

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

FORM 20-F

(Mark One)

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2022
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.

For the transition period from to to

Commission file number: **001-38652**

X Financial

(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)

**7-8F, Block A, Aerospace Science and Technology Plaza
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Shenzhen, 518067, the People's Republic of China**

(Address of principal executive offices)

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

Title of each class	Trading symbol	Name of each exchange on which registered
American depositary shares, each ADS represents six Class A ordinary shares, par value US\$0.0001 per share*	XYF	The New York Stock Exchange
Class A ordinary shares, par value US\$0.0001 per share **	N/A	The New York Stock Exchange

* Effective from November 19, 2020, the ratio of ADSs representing the Class A ordinary shares changed from one (1) ADS representing two (2) Class A ordinary shares to one (1) ADS representing six (6) Class A ordinary shares.

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

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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.

287,918,569 ordinary shares, comprised of 190,318,569 Class A ordinary shares, par value \$0.0001 per share, and 97,600,000 Class B ordinary shares, par value \$0.0001 per share, as of December 31, 2022

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Emerging growth company ☒

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

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

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

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

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

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

U.S. GAAP ☒

International Financial Reporting Standards as issued
by the International Accounting 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, in this annual report on Form 20-F, the following terms shall have the meaning set out below:

- “active borrowers” refers to, for a specified period, borrowers who made at least one transaction during that period on our platform;
- “ADSS” refers to American depositary shares, each of which represents six Class A ordinary shares, and “ADRs” refers to the American depositary receipts that may evidence ADSS;
- “APR” or “annual percentage rate” refers to the percentage number represents the actual annualized cost of borrowing over the term of a loan. The APR for a type of our loan product equals to the annualized actual amount of total interests, service fees and insurance premium divided by total amount of loans we facilitated.
- “Beijing WFOE” refers to our wholly-owned PRC subsidiary, Xiaoying (Beijing) Information Technology Co., Ltd.;
- “Cayman Companies Act” refers to the Companies Act (As Revised) of the Cayman Islands, as amended;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan;
- “Class A ordinary shares” refers to our Class A ordinary shares, par value \$0.0001 per share, carrying one vote per share;
- “Class B ordinary shares” refers to our Class B ordinary shares, par value \$0.0001 per share, carrying 20 votes per share;
- “high-credit-limit” refers to ticket size of RMB80,000 to RMB600,000;
- “institutional funding partners” refers to our institutional funding sources, including banks, consumer finance companies, trust companies and other institutions who funded the loans we facilitated to borrowers;
- “insurance /guarantee protection” refers to credit insurance or guarantee services provided by insurance companies or financing guarantee companies in partnership with online finance platforms against the default of both the principal and interest;
- “ordinary shares” refers to our Class A and Class B ordinary shares, par value US\$0.0001 per share;
- “PBOC CRC” refers to the credit reference center of the People’s Bank of China;
- “PCAOB” refers to the Public Company Accounting Oversight Board;
- “prime borrower” refers to an individual having sound credit history, who has credit records with PBOC CRC and usually no late payment record of over 60 days in the previous six months. In determining whether a prospective borrower is a prime borrower, we will review his or her credit history, along with our sophisticated risk management review system;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “U.S. dollars,” “US\$,” “\$” or “dollars” refers to the legal currency of the United States;

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- “variable interest entities” or “VIEs” refer to Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd, or Beijing Ying Zhong Tong, Shenzhen Xiaoying Technology Co., Ltd., or Shenzhen Xiaoying, and Shenzhen Xintang Information Consulting Co., Ltd. or Shenzhen Xintang, and their subsidiaries, which are PRC companies in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP due to our having effective control over, and our being the primary beneficiary of, such entity; and “affiliated entities” are to our VIE, the VIE’s direct subsidiaries under the PRC laws;
- “we,” “us,” “our company,” “our,” or “X Financial” refers to X Financial, a Cayman Islands company, and unless the context requires otherwise, includes its predecessor entities, consolidated subsidiaries and VIEs; and
- “ZhongAn” refers to ZhongAn Online P&C Insurance Co., Ltd., a joint stock limited company with limited liability incorporated in the PRC and listed on the Hong Kong Stock Exchange (stock code: 6060), carrying on business in Hong Kong as “ZA Online Fintech P&C.”

Our reporting currency is Renminbi because substantially all of our operations are conducted in China and all of our revenues is denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.8972 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2022. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to us. All statements other than statements of historical facts are forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

You can identify forward-looking statements by terms such as “may,” “could,” “will,” “should,” “would,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “project” or “continue” or the negative of these terms or other similar expressions. The forward-looking statements include, but are not limited to, statements about:

- the PRC consumer finance market;
- our goals and strategies;
- our future business development, financial condition and results of operations;
- expected changes in our revenues, costs or expenditures;
- growth of and competition trends in our industry;
- our expectations regarding demand for, and market acceptance of, our products and services;
- our expectations regarding keeping and strengthening our relationships with borrowers, institutional funding partners and other parties we collaborate with;
- fluctuations in general economic and business conditions in the markets in which we operate; and
- relevant government policies and regulations relating to our industry.

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You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the heading “Risk Factors” and elsewhere in this annual report. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

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—3.D. Risk Factors.” Those risks are not exhaustive. We operate in an 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 and the documents that we reference in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

VIE Structure and Risks Relating to Our Corporate Structure

We are a Cayman Islands holding company conducting our operations in China through Beijing WFOE, a wholly-owned subsidiary of us, Shenzhen Xiaoying Puhui Technology Co., Ltd., a wholly-owned subsidiary of Beijing WFOE (“Shenzhen Puhui”), Shenzhen Xiaoying Information Technology Co., Ltd. (“Shenzhen Xiaoying IT”), a wholly-owned subsidiary of Beijing WFOE, and the VIEs, including Shenzhen Xiaoying, Shenzhen Xintang, Beijing Ying Zhong Tong and their subsidiaries. We have equity interests in Beijing WFOE, Shenzhen Puhui, and Shenzhen Xiaoying IT, however, neither we nor our subsidiaries own any share in the VIEs. Instead, we control and receive the economic benefits of the VIEs’ business operation through a series of contractual arrangements (the “VIE Agreements”). To comply with PRC laws and regulations, we do not have an equity ownership interest in our VIEs but rely on the VIE Agreements with VIEs to control and operate their businesses. The VIE Agreements are designed to provide our Beijing WFOE, with the power, rights, and obligations equivalent in all material respects to those it would possess as the principal equity holder of the VIE, including absolute control rights and the rights to the assets, property, and revenues of the VIE. As a result of these contractual arrangements, which have not been tested in a court of law in the PRC, under generally accepted accounting principles in the United States (“U.S. GAAP”), the assets and liabilities of the VIE are treated as our assets and liabilities and the results of operations of the VIE are treated in all aspects as if they were the results of our operations. We are the primary beneficiary of the VIE, and, therefore, consolidate the financial results of the VIE in our consolidated financial statements in accordance with U.S. GAAP. See “Item 4.C. Organizational Structure” for more information on these VIE Agreements.

Because of our corporate structure, we are subject to risks due to uncertainty of the interpretation and the application of the PRC laws and regulations, including but not limited to the validity and enforcement of the VIE Agreements. We are also subject to the risks of uncertainty about any future actions of the PRC government in this regard. Our VIE Agreements may not be effective in providing control over the VIE. The contractual arrangements have not been tested in a court of law in the PRC and there remain significant uncertainties regarding the ultimate outcome of arbitration should legal action become necessary. One of our VIEs and one of the subsidiaries of our consolidated VIEs are used to replicate foreign investment in China-based companies where Chinese laws and regulations prohibit and restrict foreign ownership of internet value-added businesses. As a result, our shareholders may never directly hold equity interests in those entities. We may also be subject to sanctions imposed by PRC regulatory agencies including Chinese Securities Regulatory Commission, or CSRC, if we fail to comply with their rules and regulations. We may also be subject to PRC laws relating to, among others, data security and restrictions over foreign investments due to the complexity of the regulatory regime in China, and the recent statements and regulatory actions by the PRC government relating to data security may affect our remaining business operations in China or even our ability to offer securities in the United States. We are also subject to the risks and uncertainties about any future actions of the PRC government that could disallow our VIE structure, which would likely result in a material change in our operations and/or a material change in the value of our securities, including causing the value of such securities to significantly decline or become worthless. See “Risk Factors-Risks Relating to Our Corporate Structure” for more information.

Risks Associated with Being Based in or Having the Majority of our Operations in China

We are exposed to legal and operational risks associated with our operations in China. The PRC government has significant authority to exert influence on the ability of a company with operations in China, including us, to conduct its business. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, data information, antitrust, finance, environmental regulations, land use rights, property and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in companies having operations in China, including us, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the value of our securities to significantly decline or become worthless. These China-related risks could result in a material change in our operations and/or the value of our securities, or could significantly limit or completely hinder our ability to offer securities to investors in the future and cause the value of such securities to significantly decline or become worthless.

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The PRC government may exert, at any time, substantial intervention and influence over the manner of our operations. Recently, the PRC government initiated a series of regulatory actions and statements to regulate business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews and new laws and regulations related to data security, and expanding the efforts in anti-monopoly enforcement.

The regulatory framework for the collection, use, safeguarding, sharing, transfer and other processing of personal information and important data worldwide is rapidly evolving in PRC and is likely to remain uncertain for the foreseeable future. Regulatory authorities in China have implemented and are considering a number of legislative and regulatory proposals concerning data protection. For example, the PRC Cybersecurity Law, which became effective in June 2017, established China's first national-level data protection for "network operators," which may include all organizations in China that connect to or provide services over the internet or other information network. The PRC Data Security Law, which was promulgated by the Standing Committee of PRC National People's Congress, or the SCNPC, on June 10, 2021 and became effective on September 1, 2021, outlines the main system framework of data security protection.

The amended Measures of Cybersecurity Review, which was promulgated by the Cyberspace Administration of China (the "CAC") in December 2021 and came into effect on February 15, 2022, requires cyberspace operators with personal information of more than one million users to file for cybersecurity review with the Cybersecurity Review Office ("CRO"), in the event such operators plan for an overseas listing. The amended Measures of Cybersecurity Review provide that, among others, an application for cybersecurity review must be made by an issuer that is a "critical information infrastructure operator" or a "data processing operator" as defined therein before such issuer's securities become listed in a foreign country, if the issuer possesses personal information of more than one million users, and that the relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine an operator's cyber products or services, data processing or potential listing in a foreign country affect or may affect China's national security. In August 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law which became effective on November 1, 2021. The Personal Information Protection Law provides a comprehensive set of data privacy and protection requirements that apply to the processing of personal information and expands data protection compliance obligations to cover the processing of personal information of persons by organizations and individuals in China, and the processing of personal information of persons outside of China if such processing is for purposes of providing products and services to, or analyzing and evaluating the behavior of, persons in China. The Personal Information Protection Law also provides that critical information infrastructure operators and personal information processing entities who process personal information meeting a volume threshold to be set by Chinese cyberspace regulators are also required to store in China the personal information generated or collected in China, and to pass a security assessment administered by Chinese cyberspace regulators for any export of such personal information. Moreover, pursuant to the Personal Information Protection Law, persons who seriously violate this law may be fined for up to RMB50 million or 5% of annual revenues generated in the prior year and may also be ordered to suspend any related activity by competent authorities.

In November 2021, the CAC released the Regulations on Network Data Security (draft for public comments) and accepted public comments until December 13, 2021. The draft Regulations on Network Data Security provide more detailed guidance on how to implement the general legal requirements under laws such as the Cybersecurity Law, Data Security Law and the Personal Information Protection Law. The draft Regulations on Network Data Security follow the principle that the state will regulate based on a data classification and multi-level protection scheme, under which data is largely classified into three categories: general data, important data and core data. Under the current PRC cybersecurity laws in China, critical information infrastructure operators that intend to purchase internet products and services that may affect national security must be subject to the cybersecurity review. On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, which took effect on September 1, 2021. The regulations require, among others, that certain competent authorities shall identify critical information infrastructures. If any critical information infrastructure is identified, they shall promptly notify the relevant operators and the Ministry of Public Security.

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Currently, the cybersecurity laws and regulations have not directly affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the expansion of our business, we face potential risks if we are deemed as a critical information infrastructure operator under the Cybersecurity Law. In such case, we must fulfill certain obligations as required under the Cybersecurity Law and other applicable laws, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we are already doing in our business, and we may be subject to review when purchasing internet products and services. According to the amended Measures of Cybersecurity Review, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. As of the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we do 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. However, any failure or perceived failure to comply with all applicable laws and regulations may result in legal proceedings or regulatory actions against us, and could have an adverse effect on our business and results of operations, and we cannot assure you that the operators from the CAC or other relevant governmental authority will not introduce additional requirements or policies which may require significant changes in the way we operate our business.

On September 1, 2021, the PRC Data Security Law became effective, which imposes data security and privacy obligations on entities and individuals conducting data-related activities, and 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 interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. As of the date of this annual report, we have not been involved in any investigations on data security compliance made in connection with the PRC Data Security Law, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we do not expect that, as of the date of this annual report, the PRC Data Security Law would have a material adverse impact on our business.

On July 7, 2022, the CAC published the Outbound Data Transfer Security Assessment Measures that took effect on September 1, 2022 and outline the potential security assessment process for outbound data transfer. Under the Outbound Data Transfer Security Assessment Measures, data processors that provide important data and personal information outbound that are collected or produced through operations within the territory of the PRC, where a security assessment shall be conducted according to the law, shall apply to the provisions of these Measures. Under the Outbound Data Transfer Security Assessment Measures, data processors providing outbound data shall apply for outbound data transfer security assessment with the CAC in any of the following circumstances: (i) where a data processor provides important data abroad; (ii) where a critical information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information abroad; (iii) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year; and (iv) other circumstances prescribed by the CAC for which declaration for security assessment for outbound data transfers is required. The Outbound Data Transfer Security Assessment Measures also provide procedures for security assessment and submissions, important factors to be considered in conducting assessment, and legal liabilities of a data processor for failure to apply for assessment.

On July 6, 2021, the relevant PRC governmental authorities publicated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions require the relevant regulators to coordinate and accelerate amendments of legislation on the confidentiality and archive management related to overseas issuance and listing of securities, and to improve the legislation on data security, cross-border data flow and management of confidential information. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions were recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. As of the date of this annual report, we have not received any inquiry, notice, warning, or sanctions from the CSRC or any other PRC government authorities. Based on the foregoing and the currently effective PRC laws, we are of the view that, as of the date of this annual report, these opinions do not have a material adverse impact on our business.

