefits of sales of products and services on the Group's Platform and APP that represent a single stand-ready obligation, in exchange for upfront premium membership fees. The receipt of premium membership fees is initially recorded as "Deferred service fees" included in "Accrued expenses and other current liabilities" and membership fees are recognized ratably over the terms of the membership packages as the Group's performance obligation is satisfied over time.

Other services

The Group also operates an online marketplace that enable third-party sellers to sell their products to customers with installment payment terms. The Group charges the third-party sellers a fixed rate commission fee based on the sales amount for the services rendered. Revenues are recognized at point-in-time when the underlying transactions are completed, i.e., upon acceptance of the underlying goods or services by the Borrowers. In accordance with ASC 606-10-55-39, the Group recognizes the commission fees as revenues from the third-party sellers on a net basis, as the Group is acting as an agent and does not have general inventory risk or does not have discretion to establish prices. For these transactions whereby the Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pays to the third-party sellers on behalf of the Borrowers, the Group generates financing receivables due from the Borrowers, which may be subsequently funded with the proceeds from on- or off-balance sheet loans as discussed in Note 2(f).

Credit-oriented services and platform-based services**Loan facilitation and servicing fees – overall**

With respect to the off-balance sheet loans, the Group does not record financing receivables arising from these loans nor funding debts to the funding partners. The Group earns loan facilitation and servicing fees and records them as “Loan facilitation and servicing fees-credit oriented,” “Loan facilitation and servicing fees-performance based” and “Loan facilitation and servicing fees-volume based” based on respective arrangements, as applicable.

Revenues from loan facilitation and matching and post-origination services

The Group provides intermediary services to the Borrowers and funding partners as the lenders. The intermediary services provided include (i) loan facilitation and matching services, (ii) post-origination services (i.e. account maintenance, collection, and payment processing), and (iii) a financial guarantee, if any. The Group has assessed all these services and concludes that loan facilitation and matching services and post-origination services are distinct and therefore are separate performance obligations. The financial guarantee, if any, is within the scope of ASC 815, *Derivatives and Hedging* or ASC 460, *Guarantees*, where applicable, and recorded at fair value at inception of the loans. The remaining consideration is allocated to each of the performance obligations based on relative standalone selling price of each of the services being provided to customers. The Group primarily uses the expected cost plus a margin approach to determine the relative standalone selling price as a result of the adoption of ASC 606.

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised services to its customers, net of value-added tax. The transaction price includes variable service fees which is estimated using the expected value method and is limited to the amount of variable consideration that is probable not to be reversed in future periods. The Group assesses whether the estimate of variable consideration is constrained.

Revenues from loan facilitation and matching services are recognized at point-in-time upon the successful matching of the borrowing requests from the Borrowers with the funding partners as the lenders. Revenues from post-origination services are recognized ratably over the terms of the underlying loans as this performance obligation is satisfied over time.

Revenues from Investment Program management services

The Group provides ongoing management services to the Individual Investors pursuant to the Investment Programs, including (i) initial matching of the investment funds from the Individual Investors and (ii) continuous re-matching of the monthly repayment from the Borrowers with any new borrowing requests to generate investment returns for the Individual Investors over the terms of the Investment Programs.

The customers (i.e. the Individual Investors) simultaneously receive and consume the benefits provided by the Group’s performance throughout the terms of the Investment Programs. The Group concludes that the ongoing management services is a distinct service being provided over the time in accordance with ASC 606, therefore the revenues from Investment Program management services are recognized over the terms of the Investment Programs, using a straight-line method. The Group considers the options to the Individual Investors to renew the contract term of Investment Programs to purchase additional future services with a lower service fee rate, if any, as a material right to customers therefore is a separate performance obligation. The transaction price allocated to such options are deferred to be recognized as revenues when the relevant future services are transferred or when the options expire. The remaining consideration is allocated to each of the performance obligations based on relative standalone selling price of each of the services being provided to customers. The Group determines the relative standalone selling price of such options primarily based on historical data of the discounts that the customers obtain from exercising such options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loan facilitation and servicing fees – credit oriented

For the off-balance sheet loans funded by the Individual Investors on *Juzi Licai* or certain Institutional Funding Partners, where the Group provides guarantee services, revenue earned from such loans is recorded as “Loan facilitation and servicing fees-credit oriented” under ASC 606 and “Guarantee income” under ASC 460 (Note 2(f)).

Loan facilitation and servicing fees – performance based

For the off-balance sheet loans funded by certain other Institutional Funding Partners, where the Group does not provide guarantee services and takes no credit risks of Borrowers in respect of principal and interests due to the lenders, the Group charges the service fees for loan facilitation and servicing at predetermined rates based on the performance of the underlying off-balance sheet loans, and records revenue earned from such loans as “Loan facilitation and servicing fees-performance based.”

Loan facilitation and servicing fees – volume based

For the off-balance sheet loans funded by certain other Institutional Funding Partners, where the Group does not provide guarantee services and takes no credit risks of Borrowers in respect of principal and interests due to the lenders, the Group charges the service fees at predetermined rates of amount of loan originations upon successful matching of borrowing requests, and records revenue earned from such loans as “Loan facilitation and servicing fees-volume based.”

Interest and financial services income and other revenues

The Group generates interest and financial services income and other revenues from its financing receivables.

Interest and financial services income is recognized over the terms of financing receivables using the effective interest method. Direct origination costs include costs directly attributable to originating financing receivables, including vendor costs and personnel costs directly related to the time spent by those individuals performing activities related to the origination of financing receivables. Considering the credit risk characteristics of the Borrowers as well as the relatively small amount of each individual financing receivable, the Group determined that direct origination costs incurred for originating individual financing receivables are insignificant and expensed as incurred and recorded in “Processing and servicing cost” on the Consolidated Statements of Operations. Interest and financial services income is not recorded when reasonable doubt exists as to the full, timely collection of interest or principal.

Other revenues include fees collected for prepayment and late payment for on-balance sheet loans, which are calculated as certain percentages of interest over the prepaid principal loan amount in case of prepayment or certain percentages of past due amounts in case of late payment.

Customer incentives

In order to incentivize the individual customers to use the Platform and APP, the Group primarily provides two major types of incentive coupons: cash coupons that have a stated discount amount that reduces the selling price of a future purchase of product and repayment coupons that have a stated discount amount that reduce a future repayment on the installment purchase loans or personal installment loans. Both cash coupons and repayment coupons are given for free at the Group’s discretion, which are not linked to any transactions or previous transactions from the Platform and APP when they are given. In accordance with ASC 606-10-32-27, cash coupons and repayment coupons are accounted for as a reduction of revenue of the Group upon the future purchase or application by the customers. The amount of cash coupons and repayment coupons recognized as a reduction of revenue was RMB281.0 million, RMB196.3 million and RMB200.7 million for the years ended December 31, 2019, 2020 and 2021, respectively.

The Group offers a referral code incentive in cash to existing Borrowers for promoting its Platform and APP. Referral code incentives are granted to existing Borrowers for each new Borrower who successfully signs up on the Platform and APP using the existing Borrowers’ referral codes and has been granted a credit line. Referral code incentives, amounting to RMB19.7 million, RMB17.1 million and RMB27.3 million, were recorded as sales and marketing expenses on the Consolidated Statements of Operations for the years ended December 31, 2019, 2020 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contract balances

The Group classifies its right to consideration in exchange for products or services transferred to a customer as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional as compared to a contract asset which is a right to consideration that is conditional upon factors other than the passage of time. Generally, the amount of revenue recognized from loan facilitation and matching services and Investment Program management services exceeds the amount billed to customers following the predetermined payment schedules at inception of the loans. The Group does not have an unconditional right to such exceeding amount. Service fees receivable represent the considerations for which the Group has satisfied its performance obligations and has the unconditional right to consideration. At each reporting date, the Group assesses whether there is any indicator of impairment to the contract assets and service fees receivable. An impairment loss, if any, is recorded as "Provision for credit losses of contract assets and receivables" on the Consolidated Statements of Operations.

Contract liabilities relate to unsatisfied performance obligations at the end of each reporting period and consist of cash payment received in advance from customers in membership services and post-origination services, which is recorded as "Deferred service fees" included in "Accrued expenses and other current liabilities" on the Consolidated Balance Sheets. The amount of revenue recognized that was included in the contract liabilities balance at the beginning of the years were RMB47.9 million and RMB52.0 million for the years ended December 31, 2020 and 2021, respectively.

Remaining performance obligations

The remaining performance obligation disclosure provides the aggregate amount of the transaction price yet to be recognized as of the end of the reporting period and an explanation as to when the Group expects to recognize these amounts in revenue. Additionally, as a practical expedient, the Group does not include contracts that have an original duration of one year or less.

As of December 31, 2020 and 2021, the aggregate amount of the transaction price allocated to remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied was RMB1,101.3 million and RMB903.2 million, respectively. Given the profile of contract terms, substantially all of the remaining performance obligation is expected to be recognized as revenue over the next three years.

Practical expedients

The Group has used the following practical expedients as allowed under ASC 606:

The remaining performance obligation has not been disclosed when the performance obligation is part of a contract that has an original duration of one year or less.

The Group expenses sales commissions as incurred when the amortization period is one year or less. Sales commission expenses are recorded within "Sales and marketing expenses" on the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Disaggregation of revenues within the scope of ASC 606

The following table presents the Group's operating revenue within the scope of ASC 606 disaggregated by revenue sources:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Online direct sales and services income:			
Online direct sales	3,623,991	1,900,835	1,661,156
Membership services	112,558	113,107	107,901
Other services	92,292	68,890	86,304
Total	3,828,841	2,082,832	1,855,361
	2019	2020	2021
	(RMB in thousands)		
Credit-oriented services income			
Loan facilitation and matching service fees-credit oriented	3,868,044	2,628,941	3,120,892
Post-origination service fees-credit oriented	643,399	1,087,567	1,327,452
Investment Program management service fees-credit oriented	300,425	70,488	—
Total	4,811,868	3,786,996	4,448,344
	2019	2020	2021
	(RMB in thousands)		
Platform-based services income:			
Loan facilitation and matching service fees-performance based	556,143	1,656,998	1,727,794
Post-origination service fees-performance based	92,373	273,837	561,658
Loan facilitation and servicing fees-volume based	167,458	106,007	279,902
Total	815,974	2,036,842	2,569,354

The following table presents the Group's operating revenue within the scope of ASC 606 disaggregated by timing of revenue recognition:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Revenues recognized at point-in-time	8,307,928	6,361,671	6,876,048
Revenues recognized over time	1,148,755	1,544,999	1,997,011
Total	9,456,683	7,906,670	8,873,059

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(n) Cash and cash equivalents

Cash and cash equivalents represent cash on hand, demand deposits placed with banks or other financial institutions, which are unrestricted to withdrawal or use. As of December 31, 2020 and 2021, the Group did not have any cash equivalents.

(o) Restricted cash

Restricted cash mainly represents: (i) cash received from the Borrowers but not yet been repaid to the funding partners or received from the funding partners but not yet been distributed to the Borrowers which is not available to fund the general liquidity needs of the Group; and (ii) security deposits set aside for partnering commercial banks or certain Institutional Funding Partners in case of Borrowers' defaults.

(p) Restricted time deposits

Restricted time deposits include (i) time deposits securing the Group's borrowings from financial institutions, and (ii) time deposits placed with and set aside for partnering commercial banks as Institutional Funding Partners in case of Borrowers' defaults.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(q) Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost or net realizable value. Cost of inventory is determined using the moving average cost method for the years ended December 31, 2020 and 2021. Prior to 2019, cost of inventory was determined using the First-in-first-out cost method. Such change did not have a material impact on the opening balance of retained earnings as of January 1, 2019 and the financial position and results of operations as of and for the year ended December 31, 2019. The accounting change was not applied retrospectively as the cumulative effect was not material to current operations or to the trend of the reported results of operations in accordance with ASC 250-10-S99-3. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of disposal and transportation. Adjustments are recorded to write down the cost of inventory to the net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased. Write-downs are recorded in cost of revenues in the Consolidated Statements of Operations. As of December 31, 2020 and 2021, all inventory balances were products available for sale.

The Group also provides fulfillment-related services in connection with the Group's online marketplace. Third-party sellers maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

(r) Long-term investments

The Group's long-term investments consist of equity investments in privately held companies accounted for using the measurement alternative, equity investments accounted for using the equity method and a debt investment in forms of a loan for which the Group has the intent and ability to hold to maturity or payoff.

Equity investments accounted for using the measurement alternative

The Group adopted ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities effective January 1, 2018 and measures long-term equity investments, other than equity method investments, at fair value through earnings. For those investments over which the Group does not have significant influence and without readily determinable fair value, the Group elected to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Under this measurement alternative, changes in the carrying value of the equity investments are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer. The Group makes reasonable efforts to identify price changes that are known or that can reasonably be known. The Group also makes a qualitative assessment of whether these investments are impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Group has to estimate the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the Group has to recognize an impairment loss equal to the difference between the carrying value and fair value on its Consolidated Statements of Operations.

Equity investments accounted for using the equity method

The Group applies the equity method of accounting to account for its equity investments, according to ASC 323 Investment-Equity Method and Joint Ventures, over which it has significant influence but does not own a majority equity interest or otherwise control. Under the equity method, the Group initially records the investments at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investments on the Consolidated Balance Sheets. The Group subsequently adjusts the carrying amount of the investments to recognize its proportionate share of each equity investee's net income or loss into earnings and cash distributions from investees, if any, after the date of investment. The Group evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investment is recognized in earnings when the decline in value is determined to be other-than-temporary.

Debt investment

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The loan held for long-term investment is carried at outstanding principal adjusted for any write-offs, and allowance for loan losses, any deferred fees or cost, and any unamortized premiums or discounts on the Consolidated Balance Sheets. The Group records the interest income associated with the debt investment using effective interest rate method on the Consolidated Statements of Operations. The allowance for credit losses was recognized that reflects the Group's best estimate of the amounts that will not be collected.

(s) Property, equipment and software, net

Property, equipment and software, net are stated at cost less accumulated depreciation, amortization and impairment, if any. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Category	Estimated Useful Lives
Computers and equipment	3 years
Furniture and fixtures	4 - 5 years
Leasehold improvement	Over the shorter of the expected life of leasehold improvement or the lease term
Software	3 - 10 years

(t) Land use rights, net

Land use rights represent the land use rights obtained for the purpose of constructing offices, which was amortized on a straight-line basis over the term of the land use right period, approximately 30 years.

(u) Impairment of long-lived assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets.

(v) Fair value measurements*Financial instruments*

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the 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.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical asset or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 applies to asset or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Fair value measurements on a recurring basis

The carrying amount of cash and cash equivalents, restricted cash, amounts due from related parties, accounts payable, and amounts due to related parties approximates fair value because of their short-term nature. Financing receivables are measured at amortized cost. Funding debts and accrued interest payable are carried at amortized cost. The carrying amount of the financing receivables, funding debts, accrued interest receivable, and accrued interest payable approximates their respective fair value as the interest rates applied reflect the current quoted market yield for comparable financial instruments.

For the off-balance sheet loans funded by certain Institutional Funding Partners, the Group accounts for financial guarantee provided at fair value. The Group uses significant unobservable inputs to measure the fair value of these guarantee liabilities. The Group considers unobservable inputs to be significant, if, by their exclusion, the estimated fair value of a Level 3 asset or liability would be impacted by a significant percentage change, or based on qualitative factors such as the nature of the instrument and significance of the unobservable inputs relative to other inputs used within the valuation.

The Group elected the fair value option for the loans acquired or purchased from the relevant funding partners starting from the second quarter of 2020. The Group uses significant unobservable inputs to measure the fair value of these loans (Level 3).

Fair value measurements on a non-recurring basis

The Group measures certain financial assets at fair value on a non-recurring basis only if an impairment charge were to be recognized. The Group's long-term equity investments are measured at fair value on a nonrecurring basis under measurement alternative, if an impairment loss is charged or fair value adjustment is made for an observable price change in an orderly transaction for identical or similar investments of the same issuer. The Group's non-financial assets, such as property, equipment and software, would be measured at fair value only if they were determined to be impaired.

(w) Cost of sales

Cost of sales consists of purchase price of the products, shipping charges and handling costs, as well as write-downs of inventory. Shipping charges to receive products from suppliers are included in the inventories, and recognized as cost of sales upon sale of the products to customers. For each of the periods presented, write-downs of inventory were insignificant.

(x) Funding cost

Funding cost consists of interest expense the Group pays to funding partners, including certain Institutional Funding Partners and third-party investors of the consolidated Trusts and the asset backed securitized debts, to fund its on-balance sheet loans, certain fees and amortization of deferred debt issuance costs incurred in connection with obtaining these debts, such as origination fees and legal fees.

(y) Processing and servicing cost

Processing and servicing cost consists primarily of vendor costs related to credit assessment, customer and system support, payment processing services and collection services associated with originating, facilitating and servicing the loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(z) Sales and marketing expenses

Sales and marketing expenses consist primarily of advertising costs and payroll and related expenses for personnel engaged in marketing and business development activities. Advertising costs, which consist primarily costs of online advertising and offline outdoor promotion activities, are expensed as incurred and are included within sales and marketing expenses on the Consolidated Statements of Operations. For the years ended December 31, 2019, 2020 and 2021, advertising costs totaled RMB1.0 billion, RMB791.2 million and RMB1.0 billion, respectively.

(aa) 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.

(bb) General and administrative expenses

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, including finance, legal and human resources; costs associated with use of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

(cc) Leases

On January 1, 2019, the Group adopted ASU No. 2016-02, *Leases (Topic 842)*, as amended, which supersedes the lease accounting guidance under Topic 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements.

The Group elected to apply practical expedients permitted under the transition method that allow the Group to use the beginning of the period of adoption as the date of initial application, to not recognize lease assets and lease liabilities for leases with a term of twelve months or less, to not separate non-lease components from lease components, and to not reassess lease classification, treatment of initial direct costs, or whether an existing or expired contract contains a lease. The Group did not retrospectively adjust the prior comparative periods. Under the new lease standard, the Group determines if an arrangement is or contains a lease at inception. Right-of-use assets and liabilities are recognized at lease commencement date based on the present value of remaining lease payments over the lease terms. The Group considers only payments that are fixed and determinable at the time of lease commencement.

As a result of the adoption, the Group recognized approximately RMB 113.2 million of right-of-use assets recorded in “Other assets”, and corresponding short-term leasing liabilities recorded in “Accrued expenses and other current liabilities” and long-term leasing liabilities recorded in “Other long-term liabilities” respectively on the Consolidated Balance Sheet as of January 1, 2019. The adoption had no impact on the Group’s Consolidated Statements of Operations for the year ended December 31, 2019 or the opening balances of retained earnings as of January 1, 2019.

The Group leases certain office premises under non-cancelable leases, which expire at various dates through August 2026. As of December 31, 2021, the Group’s operating leases had a weighted average remaining lease term of 4.3 years and a weighted average discount rate of 4.91%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum lease payments under non-cancelable operating leases agreements are as follows:

	<u>For the Year ended December 31, 2021</u>
	<u>RMB in thousands</u>
2022	55,088
2023	45,155
2024	41,129
2025 and thereafter	71,585
Total future lease payments	212,957
Impact of discounting remaining lease payments	(21,924)
Total lease liabilities	191,033
- Short-term portion	53,644
- Long-term portion	137,389

Rental expenses under operating leases for the year ended December 31, 2019 were RMB54.9 million. Operating lease cost for the years ended December 31, 2020 and 2021 was RMB57.9 million and RMB59.7 million, respectively, which excluded cost of leasing contracts with original terms less than 12 months. Short-term lease cost for the years ended December 31, 2020 and 2021 was RMB3.9 million and RMB6.4 million, respectively. Supplemental cash flow information related to operating leases was as follows:

	<u>For the Year ended</u>
	<u>December 31, 2021</u>
	<u>RMB in thousands</u>
Cash payments for operating leases	60,620
Right-of-use assets obtained in exchange for operating lease liabilities	172,603

(dd) Share-based compensation

Share-based awards granted to the Group's employees and non-employees, directors and non-employee directors, such as stock options and restricted share units, are measured at the grant date based on the fair value of the awards in accordance with ASC 718, *Compensation-Stock Compensation*. Share-based compensation, net of estimated forfeitures, is recognized as expenses on a straight-line basis over the requisite service period, which is the vesting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The modification of the terms or conditions of the existing share-based award is treated as an exchange of the original award for a new award. The incremental compensation expenses are equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For stock options already vested as of the modification date, the Group immediately recognized the incremental value as compensation expenses. For stock options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these stock options.

Prior to the adoption of ASU No. 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting on January 1, 2019, share-based awards granted to non-employees are accounted for in accordance with ASC 505-50, Equity-Based Payments to Non-Employee. All transactions in which services are received in exchange for share-based awards are accounted for based on the fair value of the consideration received or the fair value of the awards issued, whichever is more reliably measurable. Share-based compensation is measured at fair value at the earlier of the commitment date or the date the services are completed. The Group remeasures the awards using the then-current fair value at each reporting date until the measurement date, generally when the services are completed and awards are vested, and attributes the changes in those fair values over the service period by straight-line method. Under ASU No. 2018-07, the accounting for awards to non-employees are similar to the model for employee awards.

Stock options and restricted share units granted generally vest over four years.

Prior to completion of the IPO, the exercise price of each granted stock option was US\$0.0001, the Company used intrinsic value (approximately the fair value of each of the Company's ordinary share) on the grant date to estimate the fair value of the stock options granted. After the IPO, the exercise price of each granted stock option is determined by the closing price of the Company's ordinary share on the grant date. Therefore, the Company utilizes the binomial option pricing model to estimate the fair value of stock options granted after the IPO. The fair value of each granted restricted share unit is determined by the closing price of the Company's ordinary share on the grant date.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Group uses historical data to estimate forfeitures of share-based awards and records share-based compensation expenses only for those awards that are expected to vest.

(ee) Taxation*Income tax*

Current income tax is provided for in accordance with the laws of the relevant tax jurisdictions.

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

Deferred tax assets are recognized to the extent that these assets are more-likely-than-not to be realized. In making such a determination, the Group considers all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation. The Group records a valuation allowance to reduce the amount of deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

Uncertain tax positions

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

To assess uncertain tax positions, the Group applies a more-likely-than-not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likelihood of being realized upon settlement. The Group classifies interest and penalties related to income tax matters, if any, in income tax expense.

(ff) Net income per share

Basic net income per share is computed by dividing net income attributable to ordinary shareholders. Net income per ordinary share are computed on Class A Ordinary Shares and Class B Ordinary Shares together, because both classes have the same dividend rights in the Company's undistributed net income.

Diluted net income per share is calculated by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of convertible notes using the if-converted method, and ordinary shares issuable upon the exercise of outstanding stock options and vesting of restricted share units, using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted income per share calculation when inclusion of such shares would be anti-dilutive.

(gg) Segment reporting

The Group engages primarily in online direct sales services and online consumer finance services for its customers in the PRC. The Group does not distinguish between markets or segments for the purpose of internal reports. The Group does not distinguish revenues, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole. The Group's chief operating decision maker, who has been identified as the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment. As most of the Group's long-lived assets are all located in the PRC and all the Group's revenues are derived from the PRC, no geographical segments are presented.

(hh) Statutory reserves

The Company's subsidiaries, the VIEs and the VIEs' subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises ("FIEs") established in the PRC, the Group's subsidiaries registered as wholly foreign-owned enterprises ("WFOEs") have to make appropriations from its annual after-tax profits as determined under Generally Accepted Accounting Principles in the PRC ("PRC GAAP") to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the annual after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the consolidated VIEs and the VIEs' subsidiaries, registered as Chinese domestic companies, must make appropriations from their annual after-tax profits as determined under PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the annual after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the respective company's discretion.

The use of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of all employees. None of these reserves are allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2019, 2020 and 2021, profit appropriation to general reserve fund and statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB152.1 million, RMB296.9 million and RMB252.1 million respectively.

(ii) Significant risks and uncertainties*Foreign currency risk*

The PRC government imposes controls on the convertibility of RMB into foreign currencies. The Group's cash and cash equivalents, restricted cash and restricted time deposits denominated in RMB that are subject to such government controls amounted to RMB 4,276.9 million and RMB 5,119.0 million as of December 31, 2020 and December 31, 2021, respectively. The value of RMB is subject to changes in the central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the PBOC. Remittances in currencies other than RMB by the Group in the PRC must be processed through PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

Operation and compliance risk

In August 2017, the State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Regulations, effective October 1, 2017. In October 2019, the Chinese Banking and Insurance Regulatory Commission, or CBIRC, and other eight PRC regulatory agencies promulgated the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Supplementary Provisions. The Financing Guarantee Supplementary Provisions provides that, among others, institutions providing services such as client recommendation and credit assessment to various institutional funding partners shall not render any financing guarantee service, whether directly or in disguised form, without the necessary approval. Otherwise, the penalties set forth in the Financing Guarantee Regulations may be imposed by the regulatory authorities, and the Group's existing business shall be properly settled.

Due to a lack of further interpretations, the exact definition and scope of "operating financing guarantee business" under the Financing Guarantee Regulations or "providing financing guarantee services in disguised form" under the Financing Guarantee Supplementary Provisions are still unclear. The Group provided various investor protection measures to Institutional Funding Partners through different kinds of arrangements, including direct deposits, and back-to-back guarantees to the insurance companies and guarantee companies. It is uncertain whether these or certain of these arrangements would be deemed to have operated financing guarantee business or provided financing guarantee services in disguised form. If such arrangements were deemed to be in violation of any applicable laws and regulations, the Group could be subject to penalties and/or be required to change its current business model, and as a result, the Group's business, financial condition, and results of operations could be materially and adversely affected.

In an effort to ensure compliance with applicable laws and regulations, the Group has currently conducted part of the investor protection measures through its own financial guarantee companies, which are qualified to provide financing guarantee services. The Group is continuously making efforts to adjust its business model and practice to mitigate the relevant compliance risk, including increasing the proportion of investor protection measures through its own financial guarantee companies.

Concentration of credit risk

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit risk is one of the most significant risks for the Group's installment purchase loans and personal installment loans businesses. The Group records provision for credit losses based on its estimated probable losses against its financing receivables. Apart from the financing receivables, financial instruments that potentially expose the Group to significant concentration of credit risk primarily included in the financial statement line items of cash and cash equivalents, restricted cash, restricted time deposits, accrued interest receivable, prepaid expenses and other current assets, guarantee receivables, service fees receivable and contract assets, and deposits to insurance companies and guarantee companies. The Group holds its cash and cash equivalents, restricted cash and restricted time deposits at reputable financial institutions in the PRC and at international financial institutions with high ratings from internationally recognized rating agencies. As of December 31, 2021, approximately 97% of the Group's cash and cash equivalents, restricted cash and restricted time deposits 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. Financing receivables, accrued interest receivable, service fees receivable and contract assets are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to these receivables and contract assets are mitigated by credit evaluations the Group performs on its Borrowers and the Group's ongoing monitoring process of outstanding balances.

Concentration of customers, suppliers, and funding partners

There was no revenue from customers which individually represented greater than 10% of the total operating revenue for any of the periods presented. There were no financing receivables, contract assets and service fees receivable and guarantee receivables due from customers of the Group that individually accounted for greater than 10% of the Group's carrying amount of financing receivables, contract assets and service fees receivable and guarantee receivables as of December 31, 2020 and 2021, respectively.

There were two, three and two inventory suppliers accounted for more than 10% of the Group's total purchases for the years ended December 31, 2019, 2020 and 2021, respectively. Four and three suppliers accounted for more than 10% of the Group's accounts payable as of December 31, 2020 and 2021, respectively, as follows:

	As of December 31,	
	2020	2021
Inventory supplier A	16.9%	16.6%
Inventory supplier B	16.8%	*
Inventory supplier C	10.7%	—
Inventory supplier D	24.4%	16.6%
Inventory supplier E	—	11.9%

* Less than 10%.

There was no funding partner, including Individual Investor or Institutional Funding Partner, that accounted for more than 10% of the Group's total funding cost for the years ended December 31, 2019. There was one and two Institutional Funding Partners that accounted for more than 10% of the Group's total funding cost for the year ended December 31, 2020 and 2021. Institutional Funding Partners accounted for more than 10% of the Group's funding debts as of December 31, 2020 and 2021 respectively as follows:

	As of December 31,	
	2020	2021
Institutional Funding Partner A	21.4%	16.3%
Institutional Funding Partner B	*	23.0%

There was one, two and one Institutional Funding Partner that accounted for more than 10% of the Group's origination of off-balance sheet loans for the year ended December 31, 2019, 2020 and 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2020, one insurance company and three guarantee companies accounted for more than 10% of the Group's deposits to insurance companies and guarantee companies. As of December 31, 2021, two guarantee companies accounted for more than 10% of the Group's deposits to insurance companies and guarantee companies.

	As of December 31,	
	2020	2021
Guarantee Company A	13.6 %	16.8 %
Guarantee Company B	19.6 %	16.4 %
Insurance Company C	18.8 %	*
Guarantee Company D	12.6 %	*

* Less than 10%.

Impact of COVID-19

The COVID-19 pandemic has adversely impacted overall economic conditions in China. The business and operations of the Group in early 2020 were adversely affected, including but not limited to negative impact to the growth of loan originations and operating revenues, and additional credit losses for receivables and financial guarantees caused by increased credit risk. The pandemic also resulted in the impairment to the Group's long-term investments due to the lower-than-expected financial performance. Starting from the fourth quarter of 2020, a few waves of COVID-19 infections emerged in various regions of China in late 2021 and early 2022, the extent of the business disruption and the related financial impact will depend on future developments of the COVID-19 pandemic, which are highly uncertain and difficult to predict.

The Group has assessed various accounting estimates and other matters, including credit losses for financial assets, long-term investments, share-based compensation, valuation allowances for deferred tax assets and revenue recognition. Based on current assessment of these estimates, although the COVID-19 outbreak adversely affected the Group's business in early 2020, the Group concluded that there would be no material impact on the Group's long-term forecast as of December 31, 2021. While the adverse impact from COVID-19 is currently expected to be temporary, there is uncertainty around the duration of these disruptions and the possibility of other adverse effects on the Group's business, and the Group will continue to monitor for potential credit risk as the impact of the COVID-19 pandemic evolves.

(j) Recent accounting pronouncements

In January 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) — Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* (a consensus of the FASB Emerging Issues Task Force) which clarifies the interactions of the accounting for certain equity securities under ASC 321, investments accounted for under the equity method of accounting in ASC 323, and the accounting for certain forward contracts and purchased options accounted for under ASC 815. ASU No. 2020-01 could change how an entity accounts for (i) an equity security under the measurement alternative and (ii) a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with ASC 825, Financial Instruments. These amendments improve current U.S. GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. The new guidance is effective prospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption was permitted. The adoption of this standard did not have a material impact on our consolidated financial statements.

Other accounting standards that we adopted beginning January 1, 2021 did not have a significant impact on our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for the exception. The ASU also simplifies the diluted net income per share calculation in certain areas. The new guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption was permitted, but no earlier than fiscal year beginning after December 15, 2020, including interim periods within that fiscal year. The Group is currently evaluating this standard but do not expect that it will have a material impact on our consolidated financial statements.

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. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Group is currently evaluating this standard but do not expect that it will have a material impact on our consolidated financial statements.

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 us 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 Group is currently evaluating this standard but do not expect that it will have a material impact on our consolidated financial statements.

In March, 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the accounting guidance for TDRs in ASC 310-40, *Receivables - Troubled Debt Restructurings by Creditors*. ASU 2022-02 also requires an issuer to disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. The amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied prospectively, with one possible exception. The Group is currently evaluating the impact of the new guidance on its consolidated financial statements.

3. FINANCING RECEIVABLES, NET

Financing receivables, net as of December 31, 2020 and 2021 consisted of the followings:

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Short-term:		
Installment purchase loans	457,407	300,999
Personal installment loans	4,969,154	3,779,317
Total short-term financing receivables	5,426,561	4,080,316
Allowance for credit losses	(508,013)	(307,341)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total short-term financing receivables, net	<u>4,918,548</u>	<u>3,772,975</u>
Long-term:		
Installment purchase loans	127,265	93,754
Personal installment loans	<u>98,645</u>	<u>166,896</u>
Total long-term financing receivables	225,910	260,650
Allowance for credit losses	<u>(21,149)</u>	<u>(19,523)</u>
Total long-term financing receivables, net	<u>204,761</u>	<u>241,127</u>

These balances represent short-term and long-term financing receivables generated from installment purchase loans and personal installment loans transacted on the Group's Platform and APP with an original term generally up to three years and do not have collateral. The weighted average interest rates of these financing receivables were 24.9% and 22.2% as of December 31, 2020 and 2021, respectively.

As of December 31, 2020, installment purchase loans and personal installment loans that were charged-off in accordance with the Group's standard charge-off policy were RMB186.9 million and RMB2,802.9 million, respectively. As of December 31, 2021, installment purchase loans and personal installment loans that were charged-off in accordance with the Group's standard charge-off policy were RMB201.4 million and RMB3,392.1 million, respectively. The Group determined it was probable that the Group will be unable to collect the unpaid principal amounts on those loans.

The following table summarizes the balances of financing receivables by due date as of December 31, 2020 and 2021:

	As of December 31,	
	<u>2020</u>	<u>2021</u>
	(RMB in thousands)	
Due in months		
0 - 12	5,426,561	4,080,316
13 - 24	182,107	229,900
25 - 36	23,388	22,615
Thereafter	<u>20,415</u>	<u>8,135</u>
Total financing receivables	<u>5,652,471</u>	<u>4,340,966</u>

The activities in the allowance for credit losses of financing receivables for the years ended December 31, 2019, 2020 and 2021, respectively, consisted of the following:

	For the year ended		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(RMB in thousands)		
Beginning balances	(384,036)	(373,545)	(529,162)
Cumulative effect due to the adoption of ASC 326 (Note 2(g))	—	(229,661)	—
Provision for credit losses	(708,684)	(779,235)	(401,417)
Charge-offs	815,421	1,078,705	913,940
Recoveries from prior charge-offs	<u>(96,246)</u>	<u>(225,426)</u>	<u>(310,225)</u>
Ending balances	<u>(373,545)</u>	<u>(529,162)</u>	<u>(326,864)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Aging analysis of past due financing receivables as of December 31, 2020 and 2021 are as follows:

RMB in thousands	1 - 29 Days Past Due	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 179 Days Past Due	180 Days or Greater Past Due	Total Past Due	Current	Total
Installment purchase loans	7,086	4,508	3,839	11,884	—	27,317	557,355	584,672
Personal installment loans	152,523	74,396	54,217	165,982	—	447,118	4,620,681	5,067,799
December 31, 2020	159,609	78,904	58,056	177,866	—	474,435	5,178,036	5,652,471
Installment purchase loans	6,965	3,763	2,698	5,784	-	19,210	375,543	394,753
Personal installment loans	132,538	35,583	26,405	70,910	-	265,436	3,680,777	3,946,213
December 31, 2021	139,503	39,346	29,103	76,694	-	284,646	4,056,320	4,340,966

Financing receivables amounting to RMB177.9 million and RMB76.7 million as of December 31, 2020 and 2021, respectively, were in non-accrual status. Interest and financial services income for non-accrual financing receivables is recognized on a cash basis. Cash receipt of non-accrual financing receivables would be first applied to any unpaid principal, late payment fees, if any, before recognizing interest and financial services income. For the years ended December 31, 2019, 2020 and 2021, interest and late payment fees earned from non-accrual financing receivables were RMB53.9 million, RMB78.8 million and RMB135.6 million, respectively.

As of December 31, 2020 and 2021, financing receivables amounting to RMB325.7 million and RMB1,193.0 million have been pledged as collaterals pursuant to investment agreements with certain Institutional Funding Partners (Note 10).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Quality Indicators

The following table provides information on delinquency, which is the primary credit quality indicator for financing receivables. The amortized cost of installment purchase loans and personal installment loans within each credit quality indicator was presented by year of origination for five origination years and beyond, as of December 31, 2021:

RMB in thousands	Loans originated in					Total Past Due	Current	Total
	1 - 29 Days Past Due	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 179 Days Past Due	180 Days or Greater Past Due			
Installment purchase loans								
2017 and before	—	—	—	—	—	—	—	—
2018	2	5	5	33	—	45	1	46
2019	412	210	182	616	—	1,420	19,735	21,155
2020	1,519	855	816	2,445	—	5,635	72,540	78,175
2021	5,032	2,693	1,695	2,690	—	12,110	283,267	295,377
Total Installment purchase loans	6,965	3,763	2,698	5,784	—	19,210	375,543	394,753
Personal installment loans								
2017 and before	—	—	—	—	—	—	—	—
2018	2	4	7	43	—	56	9	65
2019	757	365	295	1,177	—	2,594	23,504	26,098
2020	1,275	922	1,182	6,217	—	9,596	26,182	35,778
2021	130,504	34,292	24,921	63,473	—	253,190	3,631,082	3,884,272
Total Personal installment loans	132,538	35,583	26,405	70,910	—	265,436	3,680,777	3,946,213

4. CONTRACT ASSETS AND SERVICE FEES RECEIVABLE, NET AND GUARANTEE RECEIVABLES, NET

The following table provides information about the Group's contract assets and service fees receivable and guarantee receivables with its customers:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Short-term:		
Contract assets	2,964,670	3,121,477
Allowance for credit losses of contract assets	(22,923)	(79,375)
Contract assets, net	2,941,747	3,042,102
Service fees receivable	808,586	1,008,484
Allowance for credit losses of service fees receivable	(42,684)	(107,886)
Service fees receivable, net	765,902	900,598
Guarantee receivables	814,968	564,955
Allowance for credit losses of guarantee receivables	(58,771)	(21,006)
Guarantee receivables, net	756,197	543,949
Long-term:		
Contract assets	500,959	279,645
Allowance for credit losses of contract assets	(18,970)	(34,973)
Contract assets, net	481,989	244,672
Guarantee receivables	235,648	105,623
Allowance for credit losses of guarantee receivables	(16,994)	(4,061)
Guarantee receivables, net	218,654	101,562

The activities in the allowance for credit losses of contract assets and service fees receivable and guarantee receivables for the years ended December 31, 2019, 2020 and 2021, respectively, consisted of the following:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Beginning balances	(54,058)	(148,322)	(160,342)
Cumulative effect due to the adoption of ASC 326 (Note 2(g))	—	(66,433)	—
Provisions	(153,176)	(441,805)	(531,237)
Charge-offs	68,072	529,380	523,613
Recoveries from prior charge-offs	(9,160)	(33,162)	(79,335)
Ending balances	(148,322)	(160,342)	(247,301)

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Receivables from third-party payment service providers (i)	587,168	628,611
Deposits to Institutional Funding Partners (ii)	288,215	208,409
Prepayment to inventory suppliers	59,586	33,976
Prepaid input value-added tax	33,695	20,504
Staff advances	12,694	8,071
Rental deposits and other current assets	23,487	41,579
Total prepaid expenses and other current assets	1,004,845	941,150

- (i) The Group opened accounts with third-party payment service providers mainly to facilitate collection and transfer of the funds, interest and service fees from/to the Borrowers and Institutional Funding Partners. The balance of receivables from third-party payment service providers represents amounts temporarily held in these accounts.
- (ii) The balances represent deposits made to the Institutional Funding Partners to directly satisfy the principal and interest payment obligations in case of Borrowers' defaults.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Computers and equipment	138,188	163,057
Furniture and fixtures	15,539	18,979
Leasehold improvement	56,462	61,577
Software	41,849	83,518
Construction in progress	12,572	59,441
Total property, equipment and software	264,610	386,572
Accumulated depreciation and amortization	(138,916)	(191,242)
Total property, equipment and software, net	125,694	195,330

Depreciation and amortization expenses on property, equipment and software for the years ended December 31, 2019, 2020 and 2021 were RMB39.9 million, RMB53.4 million and RMB56.4 million, respectively.