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On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, and five supporting guidelines which took effect on March 31, 2023. Pursuant to the Trial Measures, Chinese companies that seek to offer and list securities overseas shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws or regulations, (ii) it may endanger national security as reviewed and determined by competent PRC authorities of the State Council in accordance with law, (iii) the PRC domestic companies intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years, (iv) the PRC domestic companies intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no clear conclusion has yet been made thereof, (v) it has material ownership disputes over equity interests held by the PRC domestic companies' controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller. The Trial Measures, stipulate that the overseas securities offering and listing of any issuer will be deemed as indirect overseas offering by PRC domestic companies if the following conditions are met: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by PRC domestic companies; and (ii) the main parts of the issuer's business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. Further, at the press conference held for the Trial Measures on February 17, 2023, officials from the CSRC clarified that the PRC domestic companies that have already been listed overseas on or before the effective date of the Trial Measures (i.e. March 31, 2021) shall be deemed as existing issuers, or the Existing Issuers. The Existing Issuers are not required to complete the filing procedures immediately but shall carry out filing procedures as required if they conduct refinancing or are involved in other circumstances that require filing with the CSRC. The officials from the CSRC have also confirmed that for the PRC domestic companies that seek to list overseas with VIE structure, the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of companies with VIE structure which duly meet the compliance requirements. However, given that the Trial Measures were recently promulgated, there are substantial uncertainties as to the implementation and interpretation, and how they will affect our listing status and future financing. If we fail to complete the filing with the CSRC in a timely manner or at all, for any future offering or any other activities which are subject to the filing requirements under the Trial Measures, our ability to raise or utilize funds and our operations could be materially and adversely affected.

On February 24, 2023, the CSRC, Ministry of Finance of the PRC, National Administration of State Secrets Protection and National Archives Administration of China promulgated the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Archives Rules, which took effect on March 31, 2023. Pursuant to the Archives Rules, PRC domestic companies that seek overseas offering and listing shall strictly abide by applicable laws and regulations of the PRC and the Archives Rules, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. Such domestic companies shall not leak any state secret and working secret of government agencies, or harm national security and public interest. Furthermore, a PRC domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any document and materials that contain state secrets or working secrets of government agencies, shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level. Moreover, a PRC domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals and entities including securities companies, securities service providers and overseas regulators, any other documents and materials that, if leaked, will be detrimental to national security or public interest, shall strictly fulfill relevant procedures stipulated by applicable national regulations. The Archives Rules also stipulate that a PRC domestic company that provides accounting archives or copies of accounting archives to any entities including securities companies, securities service providers and overseas regulators and individuals shall fulfill due procedures in compliance with applicable national regulations. However, given that the Archives Rules was recently promulgated, there are substantial uncertainties as to the implementation and interpretation, and we cannot predict the impact of the Trial Measures and the Archives Rules on us, including but not limited to the maintenance of the listing status of our ADSs and/or other securities, or any of our future offerings of securities overseas at this stage.

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As there are still uncertainties regarding these new laws and regulations as well as the amendment, interpretation and implementation of the existing laws and regulations related to cybersecurity and data protection, We cannot assure you that we will be able to comply with these laws and regulations in all respects. The regulatory authorities may deem our activities or services non-compliant and therefore require us to suspend or terminate its business. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect its business, financial condition, results of operations and reputation.

In addition, according to the institutional reform plan of the State Council approved by the National People's Congress on March 10, 2023, the China Banking and Insurance Regulatory Commission, or the CBIRC, will no longer be retained. And China will set up a national financial regulatory administration, which will be in charge of regulating the financial industry except the securities sector, coordinating the protection of the rights and interests of financial consumers, strengthening risk management and prevention and disposal, and investigating and dealing with violations of the law. And a local financial regulatory mechanism will be developed with agencies dispatched by central financial regulators as the mainstay. Also, China will establish the National Data Bureau, which will be administered by the National Development and Reform Commission, or the NDRC. The National Data Bureau will be responsible for advancing the development of data-related fundamental institutions, coordinating the integration, sharing, development and application of data resources, and pushing forward the planning and building of a digital China, the digital economy and a digital society. Due to the enhanced supervision of financial industry and data protection, we may be under heightened regulatory scrutiny, which may increase our compliance costs and subject us to heightened risks and challenges.

As such, our business segments may be subject to various government and regulatory interference in the provinces in which they operate. We could be subject to regulation by various political and regulatory entities, including various local and municipal agencies and government sub-divisions. We may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply.

Risks Associated with the Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act, or the HFCA Act, was signed into law on December 18, 2020 and amended pursuant to the Consolidated Appropriations Act, 2023 on December 29, 2022. Under the HFCA Act and the rules issued by the SEC and the PCAOB thereunder, if we have retained a registered public accounting firm to issue an audit report where the registered public accounting firm has a branch or office that is located in a foreign jurisdiction and the PCAOB has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction, the SEC will identify us as a "covered issuer", or SEC-identified issuer, shortly after we file with the SEC a report required under the Securities Exchange Act of 1934, or the Exchange Act (such as our annual report on Form 20-F) that includes an audit report issued by such accounting firm; and if we were to be identified as an SEC-identified issuer for two consecutive years, the SEC would prohibit our securities (including our shares or ADSs) from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

In December 2021, the PCAOB made its determinations, or the 2021 determinations, pursuant to the HFCA Act that it was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China or Hong Kong including our auditor, KPMG Huazhen LLP. After we filed our annual report on Form 20-F for the fiscal year ended December 31, 2021 that included an audit report issued by KPMG Huazhen LLP on April 28, 2022, the SEC conclusively identified us as an SEC-identified issuer on May 26, 2022. As such, we are required to satisfy additional disclosure requirement for SEC-identified issuers that are also foreign issuers in this annual report. See "Item 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections."

Following the Statement of Protocol signed between the PCAOB and the CSRC and the Ministry of Finance of the PRC, or MOF, in August 2022 and the on-site inspections and investigations conducted by the PCAOB staff in Hong Kong from September to November 2022, the PCAOB Board voted in December 2022 to vacate the previous 2021 determinations, and as a result, our auditor, KPMG Huazhen LLP, is no longer a registered public accounting firm that the PCAOB is unable to inspect or investigate completely as of the date of this annual report or at the time of issuance of the audit report included herein. As such, we do not expect to be identified as an SEC-identified issuer again in 2023. However, the PCAOB may change its determinations under the HFCA Act at any point in the future. In particular, if the PCAOB finds its ability to completely inspect and investigate registered public accounting firms headquartered in mainland China or Hong Kong is obstructed by the PRC authorities in any way in the future, the PCAOB may act immediately to consider the need to issue new determinations consistent with the HFCA Act. We cannot assure you that the PCAOB will always have complete access to inspect and investigate our auditor, or that we will not be identified as an SEC-identified issuer again in the future.

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If we are identified as an SEC-identified issuer again in the future, we cannot assure you that we will be able to change our auditor or take other remedial measures in a timely manner, and if we were to be identified as an SEC-identified issuer for two consecutive years, we would be delisted and our securities (including our shares and ADSs) will not be permitted for trading “over-the-counter” either. If our securities are prohibited from trading in the United States, or threatened with such a prohibition, the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs and ordinary shares. Also, such a prohibition or any threat thereof would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects. Moreover, the implementation of the HFCA Act and other efforts to increase the U.S. regulatory access to audit information could cause investor uncertainty as to China-based issuers’ ability to maintain their listings on the U.S. national securities exchanges and the market price of the securities of China-based issuers, including us, could be adversely affected.

Financial Information Related to the Consolidated VIEs, Trusts and Partnerships

The following tables present the condensed consolidating schedules depicting the financial position, cash flows and results of operations for the Company, the consolidated VIEs, Trusts and Partnerships, our subsidiaries and any eliminating adjustments as of December 31, 2020, 2021 and 2022 and for FY 2020, FY 2021 and FY 2022. These tables follow the line item disclosures with respect to the consolidated VIEs, Trusts and Partnerships in Note 2 to the consolidated financial statements included in this annual report beginning on page F-1.

Selected Consolidated Statement of Balance Sheet Data

	As of December 31, 2020					As of December 31, 2021					As of December 31, 2022				
	The Company	Consolidated VIEs, Trusts and Partnerships	Subsidiaries	Eliminations	Group Consolidated	The Company	Consolidated VIEs, Trusts and Partnerships	Subsidiaries	Eliminations	Group Consolidated	The Company	Consolidated VIEs, Trusts and Partnerships	Subsidiaries	Eliminations	Group Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
			(in thousands)					(in thousands)					(in thousands)		
Cash and cash equivalents	6,042	170,390	569,956	—	746,388	4,771	212,767	367,224	—	584,762	14,280	116,524	471,467	—	602,271
Restricted cash	—	484,878	367,256	—	852,134	—	220,812	186,464	—	407,276	—	403,439	1,250	—	404,689
Accounts receivable and contract assets, net	—	—	413,307	—	413,307	—	67,918	679,562	—	747,480	—	65,290	1,096,622	—	1,161,912
Loans receivable from Xiaoying Credit Loans and other loans, net	—	—	1,236,026	—	1,236,026	—	2,458,221	25,852	—	2,484,073	—	3,777,595	32,798	—	3,810,393
Loans at fair value	—	1,585,732	—	—	1,585,732	—	389,679	—	—	389,679	—	120,280	—	—	120,280
Deposits to institutional cooperators, net	—	565	907,358	—	907,923	—	2,702	1,497,705	—	1,500,407	—	—	1,770,317	—	1,770,317
Prepaid expenses and other current assets, net	1,862	66,236	335,678	—	403,776	371	104,088	108,668	—	213,127	426	53,328	17,328	—	71,082
Deferred tax assets, net	—	287,607	318,046	—	605,653	—	128,555	146,313	—	274,868	—	2,277	86,151	—	88,428
Long-term investments	—	292,115	3,500	—	295,615	—	556,571	3,467	—	560,038	—	495,995	—	—	495,995
Property and equipment, net	—	6,220	4,917	—	11,137	—	2,673	3,515	—	6,188	—	605	5,256	—	5,861
Intangible assets, net	—	30,431	7,009	—	37,440	—	29,554	7,263	—	36,817	—	28,712	7,838	—	36,550
Loan receivable from Xiaoying Housing Loans, net	—	47,490	—	—	47,490	—	12,083	—	—	12,083	—	10,061	—	—	10,061
Financial investments	—	6,000	—	—	6,000	—	—	82,844	—	82,844	—	—	192,620	—	192,620
Other non-current assets	—	6,914	44,547	—	51,461	—	4,851	26,427	—	31,278	—	2,470	64,734	—	67,204
Financial guarantee derivative	—	297,928	—	—	297,928	—	11,819	—	—	11,819	—	—	—	—	—
Intercompany receivables	1,008,811	3,095,377	4,395,612	(8,499,800)	—	1,077,450	5,303,896	9,615,500	(15,996,846)	—	1,024,112	4,470,491	6,046,377	(11,540,980)	—
Investments in Consolidated VIEs, Trusts and Partnerships and subsidiaries	2,067,921	870,458	3,533,764	(6,472,143)	—	2,899,792	1,566,351	3,669,742	(8,135,885)	—	3,717,374	2,299,383	3,492,373	(9,509,130)	—
Total Assets	3,084,636	7,248,341	12,136,976	(14,971,943)	7,498,010	3,982,384	11,072,540	16,420,546	(24,132,731)	7,342,739	4,756,192	11,846,450	13,285,131	(21,050,110)	8,837,663

	As of December 31, 2020					As of December 31, 2021					As of December 31, 2022				
	The Company	Consolidated VIEs, Trusts and Partnerships	Subsidiaries	Eliminations	Group Consolidated	The Company	Consolidated VIEs, Trusts and Partnerships	Subsidiaries	Eliminations	Group Consolidated	The Company	Consolidated VIEs, Trusts and Partnerships	Subsidiaries	Eliminations	Group Consolidated
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
			(in thousands)					(in thousands)					(in thousands)		
Payable to investors and institutional funding partners at amortized cost	—	—	1,460,395	—	1,460,395	—	1,466,068	21,311	—	1,487,379	—	2,627,910	—	—	2,627,910
Payable to investors at fair value	—	1,914,184	—	—	1,914,184	—	462,714	—	—	462,714	—	141,289	—	—	141,289
Guarantee liabilities	—	—	9,790	—	9,790	—	—	—	—	—	—	—	—	—	—
Financial guarantee derivative	—	130,442	—	—	130,442	—	565,953	—	—	565,953	—	107,890	—	—	107,890
Accrued payroll and welfare	—	10,017	24,764	—	34,781	—	8,959	35,646	—	44,605	—	12,047	51,634	—	63,681
Other taxes payable	—	37,104	35,974	—	73,078	—	100,333	119,213	—	219,546	—	123,106	132,585	—	255,691
Income taxes payable (receivable)	—	48,350	27,567	—	75,917	—	8,190	108,959	—	117,149	—	(1,872)	271,960	—	270,088
Deposit payable to channel cooperators	—	—	21,472	—	21,472	—	—	21,012	—	21,012	—	—	19,700	—	19,700
Other non-current liabilities	—	1,740	25,874	—	27,614	—	—	12,019	—	12,019	2,938	1,937	49,256	—	51,193
Accrued expenses and current liabilities	9,880	230,564	83,304	—	323,748	5,489	85,485	177,993	—	268,967	—	102,150	370,948	—	476,036
Short-term borrowings	—	18,700	331,845	—	350,545	—	—	166,500	—	166,500	—	20,000	50,209	—	70,209

Deferred tax liabilities	—	—	—	—	—	—	—	—	—	—	—	722	—	722
Intercompany Payables	—	4,455,198	4,044,602	(8,499,800)	—	—	6,747,134	9,249,711	(15,996,845)	—	5,424,862	6,116,118	(11,540,980)	—
Total Liability	9,880	6,846,299	6,063,587	(8,499,800)	4,421,966	5,489	9,444,836	9,912,364	(15,996,845)	3,363,844	2,938	8,559,319	7,063,132	4,084,409
Total shareholder's equity	3,074,756	402,042	6,071,389	(6,472,143)	3,076,044	3,976,895	1,627,704	6,508,182	(8,135,886)	3,976,895	4,753,254	3,287,131	6,221,999	4,753,254

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Selected Consolidated Statement of Comprehensive Income (Loss) Data

	Year ended December 31, 2020					Year ended December 31, 2021					Year ended December 31, 2022				
	Consolidated VIEs, Trusts and Partnerships					Consolidated VIEs, Trusts and Partnerships					Consolidated VIEs, Trusts and Partnerships				
	The Company RMB	RMB	Subsidiaries RMB (in thousands)	Eliminations RMB	Group Consolidated RMB	The Company RMB	RMB	Subsidiaries RMB (in thousands)	Eliminations RMB	Group Consolidated RMB	The Company RMB	RMB	Subsidiaries RMB (in thousands)	Eliminations RMB	Group Consolidated RMB
Total net revenue	—	754,755	1,438,202	—	2,192,957	—	1,388,256	2,238,209	—	3,626,465	—	1,350,810	2,212,140	—	3,562,950
Intercompany revenues	—	212,814	484,283	(697,097)	—	—	72,826	1,357,422	(1,430,248)	—	—	61,267	857,646	(918,913)	—
Origination and servicing, general and administrative and sales and marketing expenses	(18,480)	(675,732)	(1,592,149)	—	(2,286,361)	(9,578)	(394,031)	(1,768,086)	—	(2,171,695)	(8,739)	(330,622)	(1,974,353)	—	(2,313,714)
Intercompany costs	—	(352,165)	(344,932)	697,097	—	—	(899,267)	(530,981)	1,430,248	—	—	(492,732)	(426,181)	918,913	—
Net income (loss)	(1,308,488)	(319,869)	(973,446)	1,293,342	(1,308,461)	825,407	(130,549)	962,420	(831,871)	825,407	811,996	306,566	511,016	(817,582)	811,996

The following table presents the roll-forward of deficit of investments in our consolidated VIEs, Trusts and Partnership and subsidiaries in FY 2020, FY 2021 and FY 2022.