7. LAND USE RIGHTS, NET

	2020	2021
	(RMB in thousands)	
Gross carrying amount	1,032,000	1,032,000
Accumulated amortization	(31,533)	(65,933)
Impairment	—	—
Net carrying amount	1,000,467	966,067

Land use rights represent the land use rights acquired for the purpose of constructing offices. In 2020, the Group obtained the land use rights from local authorities with a cash consideration of RMB1.0 billion, which is being amortized on a straight-line basis over the term of the land use right period, approximately 30 years. The Group has made the first installment payment of RMB516.0 million in February 2020, and the second installment payment of RMB516.0 million in February 2021. Amortization expense related to land use rights for the year ended December 31, 2020 and 2021 were RMB31.5 million and RMB34.4 million, respectively.

As of December 31, 2021, amortization expenses for future periods are estimated to be as follows:

	2021
	(RMB in thousands)
2022	34,400
2023	34,400
2024	34,400
2025	34,400
2026	34,400
Thereafter	794,067
Total expected amortization expenses	966,067

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. LONG-TERM INVESTMENTS

Equity investments

Equity investments accounted for using the measurement alternative

The Group's equity investments that do not have readily determinable fair value are accounted for using the measurement alternative. As of December 31, 2020 and 2021, the carrying value of the Group's equity investments accounted for using the measurement alternative was RMB264 million and RMB213 million, respectively.

In 2021, the Group invested in a limited liability company in China with a cash consideration of RMB16.7 million, and disposed the shares held in a company in India, with cash consideration of RMB58.3 million, net of withholding tax of RMB7.2 million.

For the year ended 2019 and 2020, the Group recorded RMB51.9 million and RMB19.1 million of unrealized upward adjustment of fair value of equity investment respectively, for the observable price changes in orderly transactions for the identical or similar investment of the same issuer. In 2021, the Group disposed the shares held in a company in India and realized all the previous upward adjustment. The Cumulative unrealized upward adjustments of fair value of equity investments as of December 31, 2021 was nil.

There were no impairment charges to the equity investment accounted for using the measurement alternative for the year ended December 31, 2019. In 2020, the Group recognized RMB69.2 million impairment related to investments without readily determinable fair value due to the lower-than-expected financial performance, and no other downward adjustment was related to investments without readily determinable fair value. In 2021, no impairment charges was recorded related to investments without readily determinable fair value. As of December 31, 2021, the cumulative impairment charges to the equity investment accounted for using the measurement alternative method was RMB84.4 million.

The following table summarizes the movement of the carrying value of the Group's equity investments accounted for using the measurement alternative for the year ended December 31, 2019, 2020 and 2021:

	2019	As of December 31, 2020	2021
	(RMB in thousands)		
Long-term investment at the beginning of the year	28,166	344,362	264,151
Addition	266,153	—	16,700
Disposal	(2,796)	(23,310)	(67,475)
Unrealized upward adjustments	51,891	19,059	—
Impairment	—	(69,156)	—
Foreign currency translation adjustments	948	(6,804)	(676)
Long-term investment at the end of the year	344,362	264,151	212,700

Equity investments accounted for using the equity method

As of December 31, 2020 and 2021, the carrying value of the Group's equity investments accounted for using the equity method were RMB102 million and RMB101 million, respectively.

In 2019, the Group invested in a joint venture in Indonesia over which it can exercise significant influence but does not control with a cash consideration of RMB13.0 million. In 2020, the Group further invested in the joint venture in Indonesia with a cash consideration of RMB15.0 million. In addition, the Group invested in three joint ventures in China over which it can exercise significant influence but does not control with a cash consideration of RMB88.0 million. In 2021, the Group further invested in the joint venture in Indonesia with a cash consideration of RMB3.0 million.

For the years ended December 31, 2019, 2020 and 2021, the Group recorded investment loss of RMB5.2 million, RMB9.0 million and RMB4.0 million respectively, as a result of its proportionate share of equity investees' net losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Debt investment

The debt investment is in the form of an interest-bearing loan to an investee, acquired by the Group in September 2018, with a principal of RMB120.0 million that matures in July 2026. The coupon rate of the loan acquired by the Group is a floating rate linked to the benchmark rate of the People's Bank of China. The loan was to provide the initial operating fund to the investee. The Group has the intent and ability to hold the loan to maturity or payoff.

As of December 31, 2020 and 2021, the Group's loan receivable recorded at amortized cost were both RMB155.8 million.

The interest income in relation to this loan receivable were RMB1.5 million, nil and nil for the years ended December 31, 2019, 2020 and 2021, respectively.

9. FAIR VALUE MEASUREMENT***Recurring***

The following table presents the fair value hierarchy for the Group's assets and liabilities that are measured and recorded at fair value on a recurring basis as of December 31, 2020 and 2021:

December 31, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Balances at Fair Value
	(RMB in thousands)			
Assets				
Restricted time deposits	—	1,779,458	—	1,779,458
Loans at fair value	—	—	381,393	381,393
Total assets	—	1,779,458	381,393	2,160,851
Liabilities				
Guarantee derivative liabilities	—	—	252,613	252,613
Total liabilities	—	—	252,613	252,613
December 31, 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Balances at Fair Value
	(RMB in thousands)			
Assets				
Restricted time deposits	—	1,745,898	—	1,745,898
Loans at fair value	—	—	252,970	252,970
Total assets	—	1,745,898	252,970	1,998,868
Liabilities				
Guarantee derivative liabilities	—	—	1,473,853	1,473,853
Total liabilities	—	—	1,473,853	1,473,853

The fair value of the Group's restricted time deposits is determined based on the prevailing interest rates for similar products in the market (Level 2). For the off-balance sheet loans funded by certain Institutional Funding Partners, as the Group's financial guarantee provided does not trade in an active market with readily observable quoted prices, the Group uses significant unobservable inputs to measure the fair value of these guarantee derivative assets or liabilities (Level 3). For the off-balance sheet loans acquired or purchased by the Group that are not traded in an active market with readily observable prices, the Group uses discounted cash flow methodology involving significant unobservable inputs to measure the fair value of these loans (Level 3).

Transfers into or out of fair value hierarchy classifications are made if the significant inputs used in the financial models measuring the fair value of the assets and liabilities became unobservable or observable in the current marketplace. These transfers are considered to be effective as of the beginning of the period in which they occur. The Group did not transfer any assets or liabilities in or out of Level 2 and Level 3 during each of the periods presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant Unobservable Inputs

The Group uses a discounted cash flows model to estimate fair value of the guarantee derivative assets or liabilities, and fair value of loans acquired or purchased. The following table presents quantitative information about the significant unobservable inputs used for the Group's Level 3 fair value measurement as of December 31, 2020 and 2021:

Financial Instrument	Unobservable Input	Range of Inputs					
		December 31, 2020			December 31, 2021		
		Minimum	Maximum	Weighted-Average	Minimum	Maximum	Weighted-Average
Guarantee derivatives	Cumulative loss rates ⁽ⁱ⁾	3.1%	13.3%	6.3%	5.6%	12.2%	7.8%
	Margins on cost of guarantee services	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Loans at fair value	Expected future recovery rates ⁽ⁱⁱ⁾	9.8%	9.8%	9.8%	4.3%	4.3%	4.3%

(i) Expressed as a percentage of the original principal balance of the loans.

(ii) Expressed as a percentage of the principal balance of the loans acquired/purchased.

The following table summarizes the activities related to fair value of the guarantee derivatives:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Fair value of guarantee derivative liabilities/(assets) at beginning of the year (Level 3)	52,434	(280,998)	252,613
Cash collection	1,108,398	1,107,646	3,107,316
Net cash payout	(1,151,504)	(1,281,477)	(2,344,922)
Change in fair value(i)	212,256	707,442	458,846
Transfers of financial guarantee contracts (Note2(j))	(502,582)	—	—
Fair value of guarantee derivative liabilities/(assets) at end of the year (Level 3)	(280,998)	252,613	1,473,853

(i) Recognized as "Change in fair value of financial guarantee derivatives, net" on the Consolidated Statements of Operations.

The following table summarizes the activities related to fair value of the loans acquired or purchased:

	For the Year Ended December 31,	
	2020	2021
	(RMB in thousands, except for percentages)	
Fair value of loans acquired/purchased at beginning of the year (Level 3)	—	381,393
Fair value at inception of loans acquired/purchased	7,067,271	3,851,997
Cash collection	(6,638,596)	(4,051,776)
Change in fair value(i)	(47,282)	111,762
Disposal	—	(40,406)
Fair value of loans acquired/purchased at end of the year (Level 3)	381,393	252,970

(i) Recognized as "Change in fair value of loans at fair value" on the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant Recurring Level 3 Fair Value Liability Input Sensitivity

Changes in certain of the unobservable inputs noted above may have a significant impact on the fair value of the guarantee derivative assets and liabilities. The following table summarizes the effect adverse changes in estimate would have on the fair value of the guarantee derivative assets and liabilities as of December 31, 2020 and 2021, respectively, given hypothetical changes in the cumulative loss rates:

	As of December 31,	
	2020	2021
	(RMB in thousands, except for percentages)	
Weighted average cumulative loss rates(i)	6.3 %	7.8 %
Increase/(decrease) in fair value of guarantee derivative liabilities if the cumulative loss rates:		
Increase by 10% (ii)	188,349	362,221
Decrease by 10% (ii)	(188,349)	(362,221)

(i) Expressed as a percentage of the original principal balance of the loans.

(ii) Expressed as a percentage of the original cumulative loss rates.

Changes in certain of the unobservable inputs noted above may have a significant impact on the fair value of the loans at fair value. The following table summarizes the effect adverse changes in estimate would have on the fair value of the loans at fair value as of December 31, 2020 and 2021, given hypothetical changes in the expected future recovery rates:

	For the Year Ended December 31,	
	2020	2021
	(RMB in thousands, except for percentages)	
Weighted average expected future recovery rates(i)	9.8 %	4.3 %
Increase/(decrease) in fair value of loans at fair value if the expected future recovery rates:		
Increase by 10% (ii)	38,139	25,297
Decrease by 10% (ii)	(38,139)	(25,297)

(i) Expressed as a percentage of the principal balance of the loans acquired/purchased.

(ii) Expressed as a percentage of the original expected future recovery rates.

Other financial instruments

The followings are other financial instruments not measured at fair value on the Consolidated Balance Sheets, but for which the fair value is estimated for disclosure purposes.

Cash and cash equivalents, current restricted cash, amounts due from related parties and deposits to insurance companies and guarantee companies are financial assets with carrying amounts that approximate fair value due to their short-term nature. Accounts payable and amounts due to related parties are financial liabilities with carrying amounts that approximate fair value because of their short-term nature.

Non-recurring

The Group measures certain financial assets at fair value on a non-recurring basis only if an impairment charge were to be recognized. The Group's long-term equity investments are measured at fair value on a nonrecurring basis under measurement alternative, if an impairment loss is charged or fair value adjustment is made for an observable price change in an orderly transaction for identical or similar investments of the same issuer. The related inputs used are classified as Level 3 fair value measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Group's non-financial assets, such as property, equipment and software, would be measured at fair value only if they were determined to be impaired.

10. FUNDING DEBTS

The following table summarizes the Group's outstanding funding debts as of December 31, 2020 and 2021, respectively:

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Short-term:		
Liabilities to funding partners	4,685,935	3,101,381
Total short-term funding debts	4,685,935	3,101,381
Long-term:		
Liabilities to funding partners	825,814	696,852
Total long-term funding debts	825,814	696,852

For the years ended December 31, 2020 and 2021, the following significant activities took place related to the Group's funding partners:

Liabilities to Individual Investors on Juzi Licai with respect to on-balance sheet loans

The Group finances its on-balance sheet loans using the proceeds from Individual Investors on *Juzi Licai* by offering various investment programs. As of December 31, 2019, the terms of those programs were all within 24 months with weighted average interest rates of 7.7%. As of December 31, 2020 and 2021, Individual Investors on *Juzi Licai* funded an aggregate amount of nil in outstanding financing receivables originated by the Group.

Liabilities to funding partners

The Group finances its on-balance sheet loans using the proceeds from funding partners, including the third-party investors of the consolidated Trusts and asset-backed securitized debts, and certain Institutional Funding Partners.

Those liabilities to funding partners were bearing weighted average interest rates of 9.3% and 9.2% as of December 31, 2020 and 2021, respectively. As of December 31, 2020 and 2021, funding partners funded an aggregate amount of RMB5,092.3 million and RMB3,539.9 million in outstanding financing receivables originated by the Group, respectively. As of December 31, 2020 and 2021, financing receivables amounting to RMB325.7 million and RMB1,193.0 million were pledged as collaterals to secure the underlying loans funded by funding partners, respectively.

Maturities of funding debts

The following table summarizes the contractual maturity dates of the Group's funding debts and associated interest payments as of December 31, 2021.

	1 - 12	13 - 24	Total
	months	months	
	(RMB in thousands)		
Liabilities to funding partners	3,101,381	696,852	3,798,233
Total funding debts	3,101,381	696,852	3,798,233
Interest payments(i)	247,104	48,012	295,116
Total interest payments	247,104	48,012	295,116

(i) Interest payments for funding debts with variable interest rates are calculated using the interest rate as of December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. SHORT-TERM BORROWINGS

As of December 31, 2020 and 2021, the Group had short-term borrowings primarily from banks with weighted average interest rates of approximately 4.0% and 3.8% per annum, respectively. Such borrowings are all denominated in RMB. All of the borrowings are designated to support the Group's general operation and could not be used to fund the Group's financing receivables.

The Group's certain borrowings, amounting to RMB 1,701.0 million and RMB 1,497.2 million, as of December 31, 2020 and 2021, respectively, are collateralized by a pledge of the Group's time deposits. As of December 31, 2020 and 2021, the outstanding balance of short-term borrowings was secured by RMB 1,781.3 million and RMB 1,670.7 million time deposits of the Group pledged as collateral, respectively.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Guarantee derivative liabilities at fair value (Note 9)	252,613	1,473,853
Tax payable	632,006	975,396
Funds payable to Institutional Funding Partners (i)	670,942	425,763
Accrued payroll and welfare	364,500	408,828
Accrued risk management fees	48,993	197,665
Accrued professional fees and outsourcing fees	37,684	68,002
Accrued marketing expenses	78,681	61,193
Short-term leasing liabilities	45,577	53,644
Payable to third-party sellers	55,704	47,114
Other payable to Individual Investors on Juzi Licai	86,841	30,477
Deferred service fees	51,966	26,737
Security deposits from third-party sellers	10,718	16,435
Deferred interest and financial services income and others	23,038	9,880
Payable for acquisition of land use rights (ii)	516,000	-
Other accrued expenses	51,084	78,670
Total accrued expenses and other current liabilities	2,926,347	3,873,657

- (i) The payable balances mainly include repayment received from Borrowers but not yet transferred to accounts of Institutional Funding Partners due to the settlement time lag.
- (ii) In 2020, the Group obtained the land use rights from local authorities with a cash consideration of RMB1.0 billion. The Group has made the first installment payment of RMB516.0 million in February 2020, and the second installment payment of RMB516.0 million in February 2021.

13. RELATED PARTY BALANCES AND TRANSACTIONS

The table below sets forth major related parties of the Group and their relationships with the Group:

Entity or individual name	Relationship with the Group
Ji'an Aoxinlian Information Consulting Service Co., Ltd. ("Ji'an Aoxinlian")	Ji'an Aoxinlian is controlled by the immediate family member of the Group's senior management.
Ji'an Aojuxun Information Consulting Service Co., Ltd. ("Ji'an Aojuxun")	Ji'an Aojuxun is controlled by the immediate family member of the Group's senior management.
Shenzhen Aileyou Information Technology Co., Ltd. (Aileyou)	Aileyou is an equity investment of the Group.
L.P. Technology Holdings Limited ("L.P.")	L.P. is an equity investment of the Group.
Individual Director or Officer	Directors or officers of the Group.
JD.com, Inc. and its subsidiaries ("JD Group") *	JD Group was a shareholder of the Group before January 1, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*In considering the equity interests of the Company held by JD, the transaction volumes between the Company and JD as well as other relevant factors, management concluded that JD was no longer a related party of the Company starting from January 1, 2020.

(a) The Group entered into the following significant related party transactions:

(i) Sales of goods and services to related parties

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Sales of goods and services to Aileyou	—	2,087	7,731
Total	—	2,087	7,731

(ii) Purchase of goods and services from related parties

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Purchases of goods and services from Ji'an Aoxinlian	7,200	20,658	20,493
Purchases of goods and services from Ji'an Aojuxun	2,091	7,987	—
Purchases of goods and services from JD Group	827,574	—	—
Total	836,865	28,645	20,493

(b) The Group had the following significant related party balances:

(i) Amounts due from related parties

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Due from L.P. by the Group	941	6,109
Total	941	6,109

(ii) Amounts due to related parties

	As of December 31,	
	2020	2021
	(RMB in thousands)	
Due to individual Director or Officer and his/her immediate family members under investment programs offered by the Group	61,871	15,028
Due to Ji'an Aoxinlian by the Group	4,711	4,790
Due to Aileyou by the Group	932	3,285
Total	67,514	23,102

The Group believes that the terms of the transactions with the related parties are comparable to the terms of arm's-length transactions with third-party vendors and Individual Investors.

14. TAXATION

a) Value-added tax ("VAT")

During the periods presented, the Group is subject to 16% or 13% VAT, when applicable, for online direct sales revenues from sales of electronic products, home appliance products and general merchandise products, and 6% for premium

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

membership fees, third-party sellers' commission fees, and financial services income earned from rendering services to its customers in the PRC.

The Group is also subject to surcharges on VAT payments according to PRC tax law.

b) Income tax***Cayman Islands***

The Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

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.

PRC

The Enterprise Income Tax ("EIT") Law generally applies a statutory income tax rate of 25% to all enterprises but grants preferential tax treatment to qualified High and New Technology Enterprises ("HNTEs") and Software Enterprises.

Beizhipiji qualified as an HNTE and is entitled for a preferential income tax rate of 15% from 2017 to 2019, and is subject to the statutory income tax rate of 25% for both 2020 and 2021.

Shenzhen Lexin Software qualified as Software Enterprises and is entitled to an income tax exemption for the years of 2017 and 2018, a preferential income tax rate of 10% for 2019, and is entitled to a preferential income tax rate of 12.5% for 2020 and 2021.

Shenzhen Dingsheng Technology qualify as a Software Enterprise and is entitled to an income tax exemption for the years of 2017 and 2018 and a preferential income tax rate of 12.5% from 2019 to 2021.

Beihai Aurora and Beihai Turing are entitled for a preferential income tax rate of 15% for China's Western Development Strategy, in the meantime, the local tax bureau in Guangxi exempted 40% of the income based on 15% from 2018 to 2022. Therefore, Beihai Aurora and Beihai Turing applied a preferential income tax rate of 9% from 2018 to 2022, and 15% from 2023 to 2030.

The Group's other PRC subsidiaries, the VIEs and the VIEs' subsidiaries are subject to the statutory income tax rate of 25%.

PRC Withholding Tax on Dividends

Under the EIT Law enacted by the National People's Congress of PRC on March 16, 2007 and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by FIEs in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the "beneficial owner" and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with the PRC.

The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered resident enterprises for the PRC income tax purposes if the place of effective management or control of the entity is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered as PRC resident enterprises if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the Group's entities organized outside of the PRC should be treated as resident enterprises for the PRC income tax purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed as resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax, at a rate of 25%. The components of the Group's income before income tax expense for the years ended December 31, 2019, 2020 and 2021 are as follows:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands, except for percentages)		
Income before income tax expense	2,706,511	685,609	2,769,534
Income/(Loss) from non-China operations	41,461	15,143	(30,047)
Income from China operations	2,665,050	670,466	2,799,581
Income tax expense applicable to China operations	411,959	90,629	428,267
Income tax expense applicable to non-China operations	—	—	7,151
Total income tax expense	411,959	90,629	435,418
Effective tax rate for China operations	15.5 %	13.5 %	15.3 %
Effective tax rate for the Group	15.2 %	13.2 %	15.7 %

The Group did not incur any interest and penalties related to potential underpaid income tax expenses.

Composition of income tax expense for the Group

The following table sets forth current and deferred portion of income tax expense of the Company's China subsidiaries, the VIEs, and subsidiaries of the VIEs:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Current income tax expense	352,036	594,149	831,675
Deferred income tax expense	59,923	(503,520)	(396,257)
Income tax expense	411,959	90,629	435,418

The following table sets forth reconciliation between the statutory enterprise income tax ("EIT") rate and the effective tax rate for the Group:

	For the Year Ended December 31,		
	2019	2020	2021
Statutory EIT rate	25.0 %	25.0 %	25.0 %
Change of tax position*	—	(2.4)%	—
Effect of tax holidays	(8.9)%	(9.6)%	(10.8)%
Tax effect of non-deductible expenses	(0.4)%	1.1 %	0.9 %
Changes in valuation allowance	**	(0.3)%	0.1 %
Tax rate difference from statutory rate in other jurisdictions and others	(0.5)%	(0.6)%	0.5 %
Effective tax rates for the Group	15.2 %	13.2 %	15.7 %

* In the third quarter of 2020, RMB16.2 million income tax provision relating to 2019 was reversed as one subsidiary of the Group was certified to be qualified for using a preferential tax rate of 10% for 2019 annual tax clearance in this quarter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

** Less than 0.1%.

The following table sets forth the effect of tax holiday related to the Group:

	For the Year Ended December 31,		
	2019	2020	2021
	(In thousands, except per share amount)		
Tax holiday effect	239,732	66,110	299,578
Basic net income per share effect	0.67	0.18	0.81
Diluted net income per share effect	0.64	0.16	0.72

Deferred tax assets and deferred tax liabilities

Deferred income tax expense reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the deferred tax assets are as follows:

	For the Year Ended December 31,	
	2020	2021
Deferred tax assets		
- Deferred guarantee income and other accrued expenses	477,023	832,412
- Contingent guarantee liabilities	434,697	232,210
- Provision for credit losses	359,293	646,460
- Advertising expenses in excess of deduction limit	54,970	178
- Net operating loss carryforwards	13,649	21,919
Less: valuation allowance	(4,429)	(6,756)
Total deferred tax assets	1,335,203	1,726,423
Net deferred tax assets	747,332	1,176,878

The components of the deferred tax liabilities are as follows:

	For the Year Ended December 31,	
	2020	2021
Deferred tax liabilities		
-Contract assets and service fees receivable	490,204	523,752
-Guarantee receivables	118,713	80,128
Total deferred tax liabilities	608,917	603,880
Net deferred tax liabilities	21,046	54,335

Movement of valuation allowance

	For the Year Ended December 31,		
	2019	2020	2021
Balance at beginning of the year	(6,785)	(6,662)	(4,429)
Additions	(4,255)	(2,243)	(2,659)
Reversals	4,378	4,476	332
Balance at end of the year	(6,662)	(4,429)	(6,756)

Valuation allowance is provided against deferred tax assets when the Group determines that it is more-likely-than-not that the deferred tax assets will not be utilized in the future. The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more-likely-than-not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. The statutory income tax rate of 25% or applicable preferential income tax rates were applied when calculating deferred tax assets.

The Group evaluates a variety of factors including the successful experiences in pre-tax deduction of provision for credit losses in previous years' annual tax filings, and concluded that the deferred tax assets arose from provision for credit losses are more-likely-than-not to be realized. Therefore, no valuation allowance was provided for the provision for credit losses as of December 31, 2019, 2020 and 2021, respectively.

As of December 31, 2020 and 2021, the Group had net operating loss carryforwards of approximately RMB63.8 million and RMB107.2 million, respectively, which arose from the Group's certain subsidiaries, the VIEs and the VIEs' subsidiaries established in the PRC. As of December 31, 2020 and 2021, deferred tax assets arose from the net operating loss carryforwards amounted to RMB22.7 million and RMB41.9 million was provided for full valuation allowance respectively, while the remaining RMB41.1 million and RMB65.3 million is expected to be utilized prior to expiration considering future taxable income for respective entities. As of December 31, 2021, the net operating loss carryforwards of RMB7.2 million, RMB6.1 million, RMB8.7 million, RMB32.7 million and RMB52.4 million will expire in 2022, 2023, 2024, 2025 and 2026, respectively, if not utilized.

The Company intends to indefinitely reinvest all the undistributed earnings of the Company's subsidiaries and the consolidated VIEs in China. The Group does not intend to have any of its PRC subsidiaries or the VIEs distribute any undistributed profits of such subsidiaries or the VIEs to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries and the VIEs for their PRC operations. As of December 31, 2021, the unrecognized tax liabilities related to undistributed profits from the PRC subsidiaries and the VIEs was RMB694 million.

Uncertain Tax Position

The Group did not identify any significant unrecognized tax benefits for each of the periods presented. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expense and also does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2021.

15. CONVERTIBLE NOTES

In September 2019, the Company issued and sold convertible notes (the "Notes") in an aggregate principal amount of US\$300.0 million to PAG, a leading Asia-focused private equity firm, through a private placement. The Notes will mature in seven years, bearing interest at a rate of 2.0% per annum. The Notes are convertible in whole or in part into fully paid Class A Ordinary Shares or ADSs at the holder's option from the date that is six months after the issuance date to the third business day before the maturity date (i.e., September 16, 2026), at an initial conversion price of US\$7.0 per Class A Ordinary Share or US\$14.0 per ADS. The holder of the Notes may require the Company to repurchase all or part of their Notes in cash on September 16, 2023 or in the event of certain fundamental changes at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The net proceeds to the Company from the issuance of the Notes were US\$293.0 million (RMB1,868.1 million), net of debt discount of US\$3.6 million (RMB23.0 million) and issuance costs of US\$3.4 million (RMB21.7 million). The debt discount and issuance costs of the Notes were amortized to interest expense over the contractual life to the maturity date. For the years ended December 31, 2020 and 2021, the interest expense related to the Notes was RMB47.8 million and RMB44.9 million, respectively.

The Group accounted for the Notes as a single instrument as "Convertible notes" on the Consolidated Balance Sheets. The debt discount and issuance costs were recorded as an adjustment to the carrying value of the Notes and are amortized as interest expense using the effective interest method. As of December 31, 2020 and 2021, the principal amount of the debt were RMB1,957.5 and RMB1912.7 million and unamortized debt discount and issuance costs were RMB37.3 and RMB30.0 million, respectively.

16. ORDINARY SHARES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In November 2013, the Company was formed as a limited liability company in the Cayman Islands with issuance of 125,000,000 ordinary shares at a par value of US\$0.0001 each. In July 2014, the Company became the holding company of the Group pursuant to the reorganization described in Note 1.

On December 26, 2017, the Company completed its IPO on the NASDAQ Global Market. In this offering, 12,000,000 ADSs, representing 24,000,000 Class A Ordinary Shares, were issued and sold to the public at a price of US\$9.00 per ADS. The aggregate proceeds received by the Company from the IPO, net of issuance costs, were approximately RMB651.3 million (\$100.1 million).

Immediately prior to the completion of the IPO, the Company adopted a dual-class share structure, consisting of Class A Ordinary Shares and Class B Ordinary Shares, par value US\$0.0001 per share. All of the issued and outstanding Pre-IPO Class A Ordinary Shares were automatically re-designated into Class B Ordinary Shares on a one-for-one basis, and all of the issued and outstanding Pre-IPO Preferred Shares were automatically converted and redesignated into Class A Ordinary Shares on a one-for-one basis. Holders of Class A Ordinary Shares and Class B Ordinary Shares have the same rights except that the 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 ten votes per share. 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. The Group concluded that the adoption of dual-class share structure did not have a material impact on its consolidated financial statements.

In January 2018, the underwriters of the Company's IPO exercised the options to purchase an additional 1,800,000 ADSs, representing 3,600,000 Class A Ordinary Shares, par value US\$0.0001 per share, of the Company to cover over-allotments in full. The proceeds in connection with 1,800,000 ADSs received by the Company was RMB95.1 million (US\$14.7 million).

In June 2018, 27,000,000 shares of Class A Ordinary Shares were issued to the Company's depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards under the Group's share-based incentive plans. As of December 31, 2020, 1,578,904 shares out of 27,000,000 shares of Class A Ordinary Shares respectively were deemed issued but not outstanding as they have not been transferred to grantees.

In June 2021, 15,000,000 shares of Class A Ordinary Shares were issued to the Company's depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards under the Group's share-based incentive plans, totalling the shares for bulk issuance of ADSs to 42,000,000. As of December 31, 2021, 13,160,846 shares out of 42,000,000 shares of Class A Ordinary Shares respectively were deemed issued but not outstanding as they have not been transferred to grantees.

17. NET INCOME PER SHARE

Basic net income per share is the amount of net income available to each share of ordinary shares outstanding during the reporting period. Diluted net income per share is the amount of net income available to each share of ordinary shares outstanding during the reporting period adjusted to include the effect of potentially dilutive ordinary shares. For the year ended December 31, 2021, the Company had potential ordinary shares, including stock options granted, outstanding restricted share units and ordinary shares issuable upon the conversion of the Notes. For the years ended December 31, 2019, 2020 and 2021, stock options to purchase ordinary shares and restricted share units that were anti-dilutive and excluded from the calculation of diluted net income per share were 7,627,967 shares, 11,398,012 shares and 9,826,578 shares, on a weighted average basis, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands, except for share and per share data)		
Basic net income per share calculation:			
Numerator:			
Net income attributable to ordinary shareholders	2,294,552	594,980	2,333,923
Denominator:			
Weighted average number of ordinary shares outstanding—basic	355,625,970	364,733,164	368,460,867
Net income per share attributable to ordinary shareholders—basic	6.45	1.63	6.33
Diluted net income per share calculation:			
Numerator:			
Net income attributable to ordinary shareholders	2,294,552	594,980	2,333,923
Interest expense associated with convertible notes reversed	14,261	47,781	44,865
Net income attributable to ordinary shareholders for calculating diluted net income per share	2,308,813	642,761	2,378,788
Denominator:			
Weighted average number of ordinary shares outstanding—basic	355,625,970	364,733,164	368,460,867
Ordinary shares issuable upon the exercise of outstanding stock options using the treasury stock method	6,470,848	3,255,913	3,381,510
Ordinary shares issuable upon the vesting of outstanding restricted share units using the treasury stock method	1,170,713	383,590	293,196
Ordinary shares issuable upon the conversion of convertible notes using the if—converted method	12,563,600	42,857,143	42,857,143
Weighted average number of ordinary shares outstanding—diluted	375,831,131	411,229,810	414,992,716
Net income per share attributable to ordinary shareholders—diluted	6.14	1.56	5.73

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. EMPLOYEE BENEFIT PLAN

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension insurance, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions.

Total contributions by the Group for such employee benefits were RMB128.7 million, RMB85.9 million and RMB146.1 million for the years ended December 31, 2019, 2020 and 2021, respectively.

19. STATUTORY RESERVES AND RESTRICTED NET ASSETS

In accordance with the PRC laws and regulations, the Company's PRC subsidiaries registered as wholly foreign-owned enterprise are required to make appropriation to certain reserve funds, namely general reserve fund, enterprise expansion fund, and staff bonus and welfare fund, all of which are appropriated from the subsidiaries' annual after-tax profits as reported under PRC GAAP. The appropriation must be at least 10% of the annual after-tax profits to the general reserve fund until such reserve fund has reached 50% of the subsidiaries' registered capital.

Additionally, in accordance with the PRC Company Laws, a domestic company is required to provide statutory surplus fund at least 10% of its annual after-tax profits as reported under PRC GAAP until such statutory surplus fund has reached 50% of its registered capital. A domestic company is also required to provide discretionary surplus fund, at the discretion of the board of directors, from its annual after-tax profits as reported under PRC GAAP. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

As a result of the PRC laws and regulations and the requirement that distributions by the PRC entity can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entity is restricted from transferring a portion of its net assets to the Company. Amounts restricted include paid-in capital, additional paid-in capital and statutory reserves of the Company's PRC entities. As of December 31, 2020 and 2021, the restricted net assets of the Group's relevant PRC entities amounted to RMB3,771.9 million and RMB4,189.9 million, respectively. The restricted net assets of the Group's relevant PRC entities accounted for 52.2% of the consolidated net assets as of December 31, 2021. As a result of the above restrictions, parent company only condensed financial information is disclosed in Note 23.

20. SHARE-BASED COMPENSATION

Share-based compensation was recognized in operating cost and expenses for the years ended December 31, 2018, 2020 and 2021 as follows:

	For the Year Ended December 31,		
	2019	2020	2021
		(RMB in thousands)	
Processing and servicing cost	10,472	11,391	9,968
Sales and marketing expenses	28,611	32,486	30,508
Research and development expenses	42,977	46,116	39,413
General and administrative expenses	95,202	108,832	107,995
Total share-based compensation expenses	177,262	198,825	187,884

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, 2019, 2020 and 2021.

In October 2017, the Group adopted its 2017 Share Incentive Plan ("2017 Plan"), which permits the grant of stock options, restricted shares, and restricted share units of the Company to employees, directors and other eligible persons of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company and its affiliates. Under the 2017 Plan, the maximum number of Class A Ordinary Shares that may be issued pursuant to all awards is 22,859,634 shares, plus an annual increase on the first day of each fiscal year of the Company during the ten-year term of the 2017 Plan commencing with the fiscal year beginning January 1, 2019, by an amount equal to 1.0% of the total number of shares issued and outstanding on the last day of the immediately preceding fiscal year. Option awards are granted with an exercise price determined by the board of directors. Those option awards generally vest over a period of four years and expire in ten years.

The following table sets forth a summary of the number of shares available for issuance:

	Shares Available (In thousands)
December 31, 2018	13,833
Additions	3,512
Granted	(10,849)
Cancelled/forfeited	1,903
December 31, 2019	8,399
Additions	3,594
Granted	(3,005)
Cancelled/forfeited	2,539
December 31, 2020	11,527
Additions	3,641
Granted	(13,736)
Cancelled/forfeited	5,201
December 31, 2021	6,633

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock options

1) Stock options granted to employees, directors and non-employee directors

The following table sets forth the summary of activities for stock options granted to employees, directors and non-employee directors:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(In thousands)	US\$	(In years)	(RMB in thousands)
December 31, 2018	20,142	1.5164	7.95	353,559
Granted*	5,091	0.5000		
Exercised	(7,798)	0.2548		
Cancelled/forfeited	(1,194)	2.3996		
December 31, 2019	16,241	1.7386	8.22	589,871
Granted*	2,829	0.5000		
Exercised	(3,140)	0.2399		
Cancelled/forfeited	(2,270)	2.1589		
December 31, 2020	13,660	1.7569	7.87	189,072
Granted*	13,489	0.5000		
Exercised	(2,426)	0.4529		
Cancelled/forfeited	(4,594)	3.2215		
December 31, 2021	20,129	0.7227	8.43	155,018
Vested and expected to vest as of December 31, 2021	18,867	0.7355	8.42	143,684
Exercisable as of December 31, 2021	4,447	1.2408	6.53	19,540

* No stock options were granted to non-employee directors for the years presented.

The weighted average grant date fair value of stock options granted to employees, directors and non-employee directors for the years ended December 31, 2019, 2020 and 2021 was RMB35.6, RMB25.5 and RMB23.0 per share, respectively.

The total intrinsic value of stock options exercised for the years ended December 31, 2019, 2020 and 2021 was RMB293.5 million, RMB90.4 million and RMB78.5 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the stock options.

For the years ended December 31, 2019, 2020 and 2021, total share-based compensation expenses recognized for stock options granted to employees, directors and non-employee directors were RMB125.1 million, RMB143.5 million and RMB147.0 million, respectively.