	Investments in Consolidated VIEs, Trusts and Partnerships and subsidiaries RMB in thousands
Balance as of December 31, 2019	3,378,506
Equity in earnings of the Consolidated VIEs, Trusts and Partnerships	(180,519)
Equity in earnings of subsidiaries	(1,112,823)
Cumulative effect of accounting change	(17,242)
Balance as of December 31, 2020	2,067,922
Equity in earnings of the Consolidated VIEs, Trusts and Partnerships	695,893
Equity in earnings of subsidiaries	135,977
Balance as of December 31, 2021	2,899,792
Equity in earnings of the Consolidated VIEs, Trusts and Partnerships	738,032
Equity in earnings of subsidiaries	79,550
Balance as of December 31, 2022	3,717,374

	The Company RMB in thousands	Consolidated VIEs, Trusts and Partnerships RMB in thousands	Subsidiaries RMB in thousands
Amount due from (due to) Consolidated VIEs, Trusts and Partnerships and subsidiaries			
Balance as of December 31, 2019	1,017,875	(1,887,471)	869,596
The Company transferred to the subsidiaries	(6,818)	—	6,818
The Consolidated VIEs, Trusts and Partnerships transferred to the subsidiaries	—	1,719,385	(1,719,385)
Intercompany transactions	61,628	(1,191,735)	1,130,107
Impact of foreign exchange rate	(63,874)	—	63,874
Balance as of December 31, 2020	1,008,811	(1,359,821)	351,010
The Company transferred to the subsidiaries	(4,545)	—	4,545
The Consolidated VIEs, Trusts and Partnerships transferred to the subsidiaries	—	701,508	(701,508)
Intercompany transactions	96,661	(784,924)	688,263
Impact of foreign exchange rate	(23,478)	—	23,478
Balance as of December 31, 2021	1,077,449	(1,443,237)	365,788
The Company transferred to the subsidiaries	(164,708)	—	164,708

The Consolidated VIEs, Trusts and Partnerships transferred to the subsidiaries	—	277,495	(277,495)
Intercompany transactions	23,157	211,371	(234,528)
Impact of foreign exchange rate	88,214	—	(88,214)
Balance as of December 31, 2022	1,024,112	(954,371)	(69,741)

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Transfers of Cash through Our Organizations

The following table presents the cash flows among the Company, its subsidiaries, and the Consolidated VIEs, Trusts and Partnerships in FY 2020, FY 2021 and FY 2022.

	FY 2020	FY 2021	FY 2022
	RMB in thousands	RMB in thousands	RMB in thousands
Cash transferred from the Company to the subsidiaries for financing purposes	—	—	—
Cash transferred from the subsidiaries to the Company for financing purposes	6,818	4,545	164,708
Cash transferred from the Consolidated VIEs, Trusts and Partnerships to the subsidiaries for financing purposes	1,719,385	701,508	277,495
Cash paid from Consolidated VIEs, Trusts and Partnerships to subsidiaries for loan transferred under intermediary model	144,422	2,538,005	5,724,937
Cash paid by subsidiaries to invest in Consolidated VIEs, Trusts and Partnerships	64,376	215,378	227,445
Cash contribution from Consolidated VIEs, Trusts and Partnerships to subsidiaries	152,910	69,073	346,937
Service fees collected by subsidiaries from borrowers indirectly through Consolidated VIEs, Trusts and Partnerships	284,109	524,177	133,300

Our subsidiaries and the VIEs have not made any dividend or distribution to the Company. We declared cash dividends in 2019 and used parts of the net proceeds from our initial public offering of approximately US\$14.8 million for dividend distribution without any tax withholding obligations. The VIEs had never paid, any earnings or amounts, such as service fee to the Beijing WFOE under the contractual arrangement. See the consolidated financial statements included elsewhere in this annual report for more details.

X Financial is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and the VIEs in China. As a result, although other means are available for us to obtain financing at the holding company level, X Financial's ability to pay dividends to its shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and service fees paid by our PRC consolidated affiliated entities. If any of our subsidiaries incurs debt on its own in the future, the instruments governing such debt may restrict its ability to pay dividends to X Financial. In addition, our PRC subsidiaries and the VIEs are required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies.

Current PRC regulations permit the Beijing WFOE to pay dividends to YZT (HK) Limited only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC. Therefore, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. Furthermore, if our subsidiaries in the PRC incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If we or our subsidiaries are unable to receive all of the revenues from our operations through the current VIE Agreements, we may be unable to pay dividends on our ordinary shares.

Cash dividends, if any, on our ADSs will be paid in U.S. dollars. If we are considered a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders may be regarded as China-sourced income and as a result may be subject to PRC withholding tax at a rate of up to 10.0%.

In order for us to pay dividends to our shareholders, we may rely on payments made from our VIEs to the Beijing WFOE, pursuant to the VIE Agreements between them, and the distribution of such payments to YZT (HK) Limited as dividends from Beijing WFOE. Certain payments from our VIEs are subject to PRC taxes, including business taxes and VAT. As of the date of this annual report, the VIEs had never paid any dividends to the Beijing WFOE.

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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 Tax Avoidance Arrangement, the 10% withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC project. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied, including without limitation that (a) the Hong Kong project must be the beneficial owner of the relevant dividends; and (b) the Hong Kong project must directly hold no less than 25% share ownership in the PRC project during the 12 consecutive months preceding its receipt of the dividends. In current practice, a Hong Kong project must obtain a tax resident certificate from the Hong Kong tax authority to apply for the 5% lower PRC withholding tax rate. As the Hong Kong tax authority will issue such a tax resident certificate on a case-by-case basis, we cannot assure you that we will be able to obtain the tax resident certificate from the relevant Hong Kong tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Arrangement with respect to dividends to be paid by the Beijing WFOE to its immediate holding company, YZT (HK) Limited.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

For risks associated with being based in or having the majority of the operations in China, see “-Risks Associated with Being Based in or Having the Majority of the Operations in China” as set forth at the outset of Part I.

For the risks related to the HFCA Act, see “-Risks Associated with the Holding Foreign Companies Accountable Act” as set forth at the outset of Part I and “-Risk Factors-Risks Relating to Doing Business in China- Our ADSs may be prohibited from trading in the United States under the HFCA Act in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. ”

For the description of how cash is transferred through our organization, see “—Transfers of Cash through Our Organizations” as set forth at the outset of Part I.

3.A. [Reserved]

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reason for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

Risks Relating to Our Business and Industry

We have ceased the P2P operation business, but we cannot assure you that our operations were in full compliance with relevant legal requirements and would not be punished under relevant regulations

Due to the relatively short history of the online consumer finance industry in China, a comprehensive regulatory framework governing our industry is under development by the PRC government. Before any industry-specific regulations were introduced in mid-2015, the PRC government relied on general and basic laws and regulations for governing the online consumer finance industry, including the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People's Court. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information Services."

Since July 2015, the PRC government and relevant regulatory authorities have issued various laws and regulations governing the online consumer finance industry, including, among others, (i) the Guidelines on Promoting the Healthy Development of Online Finance Industry, or the Guidelines, (ii) the Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries, or the Interim Measures, (iii) the Guidelines on Online Lending Funds Custodian Business, or the Custodian Guidelines, (iv) Guidelines on Information Disclosure of the Business Activities of Online Lending Information Intermediaries, or the Disclosure Guidelines, (v) Notice on Rectification of Cash Loan Business, or Circular 141, (vi) the Notice on the Special Rectification and Inspection of Risk of Online Lending Intermediaries, or Circular 57, (vii) the Notice on Conducting Compliance Inspections of Online Lending Intermediaries, or the Inspection Notice, and (viii) the Compliance Checklist of Online Lending Information Intermediaries, or the Compliance Checklist. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information Services." In December 2018, the relevant PRC regulatory authorities of the P2P lending industry issued the Circular on Making Efforts to Prevent Risk and Classify Online Lending Institutions, or the Circular 175. Circular 175 classifies the online P2P lending marketplaces into six categories, and except for large-scale peer-to-peer direct lending marketplaces that have not demonstrated any high-risk characteristics, which are generally referred to as Normal Marketplaces, other marketplaces, including shell companies with no substantive operation, small-scale marketplaces, marketplaces with high risks and marketplaces on which investors are not fully repaid or that are otherwise unable to operate their businesses, shall exit the peer-to-peer lending industry or cease operation.

The Guidelines formally introduced for the first time the regulatory framework and basic principles governing the online finance industry, including the provision of online lending information services in China. Following the core principles of the Guidelines, the Interim Measures first time introduced a record filing and licensing regime, pursuant to which, online lending information intermediaries shall register with the local financial regulatory authority, update their business scope in their business license to include "online lending information intermediary" and obtain telecommunication business license from the relevant telecommunication regulatory authority after the completion of their registration with the local financial regulatory authority. In order to instruct online lending information intermediaries to rectify their business operations that are deemed as non-compliant with the Guidelines or the Interim Measures, the Interim Measures authorized the local financial regulatory authorities to conduct onsite inspections or inquiries from time to time. In March 2017, one of our consolidated VIEs, Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. received a rectification notice from the Shenzhen Head Office for Special Rectification of Online Finance Risk, which required us to adopt certain rectification measures to certain aspects of our business operations which were not in full compliance with applicable laws and regulations, including the requirements for ceasing to facilitate loans exceeding RMB200,000 for one borrower and setting up custody accounts with qualified banks to better manage clients and funds. We have responded with our rectification plan with a schedule in March 2017 and have undertaken effective measures in response to the authority's request.

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Meanwhile, the Guidelines and the Interim Measures prohibit online lending information intermediaries from certain activities, including but not limited to, credit enhancement, illegal fund-raising, and setting up capital pool. The Circular 141 promulgated by the Head Office for Special Rectification of Online Finance Risk and Head Office for Special Rectification of Peer-to-Peer Online Lending on December 1, 2017 further specifies that certain types of cash loan may be subject to inspection and rectification. These types of cash loan have the following four characteristics: lack of specific scenes, designated purposes, targeted users and mortgage. Online lending information intermediaries shall not facilitate such cash loans without specific scenes and designated purposes. It is stipulated in Circular 57 that online lending information intermediary shall cease providing prohibited cash loans after Circular 141 has come into effect and shall gradually reduce the outstanding balance of prohibited cash loans within scheduled timetable in order to complete the record filing as requested by the Interim Measure. We do not believe any of the loan products that we facilitate is prohibited under Circular 141 and Circular 57, as none of our products has all of the four characteristics of cash loans as defined under Circular 141. For example, although some of our loan products, such as Xiaoying Credit Loan's credit card cash advance product, are lacking mortgage and specific scenes, we believe they target a specific user base with designated purpose for which the borrowers are required to specify at loan application. However, in the absence of authoritative interpretation of the key requirements or characteristics of cash loan, especially whether the definition of cash loan requires all of the four characteristics or any of the four characteristics, we cannot assure you that our existing practices would not be deemed to violate any relevant laws, rules and regulations that are applicable to our business practices. In addition, Circular 141 requires banking financial institutions that participate in the "cash loan" business to ensure that no third parties will charge borrowers any interest or expenses of loans to borrowers and not to accept any credit enhancement services or other similar services from third parties without qualification to provide guarantee. To comply with Circular 141, we cooperate with certain qualified institutional partners with the financing guarantee license to provide guarantees for certain loan products we facilitate. We cooperated with Shenzhen Xintang, our consolidated VIE, to provide guarantees for certain loan products that we facilitate in the past. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. Moreover, Circular 141 prohibits banking financial institutions from outsourcing core businesses such as credit examination and risk control. Currently, we only provide initial screening, preliminary credit examination and technical services, but we cannot rule out the possibility that government authorities could consider our services to be in violation of Circular 141. If any of our services are deemed to be in violation of Circular 141, we may be required to cease or modify any such "cash loans" to comply with Circular 141, otherwise we may be ineligible for registration with the local financial regulatory authority, which may materially and adversely affect our business and prospects. While we are closely monitoring the regulatory development, as of the date of this annual report, we have not been informed by any regulatory authorities to cease or modify any of our current products due to violation of any rules with respect to cash loan under Circular 141 or Circular 57.

On January 19, 2018, the Shenzhen Head Office for Special Rectification of Online Finance Risk promulgated the Notice Regarding Further Implementing Rectification of Online Lending Information Intermediaries which required that all the online lending information intermediaries in Shenzhen, including one of our consolidated VIEs, Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd., shall close all the business operations that were not in full compliance with the Interim Measures before June 30, 2018. We have further submitted a self-inspection report to the Shenzhen financial regulatory authority regarding the current status on our rectification process on February 2, 2018 pursuant to the Notice Regarding Further Implementing Rectification of Online Lending Information Intermediaries.

In August 2018, the Inspection Notice further clarifies that the compliance inspection under the Interim Measures consists of self-inspection conducted by online lending information intermediaries, inspection conducted by local and national Internet Finance Associations, and verification conducted by the local online lending rectification office, all of which shall be completed by the end of December 2018. The online lending information intermediaries that are in compliance with the applicable rules and regulations then could be allowed to submit the record filing applications as requested by the Interim Measures. Pursuant to the Inspection Notice and the Compliance Checklist, we have further submitted a self-inspection report and certain self-inspection documents to the Shenzhen financial regulatory authority and the Shenzhen Head Office for Special Rectification of Online Finance in October and November 2018 respectively.

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As of December 17, 2020, Xiaoying Wealth Management platform's P2P operation business had been cleared and ceased, and the principal and earnings of all individual investors had been fully settled. However, uncertainties still exist in relation to the interpretation and implementation of the relevant laws and regulations relating to P2P operation business. We cannot assure you that we will not be subject to any penalties retroactively prescribed in the relevant laws and regulations relating to our previous P2P operation business, although we have already ceased the related business, and if we were punished, our business, financial condition and results of operations may be materially and adversely affected.

We have obtained an approval of online microcredit business operating qualification and have started online microcredit 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.

According to the Guidelines on Further Strengthening and Regulating Pilot Access and Auditing of Microcredit Companies (Trial) issued by Shenzhen Financial Services Office in April 2013, or the Trial Guidelines on Microcredit Companies, the Shenzhen financial regulatory authority temporarily restricts certain kinds of companies including, among others, financing guarantee companies, pawn investment companies or real estate development companies establish the online microcredit business. One of our PRC subsidiaries, Tianjin Yuexin Financing Guarantee Co., Ltd. ("Tianjin Yuexin"), although has not yet started the financing guarantee business, currently holds the financing guarantee license, thus we cannot assure that we are eligible to operate the online microcredit business. However, the interpretation of the Trial Guidelines on Microcredit Companies remains uncertain and it is unclear how it will affect our application for the online microcredit business operating license.

Shenzhen Xiaoying Technology Co., Ltd. ("Shenzhen Xiaoying"), one of our VIEs, has obtained a letter from the Local Financial Regulatory Bureau of Shenzhen Municipality on May 12, 2021, stating the approval of the business qualification of Shenzhen Xiaoying Microcredit Co., Ltd. ("Xiaoying Microcredit"), a wholly-owned subsidiary of Shenzhen Xiaoying, for the microcredit business in China. The approved microcredit business qualification is subject to annual onsite inspections. We have started our microcredit business in 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 Business (Draft), or the Draft Interim Administrative Measures, to solicit public comments. The Draft Interim Administrative 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 Interim Administrative Measures would establish a three-year transition period, and those operating cross-provincial network microcredit businesses without approval will be phased-out.

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Further, pursuant to Regulations on Local Financial Supervision and Administration (Draft for Public Comments), or the Draft Local Financial Supervision and Administration Regulation promulgated on December 31, 2021, “Local Financial Organizations” refers to microcredit companies, financing guarantee companies, regional equity markets, pawn shops, financial leasing companies, commercial factoring companies, local asset management companies, and other institutions engaged in local financial business that are supervised and managed by laws, administrative regulations, and provincial-level people’s governments authorized by the State Council. The Draft Local Financial Supervision and Administration Regulation specify that provincial governments shall perform their duties of supervision, management, and risk disposal of local financial organizations, and no individual or entity shall set up Local Financial Organizations without prior approval. The merger, division, reduction of registered capital, change of the business scope or operating area, the change of the shareholders holding more than 5% of its equity interests, as well as change of the actual controller of the Local Financial Organization shall be subject to the approval of the provincial local financial supervision and management department. Also, Local Financial Organization shall make filings to provincial local financial supervision and management department for setting up branches within the provincial administrative region, changing the name or address of business, increasing the registered capital, changing the directors, supervisors and senior management personnel. Penalties such as fines or criminal liability may be imposed if the Local Financial Organizations fail to comply with the Draft Local Financial Supervision and Administration Regulation. Both of the Draft Interim Administrative Measures and the Draft Local Financial Supervision and Administration Regulation were released for public comment only, there remains substantial uncertainty regarding the Draft Interim Administrative Measures and the Draft Local Financial Supervision and Administration Regulation, including with respect to their final content, adoption timeline or effective date. If we were considered that we have engaged in the online microcredit business and the Draft Interim Administrative Measures and the Draft Local Financial Supervision and Administration Regulation were issued, we may be subject to various regulatory restriction which may adversely affect our business operations. We cannot assure you that Xiaoying Microcredit will be able to maintain or renew its business qualification for microcredit business if the draft measures are implemented. Although we believe that Xiaoying 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 through Xiaoying Microcredit but are unable to maintain or renew the business qualification for microcredit business, or to obtain any other requisite approvals, licenses or permits, our business, financial condition and results of operations would be materially and adversely affected. Given the evolving regulatory environment, there is uncertainty as to how the requirements in the Draft Interim Administrative Measures or the Draft Local Financial Supervision and Administration Regulation will be interpreted and implemented. To the extent that we are not able to fully comply with the requirements, our business, financial condition and results of operations may be materially and adversely affected. We will continuously make adjustments in our business to comply with evolving regulatory requirements, but we are unable to predict with certainty the impact, if any, that future legislation, or regulations relating to the online microcredit business industry will have on our business, financial condition and results of operations.

As of the date of this annual report, we have not been subject to any material fines or other penalties under any PRC laws or regulations including those governing the online consumer finance industry in China. If our previous or existing practice is deemed to violate any rules, laws or regulations, we may face injunctions, including orders to cease illegal activities, correction order, condemnation, fines and criminal liability, and may be exposed to other penalties as determined by the relevant government authorities. If such situations occur, our business, financial condition and prospects would be materially and adversely affected.

If our borrowers default their loans under our online microcredit business, our financial operation may still be subject to material adverse effect.

Shenzhen Xiaoying has obtained a letter from the Local Financial Regulatory Bureau of Shenzhen Municipality on May 12, 2021, stating the approval of the business qualification of Xiaoying Microcredit, a wholly-owned subsidiary of Shenzhen Xiaoying, for the microcredit business in China. Since the loans provided by Xiaoying Microcredit is our own capital, defaults by our borrowers may have material adverse effect on our financial operation. As of December 31, 2022, 2.8% of our outstanding loans is issued by Shenzhen Xiaoying through our own capital. We have no insurance or guarantee protection for the loans issued by Shenzhen Xiaoying, our financial operation may be subject to material adverse if our borrowers default their outstanding loans.

We have a limited operating history in a new and evolving market, which makes it difficult to evaluate our future prospects.

We started to facilitate investment products to individual investors in China in August 2014 and commenced our loan facilitation business in July 2015 and thus have a limited operating history. We have limited experience in most aspects of our business operations, such as loan product offerings, data-driven credit assessment and development of long-term relationships with borrowers, investors and institutional funding partners. We seek to expand the base of prospective borrowers that we serve, which may result in higher delinquency rates of transactions facilitated by us. The delinquency rate for all outstanding loans on our platform that were 31-60 days past due decreased from 1.48% as of December 31, 2021 to 1.02% as of December 31, 2022. In addition, our ability to continuously attract low-cost funding sources is also critical to our business. For example, we have completely ceased accepting funding to our loan products from individual investors since the end of 2019, and currently our primary funding source is our institutional funding partners. As our business develops or in response to competition and regulation, we may continue to introduce new loan products, make adjustments to our existing loan products and our proprietary credit assessment model, or make adjustments to our business operation in general. For example, our product mix changed since our launch of Xiaoying Card Loan in December 2016. In 2016, 0.9% of our total loan facilitation amount were Xiaoying Card Loan, while in 2020, 2021 and 2022, such proportion was 80.3%, 100%, and 99.8% respectively. Furthermore, in May 2021, we obtained a network microcredit license from the Local Financial Regulatory Bureau of Shenzhen Municipality and started online microcredit business in July 2021 by providing loans funded from own capital. Any significant change to our business model not achieving expected results may have a material adverse impact on our financial condition and results of operations. Our historical financials during the limited operating history are not indicative of our future trends. As a result, it is difficult to effectively assess our future prospects.

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

- offer personalized and competitive products and services;
- increase the utilization of our products and services by existing borrowers and institutional funding partners as well as new borrowers and institutional funding partners;
- offer attractive service fee rates while driving growth in size and profitability of our business;
- maintain low delinquency rates of loans facilitated by us;
- develop sufficient, diversified, cost-efficient and reputable funding sources;
- maintain and enhance our relationships with our institutional funding partners;
- broaden our prospective borrower base;
- navigate a complex and evolving regulatory environment;
- improve our operational efficiency;
- attract, retain and motivate talented employees to support our business growth;
- enhance our technology infrastructure to support the growth of our business and maintain the security of our system and the confidentiality of the information provided and utilized across our system;
- navigate economic condition and fluctuation; and
- defend ourselves against legal and regulatory actions, such as actions involving intellectual property or privacy claims.

Failure of other online lending platforms or damage to the reputation of the online consumer finance industry may materially and adversely affect our business and results of operations.

We operate in the online consumer finance industry, which is a new and evolving industry. Negative publicity about this industry and the market segment 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 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. 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 borrower, 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. Moreover, 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.

The service fees we charge either borrowers or institutional funding partners may decline in the future due to factors beyond our control and any material decrease in such service fees could harm our business, financial condition and results of operations.

We generated our revenues from service fees collected indirectly from borrowers through our VIE, Shenzhen Xintang or external financing guarantee companies. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. We also charge service fees directly to certain institutional funding partners. Any material decrease in our service fees would have a substantial impact on our revenues and profitability. In the event that the amount of service fees we collect from borrowers or institutional funding partners for loans we facilitate decrease significantly in the future, our business, financial condition and results of operations will be harmed. The level of service fees we collect from borrowers or institutional funding partners may also be affected by a variety of factors, including our borrowers' creditworthiness and ability to repay, the competitive landscape of our industry, our access to funding sources of loans we facilitate and regulatory requirements. Our service fees may also be affected by changes in our product and service mix and changes to our borrower engagement initiatives. Our competitors may also offer more attractive fees, which may require us to reduce our service fees to compete effectively. Certain consumer financing solutions offered by traditional financial institutions may provide lower fees than our service fees. Although we do not believe such consumer financing solutions currently compete with our products or target the same underserved consumers in China, such traditional financial institutions may decide to do so in the future, which may have a material adverse effect as to the service fees that we will be able to charge borrowers or institutional funding partners. Our service fees may also be affected by regulatory restrictions applied to our institutional funding partners. In August 2021, it was reported that some consumer finance companies received window guidance from regulators to keep the interest rate on personal loans within 24%. As the funding for loans we facilitated are partly provided by those institutional funding partners, the service fees we charge borrowers or institutional funding partners may be further affected.

In addition, our service fees are sensitive to many macroeconomic factors that are beyond our control, such as inflation, recession, the performance of credit markets, global economic disruptions, unemployment and fiscal and monetary policies. If the service fees we collect from borrowers decrease significantly due to factors beyond our control, our business, financial condition and results of operations will be materially and adversely affected.

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Our service fees, to the extent that they are fully or partially deemed as loan interest, may also be subject to the restrictions on interest rates as specified in applicable rules on private lending. Pursuant to the Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases issued by the Supreme People's Court on August 6, 2015 (as further amended on August 19, 2020 and December 29, 2020), or the Private Lending Judicial Interpretations, if the services fees that we charge borrowers are considered as loan interest and we are deemed as a lender, and if the sum of the annual interest that lenders charge and our service fees exceed 36%, the portion of the service fees that exceeds the 36% limit is invalid, and even if the borrower has paid the portion of the service fees that exceeds the 36% limit, such borrower may request us to refund the portion of the service fees that exceeds the 36% limit and the PRC courts will uphold such request. In accordance with Circular 141, the overall cost of loans, including the loan interest and other forms of fees charged by the institutions shall be included in an overall annualized interest rate and conform to the restrictions on interest rates as specified in applicable rules on private lending. The Compliance Checklist further specifies that interests and fees collected by any third party collaborator or charged offline shall form part of an overall annualized interest rate. In addition, the online lending information intermediary is also prohibited to deduct loan interest, service fees, administrative fee and deposit from a loan principal in advance. We have ceased deducting any service fees from a loan principal in advance and have complied with applicable regulatory requirements since December 7, 2017. On August 19, 2020 and December 29, 2020, the Private Lending Judicial Interpretations was amended by the Supreme People's Court, where a lender claims that corresponding borrower shall pay interest as per the interest rate contractually stipulated, relevant people's court shall uphold such claim, except where the interest rate agreed on by both parties concerned exceeds four times the loan prime rate ("LPR"), for one-year loan when the contract is concluded. "LPR for one-year loan" refers to the LPR for one-year loan to be published on a monthly basis by the National Interbank Funding Center authorized by the People's Bank of China as of August 20, 2019. On December 29, 2020, the Supreme People's Court issued the Official Reply of the Supreme People's Court to the Issues concerning the Scope of Application of the New Judicial Interpretation on Private Lending, or the Official Reply. According to the Private Lending Judicial Interpretations and the Official Reply, for financial institutions and branches engaging in loan business and established upon the approval of the financial regulatory authorities, including but not limited to microcredit company, Private Lending Judicial Interpretations shall not apply to disputes caused by granting loans and relevant financial business. Therefore, currently, there is no clear regulatory guidance on the loan interest ceiling for the loans between the borrowers and the institutional partners.

On March 31, 2021, PBOC issued Announcement 2021 No. 3, or the Announcement 3, to clarify the calculation methodology of annual loan interest rate. Annual loan interest rate shall be the ratio, on an annualized basis, of all the loan-related costs charged on the borrower to the loan principal actually occupied. However, the Announcement 3 does not further interpret the constitution of the costs directly related to the loan. The calculation method is not clearly defined, and we are not sure whether our APR calculation method has fully complied with the regulatory requirements.

None of the loans we provided or facilitated in 2022, had an annualized fee rate exceeding 36%. We have reduced our annualized fee rates of all products which exceeded the 36% limit and have complied with applicable regulatory requirements since December 7, 2017. The annualized fee rates of all new loans that we facilitated since December 7, 2017 are below 36%. As a result, we do not believe that our current service fees and various other fees charged from our borrowers violate these provisions. However, due to the lack of the specific and clear regulatory guidance on the loan interest ceiling and the calculation method, if our current fee level is deemed to be excessive or constitutes usurious loans under any existing or future relevant PRC laws, regulations and rules, parts or all of the fees we collected may be ruled as invalid by the PRC courts, and we may face, among others, regulatory warning, correction order, or be required to reduce the fees and annual interest rate we charge our borrowers. In addition, any future changes on APR ceiling may affect our profitability. If such situations were to occur, our business, financial condition, results of operations and prospects would be materially and adversely affected.

We face competition in the online consumer finance industry, and, if we do not compete effectively, our results of operations could be harmed.

The online consumer finance industry in China is highly competitive, and we compete with other sizable online consumer lending marketplaces with a focus on prime borrowers. We also compete with other financial products and companies that attract borrowers, investors, or institutional funding partners. Our competitors may operate different business models, have different cost structures or selectively participate in different market segments. They may ultimately be proven more successful or more adaptable to consumer demand and new regulatory, technological and other developments. Some of our current and potential competitors have significantly more financial, technological, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their product and services offerings. Our competitors may also have longer operating history, more extensive user bases, greater brand recognition and brand loyalty and broader relationships with business partners. Additionally, a current or potential competitor may acquire, or form strategic alliances with, one or more of our competitors. Our competitors may be better at satisfying user demand by developing tailored products, offering attractive service fees, strengthening risk management capabilities, introducing more advanced and effective data analytics technologies, obtaining funding sources at more favorable rates and undertaking more extensive and effective marketing campaigns. Furthermore, more players may enter into this market and increase the level of competition. In face of such competition, in order to grow or maintain the amount of loans facilitated to borrowers, we may have to lower our service fees, which could materially and adversely affect our business and results of operations. If we are unable to compete with such companies and meet the need for innovation in our industry, the demand for our products or services could stagnate or substantially decline, which could harm our business and results of operations.

The Administrative Measures for Credit Information Services may impose adverse effects on our business, financial condition and results of operations.