In August 2018, the Company modified the exercise price of 6,263,000 stock options granted under 2017 Plan to US\$5.15. The incremental compensation expenses of RMB16.9 million was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2021, the unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options granted to the Group's employees, directors and non-employee directors was RMB285.9 million. Total unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.9 years and may be adjusted for future changes in estimated forfeitures. Prior to completion of the IPO, the exercise price of each granted stock option was US\$0.0001, the Company used intrinsic value (approximately the fair value of each of the Company's ordinary share) on the grant date to estimate the fair value of the stock options granted. After the IPO, the exercise price of each granted stock option is determined by the closing price of the Company's ordinary share on the grant date, therefore, the estimated fair value of each stock option granted is estimated on the date of grant using the binomial option-pricing model with the following assumptions:

	For the Year Ended December 31,		
	2019	2020	2021
Expected volatility	41.81%~42.09%	45.25%~48.26%	46.68%~47.79%
Risk-free interest rate (per annum)	1.80%~1.81%	0.67%~0.88%	1.11%~1.64%
Exercise multiples	1.5~2.5	2	1.5~2.5
Expected dividend yield	—	—	—
Expected term (in years)	10	10	10
Fair value of the underlying shares on the date of grants (US\$)	5.02~6.02	3.15~4.15	1.91~6.31

2) Stock options granted to non-employees

The following table sets forth the summary of activities for stock options granted to non-employees:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(In thousands)	US\$	(In years)	(RMB in thousands)
December 31, 2018	500	0.0001	8.58	12,439
Granted	—	—	—	—
Exercised	(90)	0.0001	—	—
Cancelled/forfeited	—	—	—	—
December 31, 2019	410	0.0001	7.58	19,864
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled/forfeited	—	—	—	—
December 31, 2020	410	0.0001	6.58	8,962
Granted	—	—	—	—
Exercised	(160)	0.0001	—	—
Cancelled/forfeited	—	—	—	—
December 31, 2021	250	0.0001	5.58	3,076
Vested and expected to vest as of December 31, 2021	250	0.0001	5.58	3,076
Exercisable as of December 31, 2021	250	0.0001	5.58	3,076

For the years ended December 31, 2019, 2020 and 2021, total share-based compensation expenses recognized for stock options granted to non-employees were RMB3.3 million, RMB3.2 million and RMB1.7 million, respectively.

As of December 31, 2021, the unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock options granted to the Group's non-employees was nil. There is no unrecognized compensation cost to be recognized and to be adjusted for future changes in estimated forfeitures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted share units

The following table sets forth the summary of activities for restricted share units granted to employees, directors and non-employee directors:

	Shares Outstanding (In thousands)	Weighted Average Grant Date Fair Value US\$
December 31, 2018	1,237	7.47
Granted*	5,758	5.10
Vested	(292)	7.49
Cancelled/forfeited	(709)	5.78
December 31, 2019	5,994	5.39
Granted*	176	4.27
Vested	(1,527)	5.43
Cancelled/forfeited	(989)	5.57
December 31, 2020	3,654	5.27
Granted*	247	3.21
Vested	(1,226)	5.35
Cancelled forfeited	(607)	5.12
December 31, 2021	2,068	5.02

* No restricted share units were granted to non-employee directors for the years presented.

The fair value and intrinsic value of restricted share units vested for the years ended December 31, 2019, 2020 and 2021 was RMB11.6 million, RMB69.9 million and RMB24.2 million, respectively.

For the years ended December 31, 2019, 2020 and 2021, total share-based compensation expenses recognized for restricted share units were RMB48.9 million, RMB52.1 million and RMB39.2 million, respectively.

As of December 31, 2021, the unrecognized compensation cost, related to unvested restricted share units was RMB5.7 million. Total unrecognized compensation cost is expected to be recognized over a weighted average period of 1.3 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. COMMITMENTS AND CONTINGENCIES

Debt obligations

The Group's debt obligations are associated with 1) the funding debts and interest payable to Individual Investors on *Juzi Licai* and other funding partners; 2) the borrowings to support the Group's general operations; 3) the convertible notes issued by the Company in September 2019; and 4) the commitment to purchase delinquent loans from certain Institutional Funding Partners.

The expected repayment amount of the debt obligations are as follows:

	1 – 12 months	13 – 24 months	25 – 36 months	37 – 48 months	49 – 60 months and beyond	Total
	(RMB in thousands)					
Funding debts obligations						
Liabilities to funding partners	3,101,381	696,852	—	—	—	3,798,233
Interest payments (i)	247,104	48,012	—	—	—	295,116
Total funding debts obligations	3,348,485	744,864	—	—	—	4,093,349
Short-term borrowings	1,799,741	—	—	—	—	1,799,741
Interest payments (i)	40,366	—	—	—	—	40,366
Total short-term borrowings obligations	1,840,107	—	—	—	—	1,840,107
Convertible notes	—	1,912,710	—	—	—	1,912,710
Interest payments (i)	38,254	36,660	—	—	—	74,914
Total convertible notes obligations	38,254	1,949,370	—	—	—	1,987,624
Commitment to purchase delinquent loans (ii)	826,839	—	—	—	—	826,839
Total purchase obligations	826,839	—	—	—	—	826,839

- (i) Interest payments with variable interest rates are calculated using the interest rate as of December 31, 2021.
- (ii) With respect to the arrangements with certain Institutional Funding Partners, the Group is required to purchase the off-balance sheet loans funded by those Institutional Funding Partners when the loans become delinquent for a certain period of time consecutively or cumulatively. Commitment to purchase delinquent loans represents the Group's noncancelable obligations to purchase those delinquent loans which is yet to be sold by those Institutional Funding Partners as of December 31, 2021.

Litigations

From time to time, the Group may be subject to various legal or administrative claims and proceedings arising in the ordinary course of business.

Litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. The Group has not recorded any liabilities in this regard as of December 31, 2020 and 2021.

22. SUBSEQUENT EVENTS

On March 16, 2022, the Group's board of directors authorized a share repurchase plan under which the Company may purchase up to US\$50 million of its shares over the next twelve months.

No other events or transactions have occurred between year-end and the date of these Consolidated Financial Statements which may significantly affect the Entity's financial position or results of operations as of December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The condensed financial information of the Company has been prepared in accordance with SEC Regulation S-X Rule 5-04 and Rule 12-04, using the same accounting policies as set out in the Group's consolidated financial statements, except that the Company uses the equity method to account for investments in its subsidiaries, the VIEs and the VIEs' subsidiaries.

The subsidiaries did not pay any dividend to the Company for the years presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements are not the general-purpose financial statements of the reporting entity and should be read in conjunction with the notes to the consolidated financial statements of the Group.

The Company did not have significant capital and other commitments or guarantees as of December 31, 2020 and 2021, except for those which have been separately disclosed in the consolidated financial statements.

Condensed Balance Sheets (In thousands, except for share and per share data)

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$ Note 2(e)
ASSETS			
Current assets			
Cash and cash equivalents	846	1,845	290
Amounts due from subsidiaries	371,814	354,241	55,588
Prepaid expenses and other current assets	6,272	28,427	4,461
Total current assets	378,932	384,513	60,339
Non-current assets			
Investments in subsidiaries, the VIEs and the VIEs' subsidiaries	7,004,849	9,563,708	1,500,754
Long-term investments	68,151	—	—
Other assets	—	215	34
Total non-current assets	7,073,000	9,563,923	1,500,788
Total assets	7,451,932	9,948,436	1,561,127
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries, the VIEs and the VIEs' subsidiaries	18,264	17,887	2,807
Accrued interest payable	9,233	8,735	1,371
Accrued expenses and other current liabilities	13,470	11,509	1,806
Total current liabilities	40,967	38,131	5,984
Non-current liabilities			
Convertible notes	1,920,227	1,882,689	295,435
Total non-current liabilities	1,920,227	1,882,689	295,435
Total liabilities	1,961,194	1,920,820	301,419
Commitments and contingencies (Note 21)			
SHAREHOLDERS' EQUITY:			
Class A Ordinary Shares (\$0.0001 par value per share; 1,889,352,801 shares authorized, 268,935,832 shares issued, 267,356,928 shares outstanding as of December 31, 2020; 1,889,352,801 shares authorized, 286,430,946 shares issued, 273,270,100 shares outstanding as of December 31, 2021)	176	180	28
Class B Ordinary Shares (\$0.0001 par value per share; 110,647,199 shares authorized, 96,727,057 shares issued and outstanding as of December 31, 2020; 110,647,199 shares authorized, 94,465,693 shares issued and outstanding as of December 31, 2021)	58	57	9
Additional paid-in capital	2,724,006	2,918,993	458,054
Accumulated other comprehensive income	3,308	11,273	1,769
Retained earnings	2,763,190	5,097,113	799,848
Total shareholders' equity	5,490,738	8,027,616	1,259,708
Total liabilities and shareholders' equity	7,451,932	9,948,436	1,561,127

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Operations and Comprehensive Income (In thousands)

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$ Note 2(e)
Operating expenses:				
General and administrative expenses	(18,514)	(15,707)	(19,109)	(2,999)
Total operating expenses	(18,514)	(15,707)	(19,109)	(2,999)
Interest expense, net	(14,085)	(47,783)	(44,865)	(7,040)
Income from subsidiaries, the VIEs and the VIEs' subsidiaries	2,260,115	626,877	2,395,789	375,952
Other long-term investments related impairment	—	—	—	—
Investment income/(loss)	57,391	27,624	(1,980)	(311)
Others, net	9,645	3,969	11,239	1,764
Income before income tax expense	2,294,552	594,980	2,341,074	367,366
Income tax expense	—	—	(7,151)	(1,122)
Net income attributable to ordinary shareholders	2,294,552	594,980	2,333,923	366,244
Other comprehensive income :				
Foreign currency translation adjustments, net of tax	7,020	10,596	7,965	1,250
Total comprehensive income attributable to ordinary shareholders	2,301,572	605,576	2,341,888	367,494

Condensed Statements of Cash Flows (In thousands)

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$ Note 2(e)
Net cash (used in)/provided by operating activities	(6,596)	(53,626)	14,196	2,228
Cash flows from investing activities:				
Cash paid on long-term investments	—	—	(18,868)	(2,961)
Proceeds from disposal of long-term investments	9,000	27,754	65,537	10,284
Cash paid on loans to third parties	—	—	(22,317)	(3,502)
Net cash used in funds to Group companies	(2,290,814)	(107,446)	(15,263)	(2,395)
Net cash (used in)/provided by investing activities	(2,281,814)	(79,692)	9,089	1,426
Cash flows from financing activities:				
Proceeds from receivables from Pre-IPO Series C-1 preferred shareholders	348,264	—	—	—
Proceeds from issuance of convertible notes, net of debt discount	2,096,408	—	—	—
Payment of debt issuance costs	(24,048)	—	—	—
Payment of initial public offering expenses	—	—	—	—
Exercise of share-based awards	10,968	7,970	7,124	1,118
Net cash provided by financing activities	2,431,592	7,970	7,124	1,118
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4,140)	(13,607)	(29,410)	(4,615)
Net increase/(decrease) in cash, cash equivalents and restricted cash	139,042	(138,955)	999	157
Cash, cash equivalents and restricted cash at beginning of the year	875	139,917	846	133
Effect on the cash and cash equivalents at beginning of the year due to the adoption of ASC 326 (Note 2(g))	—	(116)	—	—
Cash, cash equivalents and restricted cash at end of the year	139,917	846	1,845	290

Basis of presentation

The Company's accounting policies are the same as the Group's accounting policies with the exception of the accounting for the investments in subsidiaries, the VIEs and the VIEs' subsidiaries.

For the Company only condensed financial information, the Company records its investments in subsidiaries, the VIEs and the VIEs' subsidiaries under the equity method of accounting as prescribed in ASC 323, *Investments—Equity*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Method and Joint Ventures. Such investments are presented on the Condensed Balance Sheets as “Investments in subsidiaries, the VIEs and the VIEs’ subsidiaries” and shares in the subsidiaries, the VIEs and the VIEs’ subsidiaries’ income are presented as “Equity in income of subsidiaries, the VIEs and the VIEs’ subsidiaries” on the Condensed Statements of Operations and Comprehensive Income. The parent company only condensed financial information should be read in conjunction with the Group’s consolidated financial statements.

Amounts included in the above disclosure and previously reported for 2019 and 2020 have been revised to correct two errors each of which, in the opinion of management, are immaterial.

The Group revised the balance sheets of the parent company as of December 31, 2020 by a decrease of RMB2,059 million in amounts due from subsidiaries and other related parties, and an increase of RMB2,059 million in the investments in subsidiaries, the VIEs and the VIEs’ subsidiaries.

The Group revised the classification in the cash flow activities of the parent company for the years ended December 31, 2019 and 2020 by a decrease of RMB2,224 million and RMB90 million respectively in cash used in operating activities, and an increase of the same amount in cash used in investing activities. The impact of the errors was eliminated in consolidation. Accordingly, there is no impact on the previously reported consolidated financial position, results of operations or cash flows.

Exclusive Option Agreement

This Exclusive Option Agreement (“**this Agreement**”) is made and entered into by and among the following Parties as of November 4, 2021 in Beihai, the People’s Republic of China:

- Party A:** **Beihai Green Lemon Technology Co., Ltd.**, a wholly foreign-owned enterprise duly registered in China, whose Unified Social Credit Code is 91450500MA5N95341R and having its registered office at Room A02, 4/ F, Building 1, No. 23, Jilin Road, Industrial Park, Beihai;
- Party B:** **YANG Tao**, a Chinese citizen whose ID number is *****;
HAN Chao, a Chinese citizen whose ID number is *****;
- Party C:** **Beihai Super Egg E-Commerce Co., Ltd.**, a limited liability company organized and existing under the laws of China, whose Unified Social Credit Code is 91450500MA5N7ECU5J, having its registered office at Room A05, 3/ F, Building 1, No. 23, Jilin Road, Industrial Park, Beihai.

In this Agreement, Party A, Party B and Party C shall be hereinafter referred to as a “**Party**” individually, and the “**Parties**” collectively.

WHEREAS:

Party B is a shareholder of Party C and holds 100% of the Equity Interest in Party C as of the execution date hereof;

Now Therefore, the Parties hereby agree as follows through mutual negotiations:

1. Sale and Purchase of Equity Interest and Asset

1.1 Grant of Option

- 1.1.1 Each of Party B hereby irrevocably grants Party A an irrevocable exclusive right (the “**Equity Interest Purchase Option**”) to purchase, or designate one or more persons (each, the “**Equity Interest Designee**”) to purchase in whole or in part the Equity Interest in Party C now or then held by Party B from any party of Party B at any time and from time to time at Party A’s sole and absolute discretion to the extent permitted by the laws of the People’s Republic of China (“**China**”) and at the price described in Section 1.3 herein. Except for Party A and the Equity Interest Designee(s), no other person shall be entitled to the Equity Interest Purchase Option or other rights with respect to the Equity Interest held by Party B. Party C hereby agrees to the grant by Party B of the Equity Interest Purchase Option to Party A. The term “**person**” as used herein shall refer to

individuals, corporations, joint ventures, partnerships, enterprises, trusts or non-corporate organizations.

1.1.2 Party C hereby irrevocably grants Party A an irrevocable exclusive right (the “**Asset Purchase Option**”) to purchase, or designate one or more persons (the “**Asset Designee**”, collectively the “**Designee**” with the Equity Interest Designee) to purchase in whole or in part the Asset in Party C from Party C at any time and from time to time at Party A’s sole and absolute discretion to the extent permitted by the law of China and at the price described in Section 1.3 herein. Except for Party A and the Asset Designee(s), no other person shall be entitled to the Asset Purchase Option or other rights with respect to Party B’s asset. Party B hereby agrees to the grant by Party C of the Asset Purchase Option to Party A in accordance under this Agreement.

1.2 Steps for Exercise of Equity Interest Purchase Option and Asset Purchase Option

Subject to the terms and conditions of this Agreement, Party A shall have the absolute discretion to determine the specific time, manner and frequency of exercising its right to the extent permitted by the laws of China.

Subject to the provisions of the laws and regulations of China, Party A may exercise the Equity Interest Purchase Option by issuing a written notice to Party B (the “**Purchase Option Notice**”), specifying: (i) Party A’s decision to exercise the Equity Interest Purchase Option; (ii) the portion of Equity Interest Party A proposes to be purchase from Party B (the “**Optioned Equity Interest**”); and (iii) the date for purchasing/transferring the Optioned Equity Interest.

Subject to the provisions of the laws and regulations of China, Party A may exercise the Asset Purchase Option by issuing a written notice to Party C (the “**Asset Purchase Option Notice**”), specifying: (i) Party A’s decision to exercise the Asset Purchase Option; (ii) the specific asset Party A proposes to be purchase from Party C (the “**Optioned Asset**”); and (iii) the date for delivering/transferring the Optioned Asset.

When Party A exercises the Equity Interest Purchase Option or the Asset Purchase Option, Party A can be transferred the Optioned Equity Interest or the Optioned Asset by itself, or it appoint the Designee(s) to be transferred in whole or in part.

1.3 Equity Interest Purchase Price and Asset Purchase Price

1.3.1 As far as the Optioned Equity Interest is concerned, Unless an appraisal is required by the laws of China for the Equity Interest Purchase Option exercised by Party A, the purchase price of the Optioned Equity Interest (the “**Equity Interest Purchase Price**”) shall be RMB1.00; In the event that the minimum price permitted by the laws of China at that time is higher than the aforementioned price, the transfer price shall be the minimum price. If Party B receive a transfer price which is higher than RMB1.00 for the Optioned Equity

Interest held by Party B, or receives any form of profit distribution, dividends, dividends or dividends from Party C, and Party B agrees that, subject to the laws of China, Party A shall be entitled to receive such income of more than RMB1.00. Party B shall instruct the relevant transferee(s) or Party C to pay the aforementioned income to the bank account designated by Party A at that time.

- 1.3.2 With respect to the right to the Asset Purchase Option, for each exercise of the right, the purchase price of the Optioned Assets (the “**Asset Purchase Price**”) shall be the net book value of the Optioned Asset; However, In the event that the minimum price permitted by the laws of China at that time is higher than the aforementioned net book value, the transfer price shall be the minimum price permitted by the laws of China.

1.4 Transfer of Optioned Equity Interest and Optioned Asset

For each exercise of the Equity Interest Purchase Option or the Asset Purchase Option:

- 1.4.1 Party B and Party C shall cause Party C to promptly convene a shareholders meeting and/or board meeting (whichever is applicable), at which a resolution shall be adopted approving Party B’s transfer of the Optioned Equity Interest to Party A and/or the Equity Interest Designee(s), or approving Party C’s transfer of the Optioned Asset to Party A and/or the Asset Designee(s);
- 1.4.2 Party B or Party C (whichever is applicable) shall execute a share transfer contract or asset transfer contract with Party A and/or each Designee (whichever is applicable) with respect to each transfer (collectively “**Transfer Contracts**”), in accordance with the provisions of this Agreement and the corresponding purchase notice;
- 1.4.3 The relevant Parties shall execute all other necessary contracts, agreements or documents, obtain all necessary government licenses and permits and take all necessary actions to transfer valid ownership of the Optioned Equity Interest or the Optioned Asset to Party A and/or the Designee(s) (whichever is applicable) , unencumbered by any security interests, and cause Party A and/or the Designee(s) to become the registered owner(s) of the Optioned Equity Interest or the Optioned Asset (if any). For the purposes of this Section and this Agreement, “**Security Interests**” shall include securities, mortgages, pledges, liens, claims, third party’s rights or interests, any stock options, acquisition right, right of first refusal, right to offset, title retention or other security arrangements, but shall be deemed to exclude any security interest created by this Agreement and Party B’s Equity Pledge Agreement. “**Party B’s Equity Pledge Agreement**” as used in this Section and this Agreement shall refer to the Equity Pledge Agreement executed by and among Party A, Party B and Party C on the date of this Agreement , whereby Party B pledges all of its Equity Interest in Party C to Party A, in order to guarantee Party B’s obligations

under this Agreement and Party C's performance of its obligations under the Exclusive Business Cooperation Agreement executed by and between Party C and Party A and other agreements.

2. Covenants

2.1 Covenants regarding Party C

Party B (as a shareholder of Party C) and Party C hereby covenant as follows:

- 2.1.1 Without prior written consent of Party A, they shall not in any manner supplement, change or amend the articles of association and bylaws of Party C, increase or decrease its registered capital, or otherwise change its structure of registered capital;
- 2.1.2 They shall maintain Party C's corporate existence in accordance with good financial and business standards and practices, and prudently and effectively operate its business and handle its affairs;
- 2.1.3 Without prior written consent of Party A, they shall not at any time after the execution date hereof, sell, transfer, mortgage or otherwise dispose of any Equity Interest of Party C, any asset of Party C or legal or beneficial interest in the business or revenues of Party C, or allow creation of any encumbrance or security interest thereon;
- 2.1.4 Without prior written consent of Party A, they shall not incur, inherit, guarantee or allow the existence of any debt, except for (i) debts incurred in the ordinary course of business other than through borrowing loans; and (ii) debts that have been disclosed to Party A and for which Party A's written consent has been obtained;
- 2.1.5 They shall ensure to operate all of Party C's businesses during the ordinary course of business to maintain the asset value of Party C and refrain from any action/omission that may affect Party C's operating status and asset value;
- 2.1.6 Without prior written consent of Party A, they shall not cause Party C to execute any major contract, except for contracts executed in the ordinary course of business (for the purpose of this subsection, a contract with a value exceeding RMB 100,000 shall be deemed a major contract);
- 2.1.7 Without prior written consent of Party A, they shall not cause Party C to provide any person with any loan, credit, guarantee or guarantee;
- 2.1.8 They shall provide Party A with information on Party C's business operations and financial condition at Party A's request;

- 2.1.9 If requested by Party A, they shall procure and maintain insurance in respect of Party C's asset and business from an insurance carrier acceptable to Party A, at an amount and type of coverage typical for companies that operate similar businesses;
- 2.1.10 Without prior written consent of Party A, they shall not cause or permit Party C to merge, consolidate with, acquire or invest in any person, or be acquired or invested by any person;
- 2.1.11 Without prior written consent of Party A, they shall not liquidate, dissolve or deregister Party C;
- 2.1.12 They shall immediately notify Party A of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to Party C's asset, business or revenue;
- 2.1.13 To maintain the ownership by Party C of all of its asset, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- 2.1.14 Without prior written consent of Party A, they shall ensure that Party C shall not in any manner distribute any distributable profits, dividends, or bonuses to its shareholder, provided that upon Party A's written request, Party C shall immediately distribute all distributable profits dividends, and bonuses to its shareholders;
- 2.1.15 At the request of Party A, they shall appoint any persons designated by Party A as the director or supervisor of Party C, or other company management personnel appointed and removed by Party B ;
- 2.1.16 They shall promptly inform Party A of any situation that may have a material adverse effect on the survival, business operation, financial condition, assets or goodwill of Party C, and shall timely take all measures approved by Party A to eliminate such adverse situation or take effective remedial measures against it; and
- 2.1.17 Party C shall , at the request of Party A at any time, immediately and unconditionally transfer the Optioned Asset to Party A and/or the designee(s) in accordance with the Asset Purchase Option under this Agreement.

2.2 Covenants of Party B

Party B hereby covenants as follows:

- 2.2.1 Without prior written consent of Party A, Party B shall not sell, transfer, mortgage or otherwise dispose any legal or beneficial interest in the Equity Interest in Party C held by Party B, or allow creation of any encumbrance or Security Interests thereon, except for the pledge created on these Equity Interest in accordance with Party B's Equity Pledge Agreement;
- 2.2.2 Party B shall cause the shareholder and/or the board of directors of Party C to disapprove the sale, transfer, mortgage, pledge or otherwise disposition of any legal or beneficial interest in the Equity Interest in Party C held by Party B, or allow the creation of encumbrance or any Security Interests thereon, without prior written consent of Party A, except for the pledge created on these Equity Interest in accordance with Party B's Equity Pledge Agreement;
- 2.2.3 Party B shall cause the shareholder or the board of directors of Party C to disapprove Party C's merger or consolidation with any person, or the acquisition of or investment in any person, or the acquisition or investment by any person without prior written consent of Party A;
- 2.2.4 Party B shall immediately notify Party A of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Equity Interest or the asset in Party C held by Party B;
- 2.2.5 Party B shall cause the shareholder or the board of directors of Party C to vote their approval of the transfer of the Optioned Equity Interest or the Optioned Asset as set forth in this Agreement and to take any and all other actions that may be requested by Party A;
- 2.2.6 To the extent necessary to maintain Party B's ownership in Party C, Party B shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- 2.2.7 Party B shall, at the request of Party A, appoint any designee of Party A as the director of Party C;
- 2.2.8 Party B shall, at the request of Party A at any time, promptly and unconditionally transfer its Equity Interest in Party C to Party A and/or the Equity Interest designee(s) in accordance with the Equity Interest Purchase Option under this Agreement, and Party B hereby waives its right of first refusal (if any) to the share transfer by the other existing shareholder of Party C (if any); and
- 2.2.9 Party B shall strictly abide by the provisions of this Agreement and other Agreements jointly or separately executed by and among Party B and/or Party C and Party A, perform the obligations hereunder and thereunder, and refrain from any action/omission that may affect the effectiveness and enforceability

hereof and thereof. To the extent that Party B has any residual rights with respect to the Equity Interest subject to this Agreement hereunder or under Party B's Equity Pledge Agreement or under the Power of Attorney Agreement granted in favor of Party A, Party B shall not exercise such rights except in accordance with the written instructions of Party A.

3. Representations and Warranties

Party B and Party C hereby represent and warrant to Party A, jointly and severally, as of the date of this Agreement and each date of transfer of the Optioned Equity Interest or the Optioned Asset, that:

- 3.1 Party B shall have full and independent legal status and legal ability to enter into, deliver and perform this Agreement and can independently act as a party to the litigation subject. Moreover, it is authorized to execute and deliver this Agreement and any Transfer Contracts and to perform its obligations under this Agreement and any Transfer Contracts. Party B and Party C agree to sign a Transfer Contracts consistent with the terms of this Agreement upon Party A or the designee(s)' exercise of the Equity Interest Purchase Option or the Asset Purchase Option. This Agreement and the Transfer Contracts to which it is a party constitute or will constitute its legal, valid and binding obligations and can be enforced in accordance with the provisions thereof;
- 3.2 The execution and delivery of this Agreement or any Transfer Contracts and the obligations under this Agreement or any Transfer Contracts shall not: (i) cause any violation of any applicable Chinese laws; (ii) be inconsistent with the articles of association, bylaws or other organizational documents of Party C; (iii) cause the violation of any contracts or instruments to which they are a party or which are binding on them, or constitute any breach under any contracts or instruments to which they are a party or which are binding on them; (iv) cause any violation of any condition for the grant and/or continued effectiveness of any licenses or permits issued to either of them; or (v) cause

the suspension or revocation of or imposition of additional conditions to any licenses or permits issued to either of them;

- 3.3 Party C has a good and merchantable title to all of its asset, and Party B has not created any security interest on such asset;
- 3.5 Party B has a good and merchantable title to the Equity Interest in Party C held by Party B. Except for the Party B's Equity Pledge Agreement, Party B has not created any security interest on such Equity Interest;
- 3.4 Party C has a good and merchantable title to all of its asset, and except otherwise disclosed in writing, has not created any security interest or purchase option on the aforementioned asset;
- 3.5 Party C does not have any outstanding debts, except for (i) debt incurred in the ordinary course of business; and (ii) debts that have been disclosed to Party A and for which Party A's written consent has been obtained;
- 3.6 There are no pending or threatened litigation, arbitration or administrative proceedings involving the Equity Interest in Party C, asset of Party C or Party C; and
- 3.7 Except for the registration of equity pledge with Administration for Industry and Commerce in accordance with the provisions of Party B's Equity Pledge Agreement, the execution and performance of this Agreement and the grant or exercise of the Equity Interest Purchase Option or the Asset Purchase Option under this Agreement do not require the consent, license, waiver, authorization of any third party, or the approval, permission, exemption from any governmental authority, or the registration or filing procedures with any governmental authority.

4. Effective Date

This Agreement shall become effective upon the execution date hereof and shall be valid for 10 years, and may choose to renew this Agreement. In the event that Party A chooses to extend the term, the validity period of the extension shall be determined by Party A, and Party B and Party C shall unconditionally accept such renewal and the validity period of the extension.

5. Governing Law and Dispute Resolution

5.1 Governing Law

The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the Dispute Resolution hereunder shall be governed by the laws of China.

5.2 Dispute Resolution

In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement within 30 days after either Party requests to the other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with its then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language shall be Chinese. The arbitration award shall be final and binding on all Parties.

6. **Taxes and Fees**

Each Party shall pay any and all transfer and registration tax, expenses and fees incurred by or levied on itself in accordance with the laws of China in connection with the preparation and execution of this Agreement and the Transfer Contracts, as well as the consummation of the transactions contemplated under this Agreement and the Transfer Contracts.

Whether or not there is a rule to the contrary, if the tax authority considers that the Equity Interest Purchase Price or the Asset Purchase Price is not a reasonable transfer price and the tax base is adjusted, the additional tax shall be borne by Party B (in the case where Party A exercises the Equity Interest Purchase Option) or Party C (in the case where Party A exercises the Asset Purchase Option).

7. **Notices**

7.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail with postage prepaid, commercial courier service or facsimile transmission to the contact address of such Party. Each notice shall be followed by a confirmation copy sent by email. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:

- 7.1.1 Notices given by personal delivery, courier service, registered mail with postage prepaid shall be deemed effectively given on the date of receipt or rejection at the address specified for notices.
- 7.1.2 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).

7.2 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

8. Confidentiality

The Parties acknowledge that any oral or written information exchanged between the Parties in connection with the preparation and performance this Agreement constitute confidential information. Each Party shall maintain confidentiality of all such confidential information, and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that: (i) is or becomes available to the general public (other than through the receiving Party's unauthorized disclosure); (ii) is required to be disclosed by applicable laws or regulations or rules or regulations of any stock exchange; or (iii) is necessary to be disclosed by any Party to its legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Section. Disclosure of any confidential information by the employees of or agencies engaged by any Party shall be deemed disclosure by such Party itself and such Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

9. Further Warranties

The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.

10. Miscellaneous

10.1 Amendment, change and supplement

Any amendment, change and supplement to this Agreement shall be made only by a written contract executed by all of the Parties.

10.2 Entire Agreement

Except for the amendments, supplements or changes made in writing after the execution hereof, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.

10.3 Headings

The headings of this Agreement are inserted for convenience only, and shall not be used to interpret, explain or otherwise affect the meanings of the provisions of this Agreement.

10.4 Language

This Agreement is written in Chinese in four counterparts of equal legal force.

10.5 Severability

In the event that one or several provisions hereof are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any aspect. The Parties shall negotiate in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

10.6 Assignment

Without Party A's prior written consent, the other parties shall not assign its rights and obligations hereunder to any third party. Party B and Party C agree that Party A may assign its obligations and rights hereunder to any third party and in the case of such assignment, Party A is only required to give written notice to Party B and Party C e other parties and does not need to seek any consent from Party B and Party C.

10.7 Successors

This Agreement shall be binding on and shall inure to the interest of the respective successors of the Parties and the permitted assignees of such Parties.

10.8 Survival

10.8.1 Any obligations arising out of or due hereunder before the expiration or early termination of this Agreement shall survive the expiration or early termination thereof.

10.8.2 Sections 5, 7, 8 and this Section 10 shall survive the expiration or termination of this Agreement.

10.9 Waivers

Any Party may waive the terms and conditions of this Agreement, provided that such a waiver must be made in writing and shall require the signatures of all the Parties. No waiver by any Party in certain circumstances with respect to a breach by other Parties

shall operate as a waiver by such Party with respect to any similar breach in other circumstances.

[Signature page follows]

(Signature Page to Exclusive Option Agreement)

Party A:

Beihai Green Lemon Technology Co., Ltd. (Seal)

(Signature Page to Exclusive Option Agreement)

Party B:

YANG Tao

Signature: /s/YANG Tao

HAN Chao

Signature: /s/HAN Chao

Party C:

Beihai Super Egg E-Commerce Co., Ltd. (Seal)

Legal Representative: /s/YANG Tao

Equity Pledge Agreement

This Equity Pledge Agreement (this “**Agreement**”) is made and entered into by and among the following parties on November 4, 2021 in Beihai, the People’s Republic of China (“**China**” or the “**PRC**”):

Party A:	Beihai Green Lemon Technology Co., Ltd. (“Pledgee”)
Unified Social Credit Code	91450500MA5N95341R
Address:	Room A02, 4/ F, Building 1, No. 23, Jilin Road, Industrial Park, Beihai
Party B:	YANG Tao (“Party B1”) , a Chinese citizen whose ID number is *****; HAN Chao (“Party B2”) , a Chinese citizen whose ID number is *****; (Party B1 and Party B2 are collectively hereinafter referred to the “ Pledgers ” or “ Party B ”)
Party C:	Beihai Super Egg E-Commerce Co., Ltd.
Unified Social Credit Code:	91450500MA5N7ECU5J
Address:	Room A05, 3/F, Building 1, No. 23, Jilin Road, Industrial Park, Beihai

In this Agreement, The Pledgee, the Pledgers and the Party C are hereinafter referred to as a “**Party**” individually, and the “**Parties**” collectively.

Whereas:

- The Pledgers hold 100% of equity interests of Party C in total. Party C is a limited liability company registered in Beihai, China, engaging in commercial consulting services, e-commerce information consulting services, network technology information consulting services, technology development, technology consultation, technology services, technology promotion and technology transfer of electronic products, network products and technological products; enterprise information consulting services; economic and trade information consulting services; enterprise management consulting services; financial consulting services; educational information consulting services; data processing services; computer system. Party C acknowledges the respective rights and obligations of the Pledgers and the Pledgee hereunder and agrees to provide any necessary assistance for the registration of the Pledge;
-

2. The Pledgee is a wholly foreign-owned enterprise registered in Beihai, China. The Pledgee and Party C entered into an Exclusive Business Cooperation Agreement (the “**Exclusive Business Cooperation Agreement**”) on June 26, 2018; the Pledgee entered into an Exclusive Option Agreement (the “**Exclusive Option Agreement**”) with the Pledgers and Party C on November 4, 2021; each Pledger and Pledgee respectively signed a Power of Attorney Agreement (the “**Power of Attorney Agreements**”) on November 4, 2021; the Pledgers and Pledgee signed a Loan Agreement (the “**Loan Agreement**”, collectively the “**Project Agreements**” with the Power of Attorney Agreements, the Exclusive Business Cooperation Agreement and the Exclusive Option Agreement) on November 4, 2021;
3. The Purpose of the Pledge is to ensure that (i) the pledgee can collect all payments due and payable by Party C from Party C in accordance with the Exclusive Business Cooperation Agreement, including but not limited to consulting and service fees; (ii) the Pledgee can effectively exercise its equity purchase right and/or asset purchase right under the Exclusive Option Agreement; (iii) the pledgee can exercise its voting rights under the Power of Attorney Agreements; and (iv) the Pledgee can collect all the loan principal and interests (if any) due to be returned from the Pledgers under the Loan Agreement, and the Pledgers agrees to pledge all the equity in Party C for the obligations of Party B and Party C under the Project Agreements.

Therefore, the Parties hereby agree as follows through mutual negotiations.

1. **Definitions**

Unless otherwise specified herein, the terms below shall have the following meanings:

- 1.1 “**Pledge**”: shall refer to the security interest created by the Pledgers in favor of the Pledgee pursuant to Section 2 of this Agreement, i.e., the right of the Pledgee to be paid in priority from the proceeds from the transfer, auction or sale of the equity interest.
- 1.2 “**Equity Interest**”: shall refer to 100% equity interests currently legally held by the Pledgers in Party C, i.e., the Pledger YANG Tao holds 50% equity in Party C, corresponding to the registered capital of RMB 25 million; the Pledger HAN Chao holds 50% equity in Party C, corresponding to registered capital of RMB 25 million; and the additional capital contributions and dividends as described in Section 2.3 and 2.4 of this Agreement.
- 1.3 “**Term of Pledge**”: shall refer to the term set forth in Section 3 of this Agreement.
- 1.4 “**Project Agreements**”: shall have the meaning in the preamble of this Agreement.
- 1.5 “**Contractual Obligations**”: shall refer to all the obligations of the Pledgers and Party C under this Agreement and the Project Agreements.
- 1.6 “**Secured Indebtedness**”: shall refer to the payment and a other obligations of the Pledgers and/or Party C under the Project Agreements, and any and all direct, indirect, derivative

losses and losses of predictable benefits incurred due to any default by the Pledgers and/or Party C, the amount of which shall be determined based on the Pledgee's reasonable business plan and profit forecast; the service fees payable by Party C under the Exclusive Business Cooperation Agreement; all due and repayable loan principal and interests (if any) collected by the Pledgee from the Pledgers according to the Loan Agreements, and all costs and expenses incurred by the Pledgee in enforcing the Pledgers and/or Party C to perform their contractual obligations.

1.7 **“Event of Default”**: shall refer to any of the circumstances as enumerated in Section 7 of this Agreement.

1.8 **“Notice of Default”**: shall refer to the notice issued by the Pledgee in accordance with this Agreement declaring an Event of Default.

2. Pledge

2.1 The Pledgers agree to pledge all the Equity Interest to the Pledgee as security for payment of the Secured Indebtedness under this Agreement, and Party C hereby assents to such pledge.

2.2 The Pledgers undertakes that it shall be responsible for recording the equity pledge arrangement in the shareholders' register of Party C under this Agreement.

2.3 The Pledgers may subscribe for capital increase in Party C only with prior written consent of the Pledgee. Any Equity Interest obtained by the Pledgers as a result of the Pledgers' subscription of the increased registered capital of the Company shall also be deemed as Equity Interest. The Pledgers undertakes to record the equity pledge of the additional capital amount under this Section 2.3 in the shareholders' register of Party C and apply for registration with the registration authority (as defined below) within ten (10) business days after the capital increase.

2.4 During the Term of Pledge, the Pledgee is entitled to receive the income (including but not limited to any dividends and profits) on the Equity Interest. The Pledgers may receive dividends distributed on the Equity Interest only with prior written consent of the Pledgee. Dividends received by the Pledgers on Equity Interest shall be deposited into an account designated and supervised by the Pledgee and applied first to pay the Secured Indebtedness.

3. Term of Pledge

3.1 The Pledge shall become effective on such date when it is registered with competent administration for industry and commerce (the **“AIC”**) at the location of Party C. The Parties agree that the Pledgers and Party C shall submit an application to the AIC for the registration of the Pledge of the Equity Interest within 60 business days following the

execution of this Agreement. The Parties further agree that they shall complete all equity pledge registration procedures, obtain a registration notice issued by the AIC, and the AIC will shall record the matters concerning the Pledge of the Equity Interest completely and accurately in the equity pledge register within 20 business days after the AIC formally accepts the application for pledging registration of the Equity Interest.