In July 2021, according to media reports, the Credit Information Administration of the PBOC put forward requirements in a non-public manner to certain internet platforms engaged in financing business, requiring that the information voluntarily submitted by an individual, as generated from the platform or acquired externally, shall not be disclosed to financial institutions during the business cooperation with such institutions, or to be directly provided to the institutions in the name of application information, identity information, basic information, profile information, etc.

On September 27, 2021, the PBOC promulgated the Administrative Measures for Credit Information Services, or the Credit Information Services Measures, which took effect on January 1, 2022. Pursuant to the Credit Information Services Measures, Credit Information Services, shall mean the collection, sorting, retention, and processing of credit information of enterprises and individuals, and the provision of the foregoing information to information users. Credit information, shall mean the basic individual information, lending information and other relevant information used for identification and determination of creditworthiness status of enterprises and individuals, and collected pursuant to the law for the purpose of providing services for financial activities, as well as the analyzed and evaluated information formed based on the foregoing information. Entities engaging in personal credit information services shall obtain the personal credit information organization license pursuant to the Credit Information Services Measures. Financial institutions shall not carry out commercial cooperation with entities who have not obtained business qualifications for engaging in credit information services to obtain any credit information services.

In our current cooperation with financial institutions, we would directly provide financial institutions with the personal information of our users on our platform, including basic user information (such as name, age, etc.) and loan-related information (such as loan purpose, annual income, etc.), which may be deemed as credit information under the Credit Information Services Measures. As of the date of this annual report, we have not obtained personal credit information organization license, and our direct provision of such users' personal information to financial institutions may not be permitted. However, one of our consolidated VIEs, Shenzhen Xiaoying Microcredit Co., Ltd. ("Xiaoying Microcredit") received a notice from the Shenzhen Center of Credit Reference Center of People's Bank of China on September 29, 2022. The notice stated that Credit Reference Center of People's Bank of China had approved Xiaoying Microcredit to connect to the credit reference system and to report business informations relating to individual credit loan services. Currently, we are working on technical preparation and internal system establishment for the official connection to the credit reference system. Further, we have been collaborating closely with Baihang Credit and Pudao Credit, both of each hold a personal credit information organization license, to execute a plan that complies with the new regulation. Meanwhile, as the Credit Information Services Measures is newly issued and there are no specific implementation rules with this regard, we are not sure how it will be interpreted and implemented and whether it will have an adverse impact on our business. While we will make efforts and adjustments to comply with the evolving regulatory requirements, we cannot assure you that such efforts would be sufficient as the regulators may not hold the same view as ours.

If we are unable to maintain or increase the amount of loans we facilitate or if we are unable to retain existing borrowers or attract new borrowers, our business and results of operations will be adversely affected.

The amount of loans facilitated through our platform was RMB29,676 million in 2020, RMB51,859 million in 2021 and RMB73,655 million in 2022. To maintain and increase the amount of loans we facilitate, we must continue to engage our existing borrowers and attract new borrowers, which may be affected by several factors, including our brand recognition and reputation, our products and services offered, our efficiency in engaging prospective borrowers, our ability to convert registered users to borrowers, the effectiveness of our credit analysis and risk management system, our ability to secure sufficient and cost-efficient funding, the service fees we charge borrowers, our borrower experience, the PRC regulatory environment governing our industry and the macroeconomic environment. For example, although we do not believe any of the loan products we currently facilitate is explicitly prohibited in accordance with the requirements under Circular 141 and Circular 57, we have taken rectification measures, including adjusting the annualized fee rates not to exceed 36% and ceasing deducting service fees from a loan principal in advance, to better comply with the applicable requirements.

In addition, as of December 31, 2022, we collaborated with 107 channel partners to obtain borrowers for our various loan products. In 2021 and 2022, approximately 74.3% and 80.1% of our active borrowers for Xiaoying Card Loan were engaged through our channel partners. If these channels become less effective or less efficient, or if we are unable to continue to use these channels or work with less channel partners, or if we cannot expand our business partner base or work with more business partners, we may not be able to acquire and engage new and existing borrowers efficiently. In addition, we may also impose more stringent borrower qualifications to ensure the quality of the loans we facilitate, which may negatively affect the amount of loans we facilitate. If we are unable to attract borrowers or if borrowers do not continue to use our products and services, we may be unable to increase our amount of loans facilitated and corresponding revenues, and our business and results of operations may be materially and adversely affected.

We face risks related to natural disasters, public health emergencies, epidemic, pandemics and other outbreaks, which could significantly disrupt our operations.

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may give rise to severe interruptions, breakdowns, system failures or Internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide our products and services. Our business could also be adversely affected by the effects of diseases, including Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, COVID-19 or other epidemics.

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization (the “WHO”) declared the COVID-19 coronavirus outbreak a public health emergency of international concern and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. Our borrowers may be negatively impacted by COVID-19, including healthcare, travel, offline education, franchising, auto/transportation and real estate/home furnishing sectors, may reduce their liquidity to repay the loans, which may materially adversely impact our loan performance. The loan facilitation amount may also decrease as our institutional funding partners adjusted their strategies due to pessimistic expectations.

Our results of operations were adversely affected by the COVID-19 especially during the first half year of 2020. In the early onset of the third quarter of 2020, our business was already on track for a steady recovery and our business operation has returned to the pre-COVID-19 pandemic level. In 2021 and 2022, both our operational and financial results continued to show progress against our strategic objectives. In January, 2023, China officially started to manage COVID-19 as a Class-B infectious disease. The implementation of Class-B management of COVID-19 emphasizes more scientific, precise and efficient epidemic prevention and minimizes its disruptions in the economy and society. As many of the COVID-19 prevention measures had been lifted, the economy continues its rebound from the pandemic. However, the potential impact brought by and the duration of the COVID-19 outbreak are difficult to assess or predict and the full impact of the virus on our operations will depend on many factors beyond our control. While it is unknown how long these conditions will last and what the complete financial effect will be to our company, we are closely monitoring its impact on us. Our business, results of operations, financial conditions and prospects could be materially adversely affected to the extent that COVID-19 harms the Chinese and global economy in general, and the trading price of our ADSs may be adversely affected.

Our platform requires adequate funding and access to adequate lending capital on terms acceptable to us cannot be assured.

Our business involves matching of borrowers and funding sources for loans. The growth and success of our future operations depend on the availability of adequate funding to meet borrower demand for loans facilitated on our platform. In 2022, 97.3% of the total funding for loans we facilitated were provided by institutional funding partners and 2.7% of the total funding for loans we facilitated were provided by our capital. In order to maintain the requisite level of funding for the loans we facilitate to meet borrower demand, we will need to optimize the investor funding composition of our platform and establish long-term collaboration with our institutional funding partners.

However, our cooperation with banking financial institutions may be subject to restrictions stipulated under Circular 141, according to which banking financial institutions shall not receive credit enhancement services offered by any third party that lacks qualifications to provide guarantee, and shall ensure that such third party does not charge fees from borrowers. Under our existing cooperation model with banking financial institutions prior to the promulgation of Circular 141, some of our entities lacking the qualifications to provide guarantee also provide guarantee to certain funding arrangements with banking financial institutions. As a result, our banking financial institution partners may cease our cooperation under such existing business model, which may adversely affect our funding capabilities. In light of this regulatory development, we have reviewed and adjusted our cooperation with banking financial institution partners, such as suspending certain cooperation, to better comply with the regulatory requirements. We ceased the online intermediary model in April 2017. The online intermediary model refers to the initial provision of loans to P2P borrowers using our own funds through an intermediary and subsequent sale of such loans to P2P lenders by us. We gradually reduced the volume of loans facilitated through the offline intermediary model with funding from banking financial institution partners after December 31, 2017 due to regulatory requirement and completely ceased such operations in February 2018. The offline intermediary model refers to the initial provision of loans to borrowers on our platform using our own funds through an intermediary and subsequent sale of such loans to institutional funding partners. We cannot assure you, however, that we will be able to adopt a compliant business model vis-à-vis institutional funding partners in a timely manner, or at all, or that such business model will be sufficiently viable, which in turn may adversely affect our ability to obtain adequate funding to grow our business.

Beginning from late 2018, the local PRC governments gradually slowed down its acceptance and review of the application for the registration as an online lending information intermediary as required under the Interim Measures. We made a gradual shift with respect to funding sources from individual investors to institutional funding partners since early 2019 in response to the enhanced regulatory restrictions in the online consumer financing industry. In late December 2019, the government began to implement a regulatory policy encouraging companies that previously applied for the online lending information intermediary registration to obtain an online microcredit company permit instead. This change in policy has an implication that we will be no longer legally allowed to provide intermediary service to individual investors directly. At the end of 2019, we ceased funding our loan products from our individual investors through Xiaoying Wealth Management platform. We actively expanded institutional funding, such as banks, consumer finance companies, trust companies and other institutions, and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020. Furthermore, after obtaining an approval for our microcredit business in May 2021, we started to fund some new loans by our owned capital. As of December 31, 2022, 2.8% of the outstanding loans were funded by our own capital.

If the provision of services by financial institutional cooperators, such as insurance company and financing guarantee companies, becomes limited, restricted, or is rendered less effective or more expensive, our business may be materially and adversely affected.

6.66% of our outstanding loans were covered by the credit insurance products provided by ZhongAn as of December 31, 2022. We collaborate with various external financing guarantee companies and insurance company who provide guarantee/insurance services to protect institutional funding partners from losses. See “Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial institutional cooperators.” Although we have entered into a series of agreements relating to our ongoing business cooperation and service arrangement with our financial institutional cooperators, we cannot assure you that the provisions of services provided by such financial institutional cooperators will be renewed upon expiration of the agreements or continue to remain at the same level or on more favorable terms in the future. If any of such financial institutional cooperators ceases business collaboration with us, it may adversely affect our relationship with our users and institutional funding partners.

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In addition, given that Shenzhen Xiaoying and Shenzhen Xintang are both our consolidated VIEs, while we believe our past and current cooperation model with our financial institutional cooperators does not violate any prohibitive rules relating to Online Lending Information Services, including among others, provisions under the Interim Measures that prohibit providing any guarantee to lenders directly or in a disguised form by online lending information intermediaries or provisions under Circular 57 that prohibit setting aside risk reserve funds by online lending information intermediaries to protect investors against default, we cannot assure you that the regulators would hold the same view as ours. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Online Lending Information.” If our agreements with financial institutional cooperators were terminated or to be altered to our disadvantage, our business, results of operations and financial condition will be materially and adversely affected.

The protections offered by our financial institutional cooperators on our loan products significantly enhance the confidence of our institutional funding partners. We cooperated with Shenzhen Xintang, our consolidated VIE, to provide guarantees for certain loan products that we facilitate in the past. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. When in the event of default of the outstanding guaranteed loan products, Shenzhen Xintang will compensate those financial institutional cooperators for their payout amount to our investors in accordance with the agreements; however, Shenzhen Xintang’s compensation obligation shall not exceed a cap (“the pre-agreed Cap”) which is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in an annualized manner, as pre-agreed with those financial institutional cooperators separately. We may consider introducing other funding protection arrangements to our financial institutional cooperators or institutional funding. We cannot assure you that new arrangements would be perceived by them, which may have adverse impact on our business operations. If our financial institutional cooperators cease business collaboration with us, it may adversely affect our relationship with our institutional funding partners, who view on the protection offered by our financial institutional cooperators with importance.

We cannot assure you that our financial institutional cooperator will continue to provide its insurance or guarantee decision opinion, which is based on its credit analysis model, leveraging its resources and access to various databases, including PBOC CRC that is only available to licensed financial institutions. We are working with other partners with financial license on co-developing risk management capabilities. The denial of access to their insurance or guarantee decision opinion may materially and adversely impact our ability to assess the creditworthiness of prospective borrowers in the future. Any deterioration in our risk assessment capabilities may adversely affect the quality of transactions that we facilitate and we may experience higher delinquency rates, which may materially and adversely affect our business, results of operations and financial condition.

If we are unable to obtain adequate credit insurance under terms or conditions acceptable to us due to changes in the credit insurance regulations in China, our business, financial condition and results of operations would be materially and adversely affected.

On May 8, 2020, the CBIRC promulgated the *Measures for the Regulation of Credit Insurance and Guarantee Insurance*, or the Measures for the Credit Insurance and Guarantee Insurance, as amended on June 21, 2021, which repeals the *Interim Measures for the Supervision of Credit Guarantee and Insurance Business* issued on July 11, 2017. Pursuant to the Measures for the Credit Insurance and Guarantee Insurance, the insurance companies carrying out credit insurance and guarantee insurance (together, the “Credit and Guarantee Insurance”) businesses, such as ZhongAn, are required to comply with the regulatory requirements on solvency and ensure the overall size of business is appropriate for the capital strength of the company. When carrying out financing Credit and Guarantee Insurance business, insurance companies are required to pay particular attention to the underlying risks, fully assess the impact of Credit and Guarantee Insurance business on the solvency of the company, and duly perform liquidity risk management. The insurance companies have to establish more stringent internal control measures to ensure the compliance of the Credit and Guarantee Insurance business. Furthermore, the Measures for the Credit Guarantee and Insurance Guarantee sets out specific rules regarding insurance companies carrying out Credit and Guarantee Insurance business via Internet, under which the insurance companies shall cooperate with the financial institutions with lending qualifications and is required to publish material information in relation to insurance products, policy query links, customer complaint channels, information security, cooperative Internet agencies, which shall also be published by the cooperative Internet agencies in a prominent position on their business web pages. In addition, the balance of self-retained liability of the insurance company cannot exceed the respective limits as set forth in the Measures for the Credit Insurance and Guarantee Insurance.

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We have cooperated with ZhongAn to develop Credit and Guarantee Insurance products to secure insurance protection for the loans we facilitated. 6.66% of our outstanding loans were covered by the Credit and Guarantee Insurance products provided by ZhongAn as of December 31, 2022. If ZhongAn is unable to continue to provide the Credit and Guarantee Insurance with same terms and conditions, we may not be able to remain adequate Credit and Guarantee Insurance for our loan products as before, or may have to incur additional cost in purchasing such insurance from ZhongAn or other insurance companies. If we are unable to obtain adequate Credit and Guarantee Insurance for our loan products under terms or conditions acceptable to us, our business, financial condition and results of operations would be materially and adversely affected.

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

The State Council promulgated the Regulations on the Supervision and Administration of Financing Guarantee Companies, or Financing Guarantee Rules, on August 2, 2017, which became effective on October 1, 2017. Pursuant to the Financing Guarantee Rules, “financing guarantee” refers to the activities in which guarantors provide guarantee to the guaranteed parties as to loans, bonds or other types of debt financing, and “financing guarantee companies” refer to companies legally established and operating financing guarantee business. According to the Financing Guarantee Rules, the establishment of financing guarantee companies shall be subject to the approval by the competent government department, 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 penalties including ban or suspension of business, fines ranging from RMB500,000 to RMB1,000,000, confiscation of illegal gains if any, and if the violation constitutes a criminal offense, criminal liability shall be imposed in accordance with the law. We have cooperated with banks, trust companies, and other institutional funding partners who funded the loans for our borrowers. See “Item 4. Information on the Company—4.B. Business Overview—Our Investors and Institutional Funding Partners.” Under our current business model, some of our entities lacking the qualifications to provide financing guarantee are obligated to repay certain institutional funding partners the full overdue amount in case the borrowers fail to repay, or purchase the creditor’s rights of the underlying loan from certain institutional funding partners under certain circumstances.

In addition, prior to September 2017, we, at our sole discretion, paid ZhongAn for a majority of the loan principal and interest default but have not been subsequently collected through some of our entities lacking qualifications to provide financing guarantee. See “Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators.” In 2020, certain amount of deposits paid by Shenzhen Xintang to one of our institutional cooperators were actually provided by Shenzhen Xiaoying Puhui Technology Co., Ltd., a directly wholly owned subsidiary of Beijing WFOE, which were used to compensate for such institutional cooperator’s loss for the amount it had paid under investors’ claims arising from borrowers’ default to repay loans. Due to the lack of further interpretations, the exact definition and scope of “operating financing guarantee business” under the Financing Guarantee Rules is unclear. It is uncertain whether we would be deemed to operate financing guarantee business because of our cooperation model with our financial institutional cooperators, and our current arrangements with banks, trust companies and other institutional funding partners. As of the date of this annual report, we have not been subject to any fines or other penalties under any PRC laws or regulations related to financing guarantee business. Furthermore, given that Shenzhen Xiaoying and Shenzhen Xintang are both our consolidated VIEs, while we believe our past and current cooperation model with our financial institutional cooperators does not constitute providing any guarantee to lenders directly or in a disguised form by online lending information intermediary under Interim Measures or under Circular 57, we cannot assure you that the regulators would hold the same view as ours. Given the evolving regulatory environment of the financing guarantee business, we cannot assure you that we will not be subject to any fines, penalties or other liabilities, or be required in the future by the relevant governmental authorities to obtain approval or license for financing guarantee business to continue our collaboration with banks, trust companies and other institutional funding partners. If we are required to amend the current model or are no longer able to collaborate with banks, trust companies or other institutional funding partners at all, or become subject to penalties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

For the impact of Circular 141 and Circular 57 on our cooperation with institutional funding partners, see “Item 3. Key Information on the Company—3.D. Risk Factors—Risks Relating to Our Business and Industry—Our platform requires adequate funding and access to adequate lending capital on terms acceptable to us cannot be assured.”

Failure in our proprietary credit analysis and risk management system may materially and adversely affect our products and service.

We offer our products and services based on risk assessment conducted by our proprietary credit analysis and risk management system, which is strengthened by our financial institutional cooperators' insurance or guarantee decision opinion based on their credit analysis models. Our system uses machine learning and modeling techniques to analyze transaction and repayment data from loans that we facilitated and data from applicants and other third party sources. Even though we have accumulated a large amount of applicant data and extensive credit analysis experience to perform risk management analysis in our system, our credit analysis and risk management system may not be continuously effective as we continue to increase the amount of loans we facilitate, expand our borrower base and broaden our funding channels in the future. If our credit analysis model contains inaccurate assumptions or inefficiencies through model updates, or if the credit data and analysis we obtain are inaccurate or outdated, our credit analysis could be negatively affected, resulting in inaccurate decision.

If we are unable to effectively and accurately assess the credit profiles of applicants based on their credit profiles, we may either be unable to offer attractive service fee rates and products and services to borrowers, or unable to maintain low delinquency rates for loans we facilitate or to attract institutional funding partners. In addition, our credit analysis may not be able to provide more predictive assessments of future borrower behavior and result in better evaluation of our borrower base as compared to our competitors. Furthermore, our risk management model and system may not optimally protect our business against systemic risk. If our proprietary credit analysis and risk management system fails to perform effectively, our business, liquidity and results of operations may be materially and adversely affected.

If we are unable to maintain low delinquency rates for transactions facilitated by us, our business and results of operations may be materially and adversely affected. Further, historical delinquency rates may not be indicative of future results.

Our institutional funding partners may experience losses due to borrower defaults. The delinquency rate for all outstanding loans on our platform that were 31-60 days past due decreased from 1.48% as of December 31, 2021, to 1.02% as of December 31, 2022.

Our ability to attract and retain borrowers and institutional funding partners is significantly dependent on our ability to effectively assess a borrower's credit profile and maintain low delinquency rates. To conduct this assessment, we have employed a series of procedures and developed a proprietary credit assessment and decision model. Our credit scoring model aggregates and analyzes the personal information submitted by a prospective borrower as well as the data we collect from a number of internal and external sources, and then generates a credit assessment result for the prospective borrower. If our credit scoring model contains programming or other errors or the information provided by borrowers or third parties is incorrect or stale, our loan pricing and approval process could be negatively affected, resulting in misclassified loans or incorrect approvals or denials of loans. If we are unable to effectively and accurately assess the credit profiles of borrowers, we may be unable to maintain low delinquency rates of loans facilitated by our platform.

If widespread defaults were to occur, institutional funding partners may lose confidence in our platform and our financial institutional cooperators may cease business collaboration with us or increase their fees collectible from new borrowers or raise some unfavorable terms in the future, which may materially and adversely affect our business and results of operations. We are required to pay deposits to those financial institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. In 2020, we witnessed an increase in borrowers' defaulting rates. To maintain the collaborative relationship with one of our financial institutional cooperators and to avoid any material adverse impact on our current business model and future transaction cost, we used deposits amounting to RMB970.0 million to compensate for such institutional cooperator's loss for the amount it had paid under investors' claims arising from borrowers' default to repay loans in 2020. We have been expanding cooperation relationships with various financial institutional cooperators to reduce our risk of heavy dependency on certain financial institutional cooperators.

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Furthermore, for certain loan products that we facilitate in the past, we entered into a series of arrangements with various financial institutional cooperators and negotiate the upper limit of Shenzhen Xintang's compensation obligation prospectively at each quarter with these financial institutional cooperators based on the expected default rate. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. The portion that we are obligated to pay to those financial institutional cooperators but are not expected to be collected from the borrowers due to the estimated default or prepayment risk in relation to the guarantee fee is recorded in the change in fair value of financial guarantee derivative. Moreover, if the total amount of the compensation paid by those financial institutional cooperators to the insured investors or institutional funding partners exceeds the expected maximum payout amount for certain period, they are entitled to increase their fees collectible from new borrowers, which would impact our results of operations in the event we are unable to pass on such increase to new borrowers. In addition, when the delinquency rates of our loan products increase, we may also need to increase the guarantee fees that we are entitled from new borrowers. In the event we are not able to raise the APR to capture such increase in guarantee fees, our results of operations would be adversely affected. See "Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators —Credit Insurance and Guarantee Services" for more details. Therefore, if we are unable to maintain low delinquency rates for transactions we facilitated, our business and results of operations may be materially and adversely affected.

The data that we collect may be inaccurate due to inadvertent error or fraud. If we fail to detect inaccurate and false information, the performance of our credit analysis will be compromised, and our business, results of operations and brand and reputation will be negatively impacted.

We analyze data provided directly by applicants or with their authorization and data from third parties. The data we receive may not accurately reflect an applicant's creditworthiness because such data may be based on outdated, incomplete or inaccurate information due to inadvertent error or fraud. In addition, the completeness and reliability of consumer credit history information in the PRC is relatively limited. The People's Bank of China, or PBOC, has developed and put into use a national personal and corporate credit information database which remains relatively underdeveloped.

The data provided directly by an applicant to us may become outdated and inaccurate, as he or she may have, after providing the data to us:

- become delinquent in the payment of an outstanding obligation;
- defaulted on a pre-existing debt obligation;
- taken on additional debt; or
- sustained other adverse financial events.

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We conduct data screening to detect inaccurate information and improve the quality of the data input for our credit analysis model. However, our data screening and anti-fraud systems may be insufficient to accurately detect inaccurate and fraudulent information. Such inaccurate or fraudulent information could compromise the accuracy of our credit analysis and adversely affect the effectiveness of our control over our delinquency rates. We may not be able to recoup funds underlying loans made in connection with inaccurate or fraudulent data, which may materially and adversely affect our results of operations. To better assess a borrower's creditworthiness, we consult our institutional cooperators for their credit analysis and cooperate with third party credit agencies and databases for credit data of borrowers. However, due to the underdevelopment of an industry-wide information sharing arrangement, we are unable to determine whether applicants have outstanding loans through other online lending platforms at the time when they obtain a loan from us or the aggregate amount borrowed by a borrower through our platform and other online lending platforms. This creates the risk that a borrower may borrow money through us in order to pay off loans on other online lending platforms and vice versa. The additional debt may adversely affect the borrower's creditworthiness generally, and could result in the financial distress or insolvency of the borrower, impairing the borrower's ability to repay the loan and the investor and institutional funding partner's ability to receive repayment of such loan. In addition, if a borrower incurs debt on other online lending platforms in order to repay our loans, the borrower's ability to repay such loans is limited by the availability of funding sources subject to factors beyond the borrower's control, which may adversely affect our results of operations. For example, the release of Circular 141 and Circular 57 in December 2017 tightened industry regulations and resulted in an unexpected short-term volatility of borrower credit performance across our industry. Online lending platforms have ceased extending "cash loans" with the four characteristics as defined under Circular 141 and a number of online lending platforms significantly altered their business models or suspended operations altogether. The impact is relatively more acute on products with short term and small loan balance, such as Xiaoying Card Loans, as borrowers previously used to be able to easily borrow from other online lending platforms to fund their repayment. The release of Circular 141 and Circular 57 led to liquidity shortage for certain borrowers who relied on other lending platforms to repay Xiaoying Card Loans.

In addition, a significant increase in fraudulent activities could negatively impact our brand name and reputation, discourage institutional funding partners from investing in loans on our platform, reduce the amount of loans facilitated to borrowers and make it necessary to take additional steps to reduce fraud risk, which could increase our costs. High profile fraudulent activities could even lead to regulatory intervention, and may divert our management's attention and cause us to incur additional expenses and costs.

Although we have not experienced any material business or reputational harm as a result of fraudulent activities or inaccurate information in the past, we cannot rule out the possibility that inaccurate information or fraudulent activities may materially and adversely affect our business, financial condition and results of operations in the future.

We may be required to obtain or reapply for additional value-added telecommunication business licenses.

PRC regulations impose sanctions on entities for engaging in the provision of telecommunication business of a commercial nature without having obtained a value-added telecommunication business license. If we fail to obtain licenses required for our business, we could be subject to sanctions including corrective orders and warnings from the PRC telecommunication administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites and mobile applications may be ordered to cease operation.

Pursuant to the Interim Measures, we are required to apply for appropriate telecommunication business operation permit, i.e., the value-added telecommunication business license, in accordance with relevant provisions of competent communication departments after we have completed the registration of online lending intermediary with local financial regulatory authority. The local government authority has not yet issued the relevant implementation rules regarding such filing and therefore we cannot assure you we will be able to make the necessary filing or apply for the value-added telecommunication business license. Even if we have obtained the telecommunication business license, we may also be subject to monetary penalty or suspension of operation and rectification by the telecommunication administrations if we fail to operate the business as prescribed in the telecommunication operating licenses, or fail to operate the business as regulated by the telecommunications administration or other regulatory authorities.

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Given the evolving regulatory environment of the consumer finance industry and value-added telecommunication business, we cannot rule out the possibility that the PRC communication administration authority or other government authorities will explicitly require any of our consolidated VIEs or subsidiaries of our consolidated VIEs to obtain Internet content provider licenses, or ICP licenses, online data processing and transaction processing licenses, or ODPTP licenses or other value-added telecommunication business licenses, or issue new regulatory requirements to institute a new licensing regime for our industry. If such value-added telecommunication business licenses are required in the future, or a new license regime is introduced or new regulatory rules are promulgated, we cannot assure you that we would be able to obtain any required license or other regulatory approvals in a timely manner, or at all, which would subject us to the sanctions described above or other sanctions as stipulated in the new regulatory rules, and materially and adversely affect our business and impede our ability to continue our operations.

Additionally, according to *Guidance on Regulating Asset Management Business of Financial Institutions*, or the Guidance, which was promulgated jointly by the PBOC, China Insurance Regulatory Commission (“CIRC”), CSRC and the State Administration of Foreign Exchange (“SAFE”) on April 27, 2018, only financial institutions, such as banks, trusts, securities, funds, futures, insurance asset management agencies and financial asset investment companies, can operate asset management business. As ancillary services that we currently provide are not “asset management business” as defined in the Guidance or other applicable Laws and Regulations, we do not believe that we would be subject to the Guidance. However, we cannot assure you if the money market products offered by the relevant financial institutions to which we provide the ancillary services will not be ceased pursuant to the Guidance.

Nevertheless, the interpretation and the enforcement of such regulations in the context of online consumer finance industry remains uncertain, and therefore, it is unclear what kind of value-added telecommunication business licenses we should obtain. Given the evolving regulatory environment of the consumer finance industry and value-added telecommunication business, we cannot rule out the possibility that the PRC communication administration authority or other government authorities will explicitly require any of our consolidated VIEs or subsidiaries of our consolidated VIEs to obtain Internet content provider licenses, or ICP licenses, online data processing and transaction processing licenses, or ODPTP licenses or other value-added telecommunication business licenses, or issue new regulatory requirements to institute a new licensing regime for our industry.

In addition, the Telecommunications Regulations promulgated by the State Council and its related implementation rules, including a catalog issued by the Ministry of Industry and Information Technology, or MIIT, categorize various types of value-added telecommunications services. Under the Telecommunications Regulations, e-commerce operator may be required to obtain an online data processing and transaction processing license, or ODPTP license. Our online shopping mall may be required to obtain ODPTP license.

If such value-added telecommunication business licenses are clearly required in the future, or a new license regime is introduced or new regulatory rules are promulgated, we cannot assure you that we would be able to obtain or maintain any required license or other regulatory approvals in a timely manner, or at all, which would subject us to the sanctions described above or other sanctions as stipulated in the new regulatory rules, and materially and adversely affect our business and impede our ability to continue our operations.

In addition, as certain shareholder of the VIEs has changed his nationality, our consolidated VIEs may be deemed as foreign-invested telecommunications enterprises. Therefore, we are required to reapply for the ICP licenses as foreign-invested telecommunications enterprises. However, we cannot assure you that we will be able to complete such procedure in a timely manner, or even at all. In addition, we cannot assure you that we will be able to comply with these laws and regulations in all respects. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect its business, financial condition, results of operations and reputation.

If our products and services do not achieve sufficient market acceptance, our financial condition, results of operations and competitive position will be materially and adversely affected.