3.2 The term of this Agreement shall expire until the Contractual Obligations are fully performed or the Secured Indebtedness are fully discharged.

4. Custody of Equity Interest Records

During the Term of Pledge, the Pledgers shall deliver to the Pledgee's custody the shareholders' register indicating the Pledge within one week following execution of this Agreement. The Pledgee shall have custody of such documents during the entire Term of Pledge.

5. Representations and Warranties of the Pledgers

5.1 The Pledgers are Chinese citizen/legal person with full capacity for conduct and has the legal right and ability to enter into this Agreement and undertake legal obligations under this Agreement. This Agreement, duly signed by the Pledgers, shall constitute a legal, valid and binding obligation to the Pledgers.

5.2 The Pledgers are the sole legal and beneficial owner of the Equity Interest, and there is no dispute regarding the ownership of the Equity Interest. The Pledgers have the rights to dispose of the Equity Interest and any part thereof.

5.3 Except for the Pledge, the Pledgers have not created any security interest or other encumbrance on the Equity Interest.

5.4 The execution and performance of this Agreement and the Pledge of Equity Interest under this Agreement must be under the condition of obtaining any third party's consent, permission, waiver, authorization or the approval, permission, exemption from any government agency, or completing the registration or filing procedures (if required by the applicable laws) (except for the pledge registration at the AIC), which will shall remain in full force and effect during the term of this Agreement.

5.5 The Pledgers hereby warrant the Pledgee that the above statement and warranties will be true and correct and will be fully complied with at any time and under any circumstances before the Contractual Obligations are fully fulfilled or the Secured Indebtedness is fully paid off.

6. Covenants and Further Agreement of the Pledgers

6.1 During the term of this Agreement, the Pledgers covenant to the Pledgee that the Pledgers:

6.1.1 shall not transfer the Equity Interest, create or permit the existence of any security interest or other encumbrance on the Equity Interest, without the prior written consent of the Pledgee, except for the purposes of the performance of the Project Agreements;

6.1.2 shall promptly notify the Pledgee of any event or notice received by the Pledgers that may have an impact on the Equity Interest or any portion thereof, as well as any event or notice received by the Pledgers that may have an impact on any guarantees and other obligations of the Pledgers hereunder.

6.2 The Pledgers agree that the rights acquired by the Pledgee in accordance with this Agreement with respect to the Pledge shall not be interrupted or jeopardized by the Pledgers or any heirs or representatives of the Pledgers or any other persons through any legal proceedings.

6.3 The Pledgers hereby undertake to comply with and perform all guarantees, promises, agreement, representations and conditions of and under this Agreement. In the event of failure or partial performance of such guarantees, promises, agreements, representations and conditions, the Pledgers shall indemnify the Pledgee for all losses resulting therefrom.

6.4 The Pledgers hereby waive the preemptive rights that they may enjoy when the Pledgee exercises the Pledge.

7. Event of Breach

7.1 The following circumstances shall be deemed Event of Default:

7.1.1 Party C fails to pay the consulting and service fees payable under the Exclusive Business Cooperation Agreement in full or violates any other obligations of Party C under the Exclusive Business Cooperation Agreement;

7.1.2 The pledgers fails to repay the loan principal and interest (if any) under the Loan Agreement in full or violates any other obligations of the pledgers under the Loan Agreement;

7.1.3 Party C and/or the Pledgers breach any obligations under the other Project Agreements ;

7.1.2 The Pledgers have serious misstatement or mistake in any statement or warranty made in Section 5 of this Agreement and/or the Pledgers violate any warranty in Section 5 of this Agreement; or the Pledgers violate any covenants and further agreement in Section 6 of this Agreement

- 7.1.5 The Pledgers and Party C fail to complete the registration of equity pledge with the registration authority in accordance with Section 3.1 ;
 - 7.1.6 The Pledgers and Party C violate any other provisions of this Agreement;
 - 7.1.7 Except otherwise clearly stipulated in Section 6.1.1, the Pledgers transfer or intend to transfer or surrender the Equity Interest or assign the Equity Interest without the Pledgee's written consent;
 - 7.1.8 The Pledgers (i) are required to repay or perform in advance or (ii) fails to repay or perform upon maturity any debt obligations owed to any third party such as loan, guarantee, indemnification and promise;
 - 7.1.9 Any government approval, license, permit or authorization that renders this Agreement enforceable, lawful and valid is withdrawn, terminated, invalid or substantially changed;
 - 7.1.10 The enactment of governing laws renders this Agreement unlawful or makes the Pledgers unable to continue performing its obligations hereunder;
 - 7.1.11 The Pledgers' assets experience negative change to the extent that affects the Pledgers' ability to perform its obligations hereunder;
 - 7.1.12 Party C's heirs or custodians only partially perform or refuse to perform their payment obligations under the Project Agreements;
 - 7.1.13 Any other circumstance where the Pledgers cannot or possibly cannot exercise its rights over the Pledge.
- 7.2 Upon notice or discovery of the occurrence of any circumstances or event that may lead to the aforementioned circumstances described in Section 7.1, the Pledgers shall immediately notify the Pledgee in writing accordingly.
- 7.3 Unless an Event of Default set forth in this Section 7.1 has been successfully resolved to the Pledgee's satisfaction, the Pledgee may issue a Notice of Default to the Pledgers upon the occurrence of the Event of Default or at any time thereafter, demanding the Pledgers to immediately pay all outstanding payments due and payable under the Project Agreements and all other payments due to the Pledgee and/or dispose of the Pledge in accordance with Section 8 of this Agreement.

8. Exercise of Pledge

- 8.1 Before the Secured Indebtedness is paid in full, the Pledgers shall not transfer the Pledge or its Equity Interest in Party C, or re-pledge the equity to any third party without the Pledgee's written consent.

- 8.2 The Pledgee may issue a written Notice of Default to the Pledgers when it exercises the Pledge.
- 8.3 Subject to the provisions of Section 7.3, the Pledgee may exercise the right to enforce the Pledge at any time after the issuance of the Notice of Default in accordance with Section 7.2.
- 8.4 The Pledgee shall have the right to be paid in priority with all or part of the Equity Interest from the proceeds from the transfer, auction or sale of the Equity Interest until the complete compensation of all outstanding payments due and other due payments to the Pledgee under the Project Agreements.
- 8.5 When the Pledgee disposes of the Pledge in accordance with this Agreement, the Pledgers and Party C shall provide necessary assistance to enable the Pledgee to enforce the Pledge in accordance with this Agreement.

9. Assignment

- 9.1 Without the Pledgee's prior written consent, the Pledgers shall not assign or delegate their rights and obligations under this Agreement. However, the Pledgee may assign or delegate its obligations and rights under this Agreement without seeking any consent of the Pledgers or Party C, but the Pledgers and Party C must be notified within a reasonable time.
- 9.2 This Agreement shall be binding on the Pledgers and his/her successors and permitted assignees, and shall be valid with respect to the Pledgee and each of his/her successors and assignees.
- 9.3 The Pledgee may at any time assign any and all of its rights and obligations under the Project Agreements to its assignee(s) (natural persons/legal persons), in which case the assignee shall enjoy and undertake the rights and obligations of the Pledgee under this Agreement, as if it were the original party to this Agreement. When the assignee transfers its rights and obligations under the Project Agreements, the Pledgers shall execute relevant agreements or other documents related to such transfer as required by the Pledgee.
- 9.4 In the event of change of the Pledgee due to assignment, the Pledgers shall, at the request of the Pledgee, execute a new pledge contract with the new Pledgee on the same terms and conditions as this Agreement, and enter into updated the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Power of Attorney Agreements, the Loan Agreement and other relevant documents.
- 9.5 The Pledgers shall strictly abide by the provisions of this Agreement and other contracts jointly or separately executed by all or any of the Parties hereto, including the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Loan Agreement, and the Power of Attorney Agreement, perform the obligations hereunder and thereunder, and refrain from any action/omission that may affect the effectiveness and enforceability hereof and thereof. Any residual rights of the Pledgers with respect to the Equity Pledged

hereunder shall not be exercised by the Pledgers except in accordance with the written instructions of the Pledgee.

10. Termination and release of the Pledge

Upon the sufficient and complete fulfillment of all Contractual Obligations and the full payment of all Secured Indebtedness by the Pledgers and Party C, The pledgee shall release the Pledge of Equity Interest in accordance with the requirements of the Pledgers under this Agreement as soon as possible within a reasonable and feasible time, and cooperate with the Pledgers to cancel the registration of the Pledge of Equity Interest in the shareholders' register of Party C and handle cancellation registration of the Pledge with the AIC.

11. Handling Fees and Other Expenses

All fees and out of pocket expenses relating to this Agreement, including but not limited to legal costs, costs of production, stamp tax and any other taxes and fees, shall be borne by Party C. If the Pledgee is required under applicable laws to bear certain taxes and fees, the Pledgers shall cause Party C to reimburse in full such taxes and fees paid by the Pledgee.

12. Confidentiality

The Parties acknowledge that any oral or written information exchanged between the Parties in connection with the preparation and performance this Agreement constitute confidential information. Each Party shall maintain confidentiality of all such confidential information, and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that: (i) is or becomes available to the general public (other than through the receiving Party's unauthorized disclosure); (ii) is required to be disclosed by applicable laws or regulations or rules or regulations of any stock exchange; or (iii) is necessary to be disclosed by any Party to its legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Section. Disclosure of any confidential information by the employees of or agencies engaged by any Party shall be deemed disclosure by such Party itself and such Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

13. Governing Law and Dispute Resolution

13.1 The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the dispute resolution hereunder shall be governed by the laws of China.

13.2 In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement within 30 days after either Party requests to the

other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with its then effective Arbitration Rules. The arbitration shall be conducted in Beijing. The language of arbitration shall be Chinese. The arbitration award shall be final and binding on all Parties.

13.3 Upon occurrence of any disputes arising from the construction and performance of this Agreement or pending arbitration of any dispute, except for the matters under dispute, the Parties shall continue to exercise their respective rights and perform their respective obligations hereunder.

14. Notices

14.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail with postage prepaid, commercial courier service or facsimile transmission to the contact address of such Party. Each notice shall be followed by a confirmation copy sent by email. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:

14.1.1 Notices given by personal delivery, courier service, registered mail with postage prepaid shall be deemed effectively given on the date of receipt or rejection at the address specified for notices.

14.1.2 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).

14.2 Any Party may at any time change its address for notices by a notice delivered to the other Parties in accordance with the terms hereof.

15. Severability

In the event that one or several provisions hereof are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any aspect. The Parties shall negotiate in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

16. Schedules

The schedules hereto shall form an integral part of this Agreement.

17. Effectiveness

17.1 This Agreement shall come into force upon being signed by the Parties. Any amendment, change and supplement to this Agreement shall be made in written form and become effective after being signed and stamped by the Parties and upon the completion of the registration with the government (if applicable).

17.2 This Agreement is written in Chinese in four counterparts of equal legal force. If the Parties enter into other Equity Pledge Agreement with contents different from this Agreement for the purpose of registering the equity pledge, etc., the Parties agree that this Agreement shall control.

[Signature page follows]

(Signature Page to Equity Pledge Agreement)

Party A:

Beihai Green Lemon Technology Co., Ltd. (Seal)

Legal Representative: /s/YANG Tao

(Signature Page to Equity Pledge Agreement)

Party B:

YANG Tao

Signature: /s/YANG Tao

HAN Chao

Signature: /s/HAN Chao

(Signature Page to Equity Pledge Agreement)

Party C:

Beihai Super Egg E-Commerce Co., Ltd. (Seal)

Legal Representative : /s/YANG Tao

Schedule

Shareholders' Register of Beihai Super Egg E-Commerce Co., Ltd.

Shareholder's name	ID No.	Capital Contribution's Status
YANG Tao	ID No.: *****	Capital Contribution Certificate : No.1 Amount of Subscription : RMB25,000,000.00 Ratio of Contribution:50% All of such 50% equity interest has been pledged to Beihai Green Lemon Technology Co., Ltd.
HAN Chao	ID No. : *****	Capital Contribution Certificate : No.2 Amount of Subscription : RMB25,000,000.00 Ratio of Contribution:50% All of such 50% equity interest has been pledged to Beihai Green Lemon Technology Co., Ltd. Ltd.

company :

Beihai Super Egg E-Commerce Co., Ltd. (seal)

Legal Representative: /s/YANG Tao

Power of Attorney Agreement

This Power of Attorney Agreement (hereinafter this “**Agreement**”) is made in Beihai, the People’s Republic of China on November 4, 2021 by and between the following parties.

Party A: Beihai Green Lemon Technology Co., Ltd., a limited company duly incorporated and existing under the laws of the People’s Republic of China (the “**PRC**”), whose Unified Social Credit Code is 91450500MA5N95341R, having its register office at Room A02, 4/F, Building 1, No. 23, Jilin Road, Industrial Park, Beihai; and

Party B: HAN Chao, a Chinese citizen whose identification number is *****.

Party A and Party B shall be hereinafter referred to as a “**Party**” individually and **the “Parties**” collectively.

WHEREAS

Party B holds 50% of the equity interests (“**Party B Equity**”) in Beihai Green Lemon Technology Co., Ltd. (the “**Domestic Company**”).

Now Therefore, the Parties hereby agree as follows through mutual negotiations:

Party B hereby irrevocably authorizes Party A to exercise the following rights with respect to Party B Equity during the term of this Agreement.

Party A is hereby authorized as the sole agent and attorney to act generally on behalf of Party B with respect to all matters relating to Party B Equity, including but not limited to (i) attending the Shareholders Meeting of the Domestic Company; (ii) exercising all the powers and voting rights of Party B as the shareholder in accordance to Chinese laws and the articles of association of the Domestic Company, including but not limited to on the sale, transfer, pledge or disposal of partial or entire Party B Equity; and (iii) designating and appointing the legal representative, chairman of the Board, directors, supervisors, general manager and other senior management members of the Domestic Company on behalf of Party B.

Without prejudice to the generality of the powers conferred upon by this Agreement, Party A shall be entitled as authorized by this Agreement, to act on behalf of Party B to sign the Transfer Contracts as specified in the Exclusive Option Agreement (to which Party B shall be a party) and execute the Equity Pledge Agreement and the Exclusive Option Agreement signed by Party B as a party with Party A , the Domestic Company and other relevant parties. The conclusion of the contracts aforementioned and the forms of the contractual rights therein shall not affect the authorization hereunder to any extent.

All actions taken by Party A in relation to Party B Equity shall be deemed as Party B's own actions and all the documents signed by Party A shall be deemed as signed by Party B. Party B hereby acknowledges and approves the actions taken by and/or documents signed by Party A.

Party A shall be entitled at its discretion to delegate or transfer to any other person or entity the rights in relation to the aforementioned issues without prior notification to or consent of Party B.

During the term of Party B as a shareholder of the Domestic Company, this Agreement and the authorization hereunder shall be irrevocable and remain in full force as from the execution date hereof.

During the term of this Agreement, Party B hereby waives all the rights conferred upon Party A hereunder with respect to Party B Equity and shall not exercise such rights on its own.

In the event at any time during the term of this Agreement, the grant or exercise of the entrusted rights under this Agreement can't be realized for any reason, the Parties shall immediately seek an alternative that is most similar to the provisions that are unable to realized, and enter into a supplementary agreement to modify or adjust the terms of this Agreement when necessary to ensure that the purposes of this Agreement continue to be achieved.

The conclusion, effectiveness, performance, modification, interpretation and termination of this Agreement shall be governed by the laws of the PRC.

In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event that the Parties fail to reach an agreement within 30 days after either Party requests to the other Party for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with its then effective arbitration rules. The arbitration shall be conducted in Beijing. The arbitration award shall be final and binding on both Parties.

This Agreement shall be written in Chinese in duplicates of equal legal force, with each party holding one.

(Signature page follows)

Party A:

Beihai Green Lemon Technology Co., Ltd. (Seal)

Legal Representative : /s/YANG Tao

Party B:

HAN Chao

Signature: /s/ HAN Chao

Power of Attorney Agreement

This Power of Attorney Agreement (hereinafter this “**Agreement**”) is made in Beihai, the People’s Republic of China on November 4, 2021 by and between the following parties.

Party A: Beihai Green Lemon Technology Co., Ltd., a limited company duly incorporated and existing under the laws of the People’s Republic of China (the “**PRC**”), whose Unified Social Credit Code is 91450500MA5N95341R, having its register office at Room A02, 4/F, Building 1, No. 23, Jilin Road, Industrial Park, Beihai; and

Party B: YANG Tao, a Chinese citizen whose identification number is *****.

Party A and Party B shall be hereinafter referred to as a “**Party**” individually and **the “Parties**” collectively.

WHEREAS

Party B holds 50% of the equity interests (“**Party B Equity**”) in Beihai Green Lemon Technology Co., Ltd. (the “**Domestic Company**”).

Now Therefore, the Parties hereby agree as follows through mutual negotiations:

Party B hereby irrevocably authorizes Party A to exercise the following rights with respect to Party B Equity during the term of this Agreement.

Party A is hereby authorized as the sole agent and attorney to act generally on behalf of Party B with respect to all matters relating to Party B Equity, including but not limited to (i) attending the Shareholders Meeting of the Domestic Company; (ii) exercising all the powers and voting rights of Party B as the shareholder in accordance to Chinese laws and the articles of association of the Domestic Company, including but not limited to on the sale, transfer, pledge or disposal of partial or entire Party B Equity; and (iii) designating and appointing the legal representative, chairman of the Board, directors, supervisors, general manager and other senior management members of the Domestic Company on behalf of Party B.

Without prejudice to the generality of the powers conferred upon by this Agreement, Party A shall be entitled as authorized by this Agreement, to act on behalf of Party B to sign the Transfer Contracts as specified in the Exclusive Option Agreement (to which Party B shall be a party) and execute the Equity Pledge Agreement and the Exclusive Option Agreement signed by Party B as a party with Party A , the Domestic Company and other relevant parties. The conclusion of the contracts aforementioned and the forms of the contractual rights therein shall not affect the authorization hereunder to any extent.

All actions taken by Party A in relation to Party B Equity shall be deemed as Party B's own actions and all the documents signed by Party A shall be deemed as signed by Party B. Party B hereby acknowledges and approves the actions taken by and/or documents signed by Party A.

Party A shall be entitled at its discretion to delegate or transfer to any other person or entity the rights in relation to the aforementioned issues without prior notification to or consent of Party B.

During the term of Party B as a shareholder of the Domestic Company, this Agreement and the authorization hereunder shall be irrevocable and remain in full force as from the execution date hereof.

During the term of this Agreement, Party B hereby waives all the rights conferred upon Party A hereunder with respect to Party B Equity and shall not exercise such rights on its own.

In the event at any time during the term of this Agreement, the grant or exercise of the entrusted rights under this Agreement can't be realized for any reason, the Parties shall immediately seek an alternative that is most similar to the provisions that are unable to realized, and enter into a supplementary agreement to modify or adjust the terms of this Agreement when necessary to ensure that the purposes of this Agreement continue to be achieved.

The conclusion, effectiveness, performance, modification, interpretation and termination of this Agreement shall be governed by the laws of the PRC.