We intend to broaden the scope of products and services that we offer, while we may not be successful in doing so. New products and services must achieve a certain level of market acceptance in order for it to be economically feasible for us to bear the default risks associated with them and recoup our investment costs in developing and bringing them to market. Our existing or new products and services could fail to attain sufficient market acceptance for many reasons, including:

- our failure to predict market demand accurately and supply attractive and increasingly personalized products and services at appropriate prices and in amount that meet this demand in a timely fashion;

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- our existing products and services may cease to be popular among current borrowers and institutional funding partners or prove to be unattractive to prospective borrowers and institutional funding partners;
- our failure to assess risk associated with new products and services and to properly price such products and services;
- negative publicity about our products and services or mobile applications' performance or effectiveness;
- critical assessment taken by regulatory authorities that the launch of new products and services and changes to our existing products and services do not comply with PRC laws, regulations or rules applicable to us; and
- the introduction or anticipated introduction of competing offerings by competitors.

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

Increases in market interest rates could negatively affect the amount of loans facilitated by us and cost of funds provided to borrowers.

The total borrowing costs of all loans facilitated by us are fixed, including the fixed service charged by us or our financial institutional cooperators and interest rates charged by our institutional funding partners. If prevailing market interest rates rise, the service fee rates and interest rates of loans we facilitate may rise accordingly, and borrowers may be less likely to accept such adjusted terms. If borrowers decide not to use our products because of such an increase in market interest rates, our ability to retain existing borrowers and engage prospective borrowers as well as our competitive position may be severely impaired. If we are unable to effectively manage such market interest rate risk, our business, profitability, results of operations and financial condition could be materially and adversely affected.

Any harm to our brand or reputation or any negative publicity about the parties that we collaborate with may materially and adversely affect our business and results of operations.

Enhancing the recognition and maintaining the reputation of our brand is critical to the current performance and future growth of our business and competitiveness, since this initiative affects our ability to better attract and serve consumers and to maintain and expand our relationship with institutional funding partners. Factors that are vital to this objective include our ability to:

- maintain the effectiveness, quality and reliability of our systems;
- provide consumers with satisfactory services;
- engage a large number of quality borrowers with low delinquency rate;
- improve our credit analysis and risk management system;
- effectively manage and resolve user complaints; and
- effectively protect personal information and privacy of users.

Any malicious or otherwise negative allegation made by the media or other parties about our company, including our management, business, compliance with law, financial condition, prospects or our historical business operations, whether with or without merit, could severely hurt our reputation and harm our business and results of operations.

In addition, certain factors that may adversely affect our reputation are beyond our control. Negative publicity about parties that we collaborate with in the operation of our business, including negative publicity about any failure by them to adequately protect the information of their users, to comply with applicable laws and regulations or

to otherwise meet required quality and service standards, could also harm our reputation or result in negative perception of the products or services we offer. Although we selectively establish collaboration relationships with reliable third parties, we cannot assure you that they will not conduct any unsatisfactory, inappropriate or illegal actions that will damage our reputation and brand, which consequently could cause our business to be harmed.

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

Our current business is connecting institutional funding partners with individual borrowers, which constitutes an intermediary service. Our contracts with institutional funding partners and borrowers are intermediation contracts under the PRC Civil Code. Under the PRC Civil Code, an intermediary that intentionally conceals any material information or provides false information in connection with the conclusion of an intermediation contract, which results in harm to the client's interests may not claim for any service fee for its intermediary services, and is liable for any damage incurred by the client. Therefore, if we fail to provide true and accurate information to institutional funding partners in time and in full, and are found to be at fault for failure or deemed failure to exercise proper care, or to conduct adequate information verification or supervision, we could be subject to liabilities as an intermediary under the PRC Civil Code. In addition, the Interim Measures and the Inspection Notice have imposed on online lending information intermediaries, including us, additional obligations to verify the truthfulness of the information provided by or in relation to loan applicants and to actively detect fraud, conduct risk evaluation of lenders, categorize lenders and disclose the risk information on borrowers to the lenders. We leverage a large database of past fraud accounts information and sophisticated rule-based detection technology in detecting fraudulent behaviors. Based on new data collected and fraudulent behaviors detected during our daily business operations, we update our database on a monthly basis. As the Interim Measures are relatively new, it is still unclear to what extent online lending information intermediaries should exercise care in detecting fraud. Although we believe that as an information intermediary, we should not bear the credit risk for institutional funding partners as long as we take reasonable measures to detect fraudulent behaviors, we cannot assure you that we would not be subject to any liabilities under the Interim Measures if we fail to detect any fraudulent behavior. If that were to occur, our results of operations and financial condition could be materially and adversely affected.

We may face regulatory risk as we indirectly charge our borrowers in the manner that our borrowers are not aware

External financing guarantee companies that we cooperate provide guarantee for a number of loans if our borrowers fail to repay. The financing guarantee companies that we cooperate charge borrowers a guarantee fee, a portion of which will be subsequently paid to us by the financing guarantee companies as the service fee for the intermediary service we provide. We cooperated with Shenzhen Xintang, our consolidated VIE, to provide guarantees for certain loan products that we facilitate in the past. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. The Announcement 3 states that all institutions engaged in loan business shall display annual loan interest rate to borrowers in an obvious way when marketing through websites, mobile applications, posters and other channels and that the annual loan interest rate shall be the ratio, on an annualized basis, of all the loan-related costs charged on the borrower to the loan principal actually occupied. According to the Interim Measures, an online lending information intermediary shall agree with lenders and borrowers on the service fee standards and payment. However, our borrowers are not aware of the fact that we actually charge service fees and the manner in which such fees are charged. Therefore, our business practices and the way we collect service fees may be considered by the regulatory authorities as a violation of regulations and we may be subject to administrative penalties. If we were imposed penalties or forced to adjust the way by which we charge fees, there will be an adverse impact on our business, financial condition, and operating results.

We finance certain loans offered with our own funds, which may subject us to regulatory risks.

We had partially financed certain undersubscribed loans with our own funds in the past to increase matching rate and enhance borrowers' experiences on our platform. We gradually reduced such practices after August 2016 when the Interim Measures, which prohibits online finance information intermediaries from investing in loans using their own funds unless otherwise stipulated by laws and regulations, was promulgated, and completely ceased such practices in April 2017. As of the date of this annual report, we have not been subject to any fines or other penalties due to the fact that certain historical loans on our platform were partially funded with our own funds before the Interim Measures taking effect but remained outstanding afterwards.

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In the past, we initially provided credit using our own funds to our borrowers and subsequently sold the loans including the creditor's rights in the loans to investors on our P2P platform or to institutional funding partners. We completely ceased such practices with investors on our P2P platform in April 2017. We also gradually reduced such practices with banking financial institution partners after December 31, 2017 and completely ceased such practices in February 2018. In our current operation model, certain loans are initially advanced by unaffiliated third parties who will subsequently transfer such loans to us. We, as the intermediary, will when transfer such loans to third parties. While we do not believe that such acquired loans from existing lenders are prohibited under the Interim Measures, we cannot assure you that such practice would not be deemed by the PRC authorities as illegal provision of loans to the general public or illegally granting loans without the PBOC's permit, which are prohibited by relevant PRC laws and regulations. If such practices were found to violate the Interim Measures or other relevant PRC laws and regulations, we might be subject to fines, penalties or other liabilities, which could materially and adversely affect our business, financial condition and prospects.

Beginning from late 2018, the local PRC governments gradually slowed down its acceptance and review of the application for the registration as an online lending information intermediary as required under the Interim Measures. We made a gradual shift with respect to funding sources from individual investors to institutional funding partners since early 2019 in response to the enhanced regulatory restrictions in the online consumer financing industry. In late December 2019, the government began to implement a regulatory policy encouraging companies that previously applied for the online lending information intermediary registration to obtain an online microcredit company permit instead. This change in policy has an implication that we will be no longer legally allowed to provide intermediary service to individual investors directly. At the end of 2019, we ceased funding our loan products from our individual investors through Xiaoying Wealth Management platform. We actively expanded institutional funding, such as banks, consumer finance companies, trust companies and other institutions, and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020.

In addition, we have obtained a letter from the Local Financial Regulatory Bureau of Shenzhen Municipality on May 12, 2021, stating the approval of the business qualification of Xiaoying Microcredit for microcredit business from the relevant local authority and have started our microcredit business in July 2021. As of December 31, 2022, 2.8% of our outstanding loans is funded by our own capital. 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 Xiaoying Microcredit will be able to maintain or renew its business qualification for microcredit business if the draft measures are implemented. Although we believe that Xiaoying 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 Xiaoying Microcredit but are unable to maintain or renew the business qualification for microcredit business or obtain any other requisite approvals, licenses or permits, our business, financial condition and results of operations would be materially and adversely affected.

We are subject to risks associated with other parties with which we collaborate. If we cannot effectively cooperate with such other parties or if such other parties fail to perform or provide reliable or satisfactory services, our business, financial condition and results of operations may be materially and adversely affected.

We collaborate with certain third parties across various aspects of our business operation, including user acquisition partners, other institutions from which we obtain information for our credit assessment model and risk management system, guarantee providers for certain loans we facilitated and our cloud computing service provider.

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These parties may not be able to provide accurate and complete data, sufficiently or timely perform guarantee obligations over the defaulted loans that we facilitated or provide satisfactory services to us, borrowers and institutional funding partners on commercially acceptable terms or at all. Any failure by these parties to continue with good business operations, comply with applicable laws and regulations, in particular, the relevant laws and regulations in collecting and distribution personal information, or any negative publicity on these parties could damage our reputation, expose us to significant penalties and decrease our total revenues and profitability. Also, if we fail to retain existing or attract new quality parties to collaborate with, our ability to retain existing borrowers and institutional funding partners, engage prospective borrowers and institutional funding partners may be severely limited, which may have a material and adverse effect on our business, financial condition and results of operations. In addition, certain of these other parties that we collaborate with have access to our user data to a limited extent in order to provide their services. If these other parties engage in activities that are negligent, illegal or otherwise harmful to the trustworthiness and security of our products or system, including the leak or negligent use of data, or users are otherwise dissatisfied with their service quality, we could suffer reputational harm and experience a decrease in users, even if these activities are not related to, attributable to or caused by us.

In addition, we offer money market products managed by qualified asset management institutions on our platform and provide traffic referral service. Pursuant to the Compliance Checklist, the online lending information intermediaries shall not provide access to financial products offered by other institutions without a prior regulatory permit and shall not advertise such financial products. Due to the lack of detailed implementation rules to the Compliance Checklist, we cannot assure you that our practice will be not deemed as violation of the Compliance Checklist. We may be required to adjust our business practice and our cooperation with third party institutions may be materially and adversely affected.

If our ability to collect delinquent loans is impaired, there is any decline or depreciation in the value of collaterals or there is misconduct in payment collection, our business and results of operations might be materially and adversely affected.

We have implemented internal payment and collection policies and practices designed to optimize the repayment process. We also engage several third party collection service providers to assist us with payment collection from time to time. However, we may not receive payments as expected on loans that we facilitate. Even though certain of our loan products are secured by borrowers' collaterals, there might be a decline or depreciation in the value of collaterals, which could reduce the amount of proceeds we can get from the collateral in the event of a borrower's default. Upon a borrower's default, we will classify the defaulting borrowers into different risk levels based on the type of loan products, outstanding amount, delinquent days and historical repayment pattern. The third party collection agencies that we engaged will make phone calls, send text messages, in-person visit and claim lawsuits to the defaulting borrower to request repayment. In particular, the third party collection agencies that we engage may not possess adequate resource and manpower to collect payment on and service the loans we facilitated.

Moreover, the current regulatory regime for debt collection in the PRC remains unclear. In 2018, we refined and strengthened our administration on collection policies and practices in consideration of the regulatory development with respect to the debt collection in the PRC consumer finance industry. As a result, we may not be able to maintain our efficiency level to collect payments from borrowers and the delinquency rates for our loan products may increase. We cannot assure you that the third party collection personnel will not engage in any misconduct as part of their collection efforts. Any such misconduct by our collection personnel or the perception that our collection practices are considered to be aggressive and not compliant with the relevant laws and regulations in the PRC may result in harm to our reputation and business, which could further reduce our ability to collect payments from borrowers, lead to decrease in the willingness of prospective borrowers to apply for loans or 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 are unable to provide a high-quality user experience, our reputation and business may be materially and adversely affected.

The success of our business largely depends on our ability to provide a high-quality user experience, which in turn depends on factors such as: (i) our ability to estimate future borrowing requests from our users, (ii) our ability to continue to offer products and services at competitive service fee rates, (iii) our ability to provide a reliable and user-friendly mobile application user interface for users and our ability to further improve and streamline our online loan application and approval process. As of December 31, 2022, substantially all of the transactions were completed through our mobile application. If users are not satisfied with our level of service when we failed to provide sufficient loans to our users, or if our system is severely interrupted or otherwise fails to meet user requests, for example, the users have to wait for days to receive their loan application results or our mobile app is constantly disrupted due to system failure and breakdown, our reputation could be adversely affected and we could fail to maintain user loyalty.

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Our ability to provide high-quality user experience also depends on the quality of the products and services provided by our business partners over which we have limited or no control. In the event that a user is dissatisfied with the quality of the products and services provided by our business partners, we do not have any means to directly make improvements in response to user complaints, and our business, reputation, financial performance and prospects could be materially and adversely affected.

In addition, we depend on our user service hotline and WeChat online user service center to provide certain services to our users. If our user service representatives fail to provide satisfactory service, or if waiting time is too long due to the high volume of calls from borrowers at peak times, our brands and user loyalty may be adversely affected. In addition, any negative publicity or poor feedback regarding our user service may harm our brands and reputation and in turn cause us to lose users and market share. As a result, if we are unable to continue to maintain or enhance our user experience and provide a high quality user service, we may not be able to retain users or attract prospective users, which could have a material adverse effect on our business, financial condition and results of operations.

Failure to manage our liquidity and cash flows may materially and adversely affect our financial condition and results of operations.

We had negative cash flows from operating activities of RMB679.2million in 2020, positive cash flow from operating activities of RMB449.2 million in 2021, and positive cash flows from operating activities of RMB322.7 million (US\$46.8 million) in 2022. We cannot guarantee that we will not have negative cash flows in the future. We collect the service fees on a monthly basis and interests on a monthly basis from the borrowers. Inability to collect payments from users, borrowers in particular, in a timely and sufficient manner may adversely affect our liquidity, financial condition and results of operations.

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

Historically, we have issued equity securities to support the growth of our business. As we intend to continue to make investments to support the growth of our business, we may require additional capital to accomplish our business objectives and pursue business opportunities, and respond to challenges or unforeseen circumstances, including developing new products and services, further enhancing our risk management capabilities, increasing our marketing expenditures to improve brand awareness and enhancing our operating infrastructure. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them, on terms acceptable to us, or at all. In the event that we obtain debt financing, repayment of debt may divert a substantial portion of cash flow, which would reduce funds available for expenses and payment pursuant to other general corporate purposes.