In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event that the Parties fail to reach an agreement within 30 days after either Party requests to the other Party for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with its then effective arbitration rules. The arbitration shall be conducted in Beijing. The arbitration award shall be final and binding on both Parties.

This Agreement shall be written in Chinese in duplicates of equal legal force, with each party holding one.

(Signature page follows)

Party A:

Beihai Green Lemon Technology Co., Ltd. (Seal)

Legal Representative : /s/YANG Tao

Party B:

YANG Tao

Signature: /s/ YANG Tao

Loan Agreement

This Loan Agreement (this “**Agreement**”) is executed on November 4, 2021 in Beihai, the People’s Republic of China (the “**PRC**”) by and between:

Party A:

Beihai Green Lemon Technology Co., Ltd. (the “**Lender**”)

Address: Room A02, 4/F, Building 1, No. 23, Jilin Road,
Industrial Park, Beihai; and

Unified Social Credit Code: 91450500MA5N95341R

Party B:

YANG Tao (“**Party B1**”), a Chinese citizen whose ID number is *****;

HAN Chao (“**Party B2**”, collectively the “**Borrowers**” with Party B1), a Chinese citizen whose ID number is *****;

The Lender and the Borrowers are hereinafter referred to as a “**Party**” individually and the “**Parties**” collectively.

WHEREAS:

1. The Borrowers hold in aggregate 100% equity interests (the “**Borrower Interests**”) in Beihai Super Egg E-Commerce Co., Ltd. (the “**Borrower Company**”), a limited liability company incorporated in Beihai, the PRC with a registered capital of RMB50,000,000.
2. The Lender intends to extend a loan to the Borrowers for the purposes set out in this Agreement. The Parties hereby agree as follows through friendly consultations:

Therefore, the Parties hereby agree as follows through friendly consultations:

1. Loan

- 1.1 In accordance with the terms and conditions of this Agreement, the Lender agrees to extend a loan totaling RMB50,000,000 (the “**Loan**”) to the Borrowers according to the Appendix 1. The term of the Loan shall be ten (10) years as from the execution date of this Agreement. Unless otherwise agreed by the Parties in writing, the term of the Loan shall be renewed automatically upon each of its expirations for another ten (10) years.
 - 1.2 During the original or renewed term of the Loan, the Borrowers must make prepayment immediately upon occurrence of any of the following circumstances:
 - 1.2.1 where the 30-day period expires after the Borrowers receive the written notice demanding repayment from the Lender;
 - 1.2.2 where the Borrower, in the case of an individual, dies, losses or becomes limited in terms of civil capacity;
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- 1.2.3 where the Borrowers are no longer employed by the Lender, the Borrower Company or their affiliates for whatever reason;
- 1.2.4 where the Borrowers are engaged or involved in criminal activities;
- 1.2.5 where any third party make claims against the Borrowers with an amount of RMB100,000 or more; or
- 1.2.6 where in accordance with the applicable PRC laws, the Lender may directly hold the equity interests in the Borrower Company, the Borrower Company may lawfully continue with its business, and the Lender decides to exercise its exclusive purchase option under the Exclusive Option Agreement (the “**Exclusive Option Agreement**”) referred to herein.
- 1.3 Subject to satisfaction of all conditions precedent set out in Section 2, the Lender agrees to remit the Loan to the bank account designated by the Borrowers within twenty (20) days of the receipt of the written notice indicating the Borrowers’ demand for the Loan. The Borrowers shall issue an acknowledgement of receipt to the Lender on the same day when they receive such amount. The Loan extended by the Lender under this Agreement shall be utilized by the Borrowers only, and shall not be used by the successors or assignees of the Borrowers.
- 1.4 The Borrowers agree to accept the above Loan extended by the Lender, and hereby agree and undertake to use the Loan for funding business development of the Borrower Company. Without prior written consent of the Lender, the Borrowers shall not use such amount for any other purpose.
- 1.5 Both the Lender and the Borrowers agree and acknowledge that the Borrowers may make repayment only in following manner determined by the Lender: the Borrowers shall transfer all the Borrower Interests they hold to the Lender or the legal or natural person designated by the Lender upon the Lender’s exercise of its option to buy the Borrower Interests under the Exclusive Option Agreement.
- 1.6 Both the Lender and the Borrowers agree and acknowledge that, to the extent permitted, any proceeds obtained by the Borrowers from transfer of the Borrower Interests shall be used for repaying for the Loan in accordance with this Agreement in such manner as designated by the Lender.
- 1.7 Both the Lender and the Borrowers agree and acknowledge that, to the extent permitted by applicable laws, the Lender shall have the right but no obligation to buy, or designated other legal or natural persons to buy, in whole or in part the Borrower Interests at any time at the purchase price agreed under the Exclusive Option Agreement.
- 1.8 Both the Lender and the Borrowers agree and acknowledge that the Borrowers agree to create a pledge over all the equity interests they hold in the Borrower Company in favor of the Lender to secure the debt repayment hereunder. For the avoidance of doubt, the Parties acknowledge that, in addition to the debt under this Agreement, the principal debt secured by the equity pledge under this section also includes all the debts owed by the Borrowers and the Borrower Company to the Lender under the Exclusive Business Cooperation
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Agreement, the Exclusive Option Agreement and the Power of Attorney Agreement(as defined below).

- 1.9 Each of the Borrowers has executed an irrevocable Power of Attorney Agreement (the “**Power of Attorney Agreement**”), under which they authorize the Lender or any legal or natural person designated by the Lender to exercise all their rights as the shareholders of the Borrower Company.
- 1.10 When the Borrowers transfer their Borrower Interests to the Lender or the person designated by the Lender, if the transfer price is equal to or lower than the principal of the Loan under this Agreement, the Loan under this Agreement shall be deemed to be interest free loan; if the transfer price is higher than the principal of the Loan under this Agreement, the portion of the transfer price in excess of the principal shall be deemed to be the interests on the principal of the Loan and shall be repaid by the Borrowers to the Lender.

2. **Conditions Precedent for Loan Extending**

The Lender will not be obligated to extend the Loan to the Borrowers in accordance with Section 1.1 unless and until all the conditions below are satisfied or waived by the Lender in writing.

- 2.1 The Lender receives on time the drawdown notice duly signed by the Borrowers in accordance with Section 1.3. The Borrower Company and the Lender or the legal or natural person designated by the Lender has duly entered into a definite exclusive business cooperation agreement (the “**Exclusive Business Cooperation Agreement**”), under which the Lender or the person designated by the Lender will, to the extent permitted by the PRC laws, provide the Borrower Company with technical services and business consultancy services in the capacity of an exclusive service provider.
 - 2.2 The Borrower, the Borrower Company and the Lender or the legal or natural person designated by the Lender have duly entered into a definite equity pledge agreement (the “**Equity Pledge Agreement**”), under which the Borrowers agree to create a pledge over all the Borrower Interests in favor of the Lender or the person designated by the Lender.
 - 2.3 The Borrower, the Lender and the Borrower Company have duly entered into a definite Exclusive Option Agreement, under which the Borrowers will, to the extent permitted by the PRC laws, irrevocably grant the Lender an exclusive Purchase Option to buy all Borrower Interests.
 - 2.4 The Borrowers and the Lender have entered into an irrevocable Power of Attorney Agreement, under which the Borrowers authorize the Lender or any legal or natural person designated by the Lender to exercise all their rights as the shareholders of the Borrower Company
 - 2.5 The above Equity Pledge Agreement, Power of Attorney Agreement, Exclusive Option Agreement and Exclusive Business Cooperation Agreement are executed on or prior to the execution date of this Agreement, and entered into full legal force. There have been no event that breaches or prejudices any of such contracts or agreements, and all the relevant filings, approvals, authorizations, registrations and government procedures have been secured or completed in accordance with such contracts or agreements, if required.
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- 2.6 The representations and warranties made by the Borrowers under Section 3.2 are truthful, complete and accurate, and contain no misleading content.
- 2.7 The Borrowers have not breached any of the undertakings they make under Section 4 of this Agreement, and there is no actual or threatened event that may affect the performance of their obligations under this Agreement.

3. Representations and Warranties

- 3.1 From the execution date to the termination of this Agreement, the Lender represents and warrants to the Borrowers as follows:
- 3.1.1 The Lender is a company duly incorporated and existing under the PRC laws;
- 3.1.2 The Lender has the authority to execute and perform this Agreement. Its execution and performance of this Agreement are in line with its scope of business and the provisions in its articles of association and other constitutional documents. The Lender has obtained all necessary and appropriate approvals and authorizations required for the execution and performance of this Agreement; and
- 3.1.3 Upon execution, this Agreement shall constitute lawful, valid and enforceable obligations for the Lender.
- 3.2 From the execution date to the termination of this Agreement, the Borrowers represent and warrant as follows:
- 3.2.1 The Borrowers have the authority to execute and perform this Agreement, and have obtained all necessary and appropriate approvals and authorizations required for the execution and performance of this Agreement;
- 3.2.2 Upon execution, this Agreement shall constitute lawful, valid and enforceable obligations for the Borrowers; and
- 3.2.3 There is no actual or potential dispute, action, arbitration, administrative procedures or other legal proceedings involving the Borrowers.

4. Undertakings of the Borrowers

- 4.1 The Borrowers irrevocably undertake in the capacity of the shareholders of the Borrower Company that they will, during the term of this Agreement, procure the Borrower Company:
- 4.1.1 to strictly comply with the provisions of the Exclusive Option Agreement and the Exclusive Business Cooperation Agreement, and not to engage in any action or omission that is sufficient to affect the validity and enforceability of the Exclusive Option Agreement and the Exclusive Business Cooperation Agreement;
- 4.1.2 to enter into contracts/agreements on business cooperation with the Lender or the person designated by the Lender or the person designated by the Lender at any time as requested by the Lender, and ensure the strict performance of such contracts/agreements;
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- 4.1.3 to provide the Lender with all its operating and financial information at the request of the Lender;
 - 4.1.4 to inform the Lender promptly of any existing or potential litigation, arbitration or administrative procedures in connection with its assets, business and revenue; and
 - 4.1.5 to appoint any person designated by the Lender as director of the Borrower Company at the request of the Lender.
- 4.2 The Borrowers undertake that during the term of this Agreement:
- 4.2.1 they shall exert their best efforts to cause the Borrower Company to continue with its existing business;
 - 4.2.2 they shall strictly comply with the provisions of this Agreement, the Power of Attorney Agreement, the Equity Pledge Agreement and the Exclusive Option Agreement, and shall not engage in any action or omission that is sufficient to affect the validity and enforceability of this Agreement, the Power of Attorney Agreement, the Equity Pledge Agreement and the Exclusive Option Agreement;
 - 4.2.3 unless otherwise provided under the Equity Pledge Agreement, they shall not sell, transfer, charge or otherwise dispose of the legal or beneficial interests in the Borrower Interests, or permit any other security interests to be created over the same;
 - 4.2.4 they shall procure the shareholders meeting and/or board of directors of the Borrower Company to disapprove any sale, transfer, charge or other disposal of the legal or beneficial interests in the Borrower Interests, or permission of any other security interests to be created over the same, in each case without prior written consent of the Lender, unless in favor of the Lender or the person designated by the Lender;
 - 4.2.5 they shall procure the shareholders meeting and/or board of directors of the Borrower Company to disapprove the merger or consolidation of the Borrower Company with any person or acquisition of or investment in any person by the Borrower Company, in each case without prior written consent of the Lender;
 - 4.2.6 they shall inform the Lender promptly of any actual or threatened litigation, arbitration or administrative procedures in connection with the Borrower Interests;
 - 4.2.7 they shall execute all such documents, take all such actions, make all such allegations, or present such defense against all claims as are necessary and appropriate for maintaining their ownership over the Borrower Interests;
 - 4.2.8 without prior written consent of the Lender, they shall not take any action or omission that may cause a material adverse effect on the assets, business and liabilities of the Borrower Company;
 - 4.2.9 they shall, at the request of the Lender, appoint any person designated by the Lender as director of the Borrower Company;
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4.2.10 to the extent permitted by the PRC laws, they shall, upon the request of the Lender from time to time, unconditionally transfer the Borrower Interests to the Lender or the person designated by the Lender, and cause other shareholders of the Borrower Company to waive their pre-emptive rights to the equity interests transfer under this paragraph;

4.2.11 to the extent permitted by the PRC laws, they shall, upon the request of the Lender from time to time, cause other shareholders of the Borrower Company to unconditionally transfer all the equity interests they hold in the Borrower Company to the Lender or the representative designated by the Lender, in which case, the Borrowers shall waive their pre-emptive rights to the equity interests transfer under this paragraph;

4.2.12 the Borrowers shall use the purchase price for repaying for the Loan first if the Lender purchases the Borrower Interests from them in accordance with the Exclusive Option Agreement; and

4.2.13 without prior written consent of the Lender, they shall not supplement, change or amend their articles of association in any manner, increase or decrease the registered capital, or change the capital structure in any form.

5. Liabilities for Breach of Contract

5.1 Either Party that breaches this Agreement and thus causes it impossible to perform this Agreement in whole or in part shall bear the liability for breach of contract, and indemnify the other Party against the losses (including litigation fees and attorney fees) thus caused. Where both Parties are in breach of this Agreement, they shall bear their respective liabilities according to the actual circumstances.

5.2 Where the Borrowers fail to perform their obligations to make repayment within the period set out in this Agreement, they shall pay the default interests at a rate of 0.1% of the overdue amount on a daily basis, until all the principal, default interests and other amount are paid up.

6. Notice

6.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail with postage prepaid, commercial courier service or facsimile transmission to the contact address of such Party. Each notice shall be followed by a confirmation copy sent by email. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:

6.1.1 Notices given by personal delivery, courier service, registered mail with postage prepaid shall be deemed effectively given on the date of receipt or rejection at the address specified for notices; or

6.1.2 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).

6.2 Any Party may send a notice to the other Parties as provided in this Section to change its address used to receive notice at any time.

7. **Confidentiality**

The Parties acknowledge that any oral or written information exchanged between the Parties in connection with the preparation and performance this Agreement constitute confidential information. Each Party shall maintain confidentiality of all such confidential information, and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that: (i) is or becomes available to the general public (other than through the receiving Party's unauthorized disclosure); (ii) is required to be disclosed by applicable laws or regulations or rules or regulations of any stock exchange; or (iii) is necessary to be disclosed by any Party to its legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Section. Disclosure of any confidential information by the employees of or agencies engaged by any Party shall be deemed disclosure by such Party itself and such Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

8. **Governing Law and Dispute Resolution**

8.1 The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the resolution of disputes hereunder shall be governed by the formally published and publicly available laws of the PRC. Matters not covered by formally published and publicly available laws of the PRC shall be governed by international legal principles and practices.

8.2 In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement within 30 days after either Party requests to the other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with its then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language shall be Chinese. The arbitration award shall be final and binding on all Parties.

8.3 Upon occurrence of any disputes arising from the construction and performance of this Agreement or pending arbitration of any dispute, except for the matters under dispute, the Parties shall continue to exercise their respective rights and perform their respective obligations hereunder.

9. **Miscellaneous**

9.1 This Agreement shall take effect on the day when it is executed by the Parties and expire on the day when the Parties have completed the performance of their obligations under this Agreement.

9.2 This Agreement is made in Chinese in three counterparts of equal legal force with each of the Lender and the Borrower holding one.

- 9.3 The Parties may amend and supplement this Agreement by written agreement. The amendment agreement and/or supplementary agreement among the Parties in connection with this Agreement shall be integral part of and have the equal legal effect with this Agreement.
- 9.4 In the event that one or several provisions hereof are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any aspect. The Parties shall negotiate in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law the intentions of the Parties, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.
- 9.5 The schedules (if any), to this Agreement shall be integral part of and have equal legal effect with this Agreement.

[Signature page follows]

(Signature Page to Loan Agreement)

Lender:

Beihai Green Lemon Technology Co., Ltd. (Seal)

Signature: /s/YANG Tao

Name: YANG Tao

Title: Legal Representative

Borrowers:

Signature: /s/YANG Tao

Name: YANG Tao

Signature: /s/HAN Chao

Name: HAN Chao

Appendix 1

Loan Amount

Borrower	Loan Amount (RMB)
YANG Tao	25,000,000
HAN Chao	25,000,000
Total	50,000,000

Principal Subsidiaries, Consolidated Affiliated Entities and Subsidiaries of Consolidated Affiliated Entities**i. Principal Subsidiaries:**

Installment (HK) Investment Limited, a Hong Kong company

Beijing Shijitong Technology Co., Ltd., a PRC company

Shenzhen Lexin Software Technology Co., Ltd., a PRC company

ii. Consolidated Affiliated Entities:

Shenzhen Xinjie Investment Co., Ltd., a PRC company

Beijing Lejaxin Network Technology Co., Ltd., a PRC company

Shenzhen Qianhai Dingsheng Data Technology Co., Ltd., a PRC company

Shenzhen Mengtian Technology Co., Ltd., a PRC company

Beihai Super Egg E-Commerce Co., Ltd., a PRC company

iii. Subsidiaries of Consolidated Affiliated Entities:

Shenzhen Fenqile Network Technology Co., Ltd., a PRC company

Ji'an Fenqile Network Microcredit Co., Ltd., a PRC company

Shenzhen Fenqile Trading Co., Ltd., a PRC company

Shenzhen Lexin Financing Guarantee Co., Ltd., a PRC company

Shenzhen Qianhai Juzi Information Technology Co., Ltd., a PRC company

Shenzhen Dingsheng Computer Technology Co., Ltd., a PRC company

Beihai Aurora Technology Co., Ltd., a PRC company

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jay Wenjie Xiao, certify that:

1. I have reviewed this annual report on Form 20-F of LexinFintech Holdings Ltd.;
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 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 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 29, 2022

By: /s/ Jay Wenjie Xiao

Name: Jay Wenjie Xiao

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sunny Rui Sun, certify that:

1. I have reviewed this annual report on Form 20-F of LexinFintech Holdings Ltd.;
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 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 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 function):
 - (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 29, 2022

By: /s/ Sunny Rui Sun

Name: Sunny Rui Sun

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 LexinFintech Holdings Ltd. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay Wenjie Xiao, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2022

By: /s/ Jay Wenjie Xiao
Name: Jay Wenjie Xiao
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 LexinFintech Holdings Ltd. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sunny Rui Sun, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2022

By: /s/ Sunny Rui Sun
Name: Sunny Rui Sun
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. 333-225322) of LexinFintech Holdings Ltd. of our report dated April 28, 2022 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
Beijing, the People's Republic of China
April 29, 2022



北京市朝阳区东三环北路甲26号博瑞大厦A座16层1606室 邮编: 100026

Suite 1606, 16/F, Tower A, Borui Plaza, No.A26 East 3rd Ring North Road, Chaoyang District, Beijing 100026, P.R.China

April 29, 2022

To: LexinFintech Holdings Ltd. (乐信控股有限公司) (the “Company”)

27/F, CES Tower, No. 3099 Keyuan South Road

Nanshan District, Shenzhen 518057

The People’s Republic of China

Ladies and Gentlemen:

We hereby consent to the reference of our name under the headings “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure” in the Company’s annual report on Form 20-F for the year ended December 31, 2021 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) on the date hereof. We also consent to the filing of this consent letter with the SEC 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/ SHIHUI PARTNERS

SHIHUI PARTNERS