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

Our marketing efforts are critical to our performance and future growth, and if we are unable to promote and maintain our brands in an effective and cost-efficient way, our business and financial results may be harmed.

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

Our efforts to build our brands may cause us to incur significant expenses. These efforts may not result in increased revenue in the immediate future. Even if they do, any increases in revenue may not offset the expenses incurred. If we fail to successfully promote and maintain our brands while incurring substantial expenses, our results of operations and financial condition would be adversely affected, which may impair our ability to grow our business.

Undetected errors or significant disruption in our IT system, including events beyond our control, could prevent us from offering our products and services, thereby reducing the attractiveness of our products and services and resulting in a loss of borrowers.

Our business and internal systems rely on software and processes that are highly technical and complex. In addition, our business depends on the abilities of these software and processes to store, retrieve, process and manage large amounts of data. The software and processes on which we rely have contained, and may now or in the future contain, errors or bugs. Some errors may only be discovered after the code has been released for external or internal use.

In addition, in the event of a system outage and physical data loss, our ability to provide products and services would be materially and adversely affected. The reliability, availability and satisfactory performance of our technology and our underlying network infrastructure are critical to our operations, user service, reputation and our ability to attract new and retain existing borrowers and institutional funding partners. Our information technology systems infrastructure is currently deployed and our data is currently maintained on customized computing services in China. Our operations depend on the service provider's ability to protect its and our systems in its facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or hackers' attempts to harm our systems, criminal acts and other similar events. Moreover, if our arrangement with this service provider is terminated or if there is a lapse of service or damage to their facilities, we could experience interruptions in our service as well as delays and additional expense in providing products and services to our borrowers and institutional funding partners.

Any interruptions or delays in our service, whether as a result of third party error, our error, natural disasters or security breaches, whether willful or not, could harm our reputation and our relationships with borrowers and institutional funding partners. Additionally, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. We also may not have sufficient capacity to recover all data and services in the event of an outage. These factors could prevent us from processing loan applications and other business operations, damage our brand name and reputation, divert our employees' attention, reduce our revenue, subject us to liability and discourage users from using our products and services, any of which could adversely affect our business, financial condition and results of operations.

Misconduct, errors and failure to function by our employees and parties we collaborate with could harm our business and reputation.

We are exposed to the risk of misconduct and errors by our employees and parties that we collaborate with. Our business depends on our employees and/or business partners to interact with users, process large numbers of transactions and support the loan collection process. We could be materially and adversely affected if the 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. It is not always possible to identify and deter misconduct or errors by our employees and other business partners, and the precautions we take to detect and prevent such activities may not be effective in controlling unknown or unmanageable risks or losses. If any of our employees and other business partners misuse or misappropriate funds, commit fraud or other misconduct or fail to follow our rules and procedures when interacting with our users 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, and therefore be subject to civil or criminal liability. In addition, we have engaged certain third party service providers for loan collection services. Aggressive practices or misconduct by any of our third party service providers in the course of collecting loans could damage our reputation.

Any of these occurrences could result in our diminished ability to operate our business, potential liability to users inability to attract users reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

If we are unable to protect the confidential information of our users and adapt to the relevant regulatory framework regarding protection of such information, our business and operations may be adversely affected.

We have access to, store and process certain personal information and other sensitive data from our users and our business partners, which makes us an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. We have taken steps to protect confidential information that we have access to, and while we have been targeted previously from cybersecurity attacks, none of which were successful or had a material adverse impact to our operations historically. However, because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential user information to be stolen and be used for criminal purposes.

We also face indirect technology, cybersecurity and operational risk relating to the third parties upon whom we rely to facilitate or enable our business activities, including, among others, third party online payment service providers who manage accounts for funds. Any cyber-attack, computer viruses, physical or electronic break-ins or similar disruptions of such third party payment service providers could, among other things, adversely affect our ability to serve our users.

Security breaches or unauthorized access to confidential information could expose us to liability related to the loss of information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users could be severely damaged, we could incur significant liability and our business and operations could be adversely affected.

In addition, PRC government authorities have enacted a series of laws and regulations in regard of the protection of personal information, under which internet service providers and other network operators are required to comply with the principles of legality, justification and necessity, to clearly indicate the purposes, methods and scope of any information collection and usage, and to obtain the consent of users, as well as to establish a user information protection system with appropriate remedial measures. We have obtained consent from our users to use their personal information within the scope of authorization and we have taken technical measures to ensure the security of such personal information and to prevent any loss or divergence of personal information from. However, there is uncertainty as to the interpretation and application of such laws. On August 20, 2021, the Standing Committee of the National People's Congress promulgated the Personal Information Protection Law of the PRC, or the Personal Information Protection Law, which took effect on November 1, 2021. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (i) an individual's consent shall be obtained to use sensitive personal information, (ii) personal information operators using sensitive personal information shall notify individuals of the necessity of such use and impact on the individual's rights, and (iii) where it is necessary for personal information to be provided by a personal information processor to a recipient outside the territory of the PRC due to any business need or any other need, a security assessment organized by the national cyberspace authority shall be passed. If such laws or regulations are to be interpreted and applied in a manner inconsistent with our current policies and practices, changes to the features of our system may be required and additional costs incurred. We cannot assure you that our existing user information protection system and technical measures will be considered sufficient under applicable laws and regulations. If we are unable to address any information protection concerns, or to comply with the then applicable laws and regulations, we may incur additional costs and liability and our reputation, business and operations might be adversely affected. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations on Internet Information Security" for details.

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On June 1, 2017, the PRC Cybersecurity Law became effective. The law requires network products and services providers as we are, among other things, to strictly preserve the secrecy of user information they collect and to store within mainland China data that is gathered or produced by such network products and services provider in the country. If we are deemed to have violated the law, potential penalties include, depending on the nature of violation, regulatory warning, correction order, forced shut down of our websites, suspension of operation revocation of business licenses, confiscation of illegal gains, and fines imposed on the company ranging from approximately RMB10,000 to RMB1 million or management personnel ranging from approximately RMB5,000 to RMB1 million. On June 10, 2021, the Standing Committee of the National People's Congress promulgated the Data Security Law of the PRC, or Data Security Law, which took effect on September 1, 2021. The Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system. The Data Security Law also provides that the state shall establish a data security review system, where data handling activities that affect or may affect the national security will undergo national security review, and shall implement export controls on certain data. On July 7, 2022, the CAC published the *Outbound Data Transfer Security Assessment Measures* that took effect on September 1, 2022 and outline the potential security assessment process for outbound data transfer. Under the Outbound Data Transfer Security Assessment Measures, data processors that provide important data and personal information outbound that are collected or produced through operations within the territory of the PRC, where a security assessment shall be conducted according to the law, shall apply to the provisions of these Measures. Under the Outbound Data Transfer Security Assessment Measures, data processors providing outbound data shall apply for outbound data transfer security assessment with the CAC in any of the following circumstances: (i) where a data processor provides important data abroad; (ii) where a critical information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information abroad; (iii) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year; and (iv) other circumstances prescribed by the CAC for which declaration for security assessment for outbound data transfers is required. The Outbound Data Transfer Security Assessment Measures also provide procedures for security assessment and submissions, important factors to be considered in conducting assessment, and legal liabilities of a data processor for failure to apply for assessment.

Due to the relatively new nature of the PRC Cybersecurity Law, Data Security Law and Outbound Data Transfer Security Assessment Measures as well as the lack of clarification in the statutory law itself as to the circumstances and standard under which the law should apply and violations be found, there are great uncertainties as to the interpretation and application of the law. The law's vagueness in its own statutory language also indicates that the CAC, the designated government enforcement agency, will have broad latitude to direct how the law is interpreted and enforced, thus creating greater uncertainties with regard to the interpretation and application of the law since the government enforcement agency has yet to provide further guidance on the enforcement mechanism of the law. If we are found to have violated the PRC Cybersecurity Law, Data Security Law and Outbound Data Transfer Security Assessment Measures in a government enforcement action, we may face severe penalties that may result in monetary losses, losses of access to assets essential for daily operation of our business or for the continuance of service provision, and temporary or total disruption of our business for an extended period of time. In addition, the finding of a violation of the PRC Cybersecurity Law, Data Security Law and Outbound Data Transfer Security Assessment Measures, even if later repealed, may cause damages to our reputation and our brand name, causing users to lose confidence in our service and to refrain from choosing or continuing to use our products and services. All of these consequences may have a material adverse impact on our business, financial condition and results of operations.

Furthermore, the stringent reporting obligation imposed by the PRC Cybersecurity Law, Data Security Law and Outbound Data Transfer Security Assessment Measures, without a finding of violation, may have a material adverse impact on our business and results of operations. As we are obligated by the laws to inform our users of any security flaw or vulnerability as they are discovered, users may become wary of the existence or frequency of such reports and lose confidence in the security of our system, thus discouraged from choosing or continuing to use our products and services, even though the security flaws or vulnerabilities are readily fixed and overcome.

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

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the New York Stock Exchange, or NYSE. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. However, in connection with the audits of our consolidated financial statements for the year ended December 31, 2020 and 2021, we and our independent registered public accounting firm identified three material weaknesses as of December 31, 2020 and 2021, which related to (1) our lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge for the purpose of financial reporting as well as the lack in formal accounting policies and procedures manual to ensure proper financial reporting in accordance with U.S. GAAP and SEC reporting requirements; (2) our internal audit function is still in the process of establishing formal risk assessment process and internal control framework; and (3) there was not adequate management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP. In 2022, we implemented a number of measures to address above material weakness that were identified. As of December 31, 2022, based on an assessment performed by our management on the performance of the above mentioned remediation measures, we determined that the material weaknesses previously identified in our internal control over financial reporting had been partially remedied and we evaluated that one material weakness in our internal control over financial reporting remained as of December 31, 2022, which related to insufficient financial reporting and accounting technical resources with sound US GAAP knowledge related certain technical areas. Our management has concluded that our internal control over financial reporting was ineffective as of December 31, 2022, due to the material weaknesses in internal control over financial reporting identified above. See “Item 15. Controls and Procedures.”

In addition, once we cease to be an “emerging growth company” as the term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. This will require that we incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. Prior to our initial public offering, we were a private company with limited accounting personnel and other resources with which to address our internal controls and procedures, and we were never required to test our internal controls within a specified period, and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner.

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

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of our ADSs could decline and we could be subject to sanctions or investigations by the NYSE, SEC or other regulatory authorities.

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

We regard our trademarks, domain names, copyrights, know-how, proprietary technologies and similar intellectual properties as critical to our success, and we rely on trademark and trade secret law, confidentiality agreement, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. See “Item 4. Information on the Company—4.B. Business Overview—Intellectual Property” and “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Related to Intellectual Property.” However, we cannot assure you that any of our intellectual property rights would not be challenged, invalidated, circumvented or misappropriated, or that such intellectual property will be sufficient to provide us with competitive advantages. Because of the rapid pace of technological development, we cannot assure you that all of our proprietary technologies and similar intellectual property will be patented in a timely or cost-effective manner, or at all. Furthermore, parts of our business rely on technologies developed or licensed by other parties, or co-developed with other parties, and we may not be able to obtain or continue to obtain licenses and technologies from these other parties on reasonable terms, or at all.

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

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

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights held by other parties. We may unknowingly infringe on other parties’ trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights through our products and services or other aspects of our business. As a result, we may be subject to legal proceedings and claims relating to the intellectual property rights of others from time to time in the future. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any infringement claims are brought against us, we may be forced to divert management’s time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the interpretation and application of China’s intellectual property right laws and the procedures and standards for protecting trademarks, copyrights, knowhow, proprietary technologies or other intellectual property rights in China are uncertain and still evolving, 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 or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business and results of operations may be materially and adversely affected.

We may be subject to risks related to litigation and regulatory proceedings.

We may be, and in some instances have been, subject to claims, lawsuits (including class actions and individual lawsuits), regulatory and government investigations, and other proceedings relating to intellectual property, consumer protection, privacy, labor and employment, import and export practices, competition, securities, tax, marketing and communications practices, contracts, commercial disputes and various other matters. We may also be subject to claims or lawsuits for infringement or violation of third party intellectual property rights. The number and significance of our legal disputes and inquiries have increased as we have grown larger, as our business has expanded in scope and geographic reach, and as our services have increased in complexity.

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Moreover, having become a public company has raised our public profile, which may result in increased litigation as well as increased public awareness of any such litigation. In addition, we may be target of securities class action and derivative lawsuits. We will need to defend against such lawsuits, including any appeals, and we may also initiate legal proceedings to protect our rights and interests. There is substantial uncertainty regarding the scope and application of many of the laws and regulations to which we are subject, which increases the risk that we will be subject to claims alleging violations of those laws and regulations. There can be no assurance that we will prevail in any such cases, and any adverse outcome of these cases could have a material adverse effect on our reputation, business and results of operations.

Regardless of the outcome of any particular claim, lawsuit, investigation, dispute or proceeding, any of these types of legal proceedings can have a material and adverse impact on us due to their costs, diversion of our resources, and other factors. We may decide to settle legal disputes on terms that are unfavorable to us. Furthermore, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that we may not choose to appeal or that may not be reversed upon appeal. In addition, the terms of any settlement or judgment in connection with any legal claims, lawsuits, or proceedings may require us to cease some or all of our operations, or pay substantial amounts to the other party and could materially and adversely affect our business, financial condition and results of operations.

Any failure by us, or institutional funding partners or payment service providers to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations could damage our reputation, expose us to significant penalties, and decrease our revenues and profitability.

On September 29, 2018, the PBOC, the CBIRC and CSRC jointly promulgated the Administrative Measures for the Anti-money Laundering and Anti-terrorist Finance of Internet Finance Service Agencies (for Trial Implementation), which further specified that, any Internet finance institutions incorporated upon approval or upon record-filing by applicable regulatory authority, shall report any forms of cash receipts and payments whose transaction value reaches or exceeds RMB50,000 or foreign currency equivalent of US\$10,000 on a per-transaction or cumulative basis on a given day, within five working days from the date when such transaction takes place. On August 1, 2021, the PBOC promulgated the Measures for the Supervision and Administration of Anti-money Laundering and Counter-terrorism Financing of Financial Institutions, requiring financial institutions, including non-bank payment institutions and online micro-loan companies, to effectively perform the obligations for anti-money laundering and counter-terrorism financing. The said obligations include establishing and improving the internal control system for anti-money laundering and counter-terrorism financing, assessing money laundering and counter-terrorism financing risks, establishing a risk management mechanism compatible with their risk status and business scale, establishing an anti-money laundering information system and setting up or designating a department equipped with corresponding personnel.

We have adopted and implemented various policies and procedures including internal controls and “know-your-customer” procedures, for preventing money laundering and terrorist financing. In addition, we rely on our institutional funding partners and payment service providers to have their own appropriate anti-money laundering policies and procedures. Our institutional funding partners may be subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. We have adopted commercially reasonable procedures for monitoring our institutional funding partners and payment processors.

As of December 31, 2022, we have not been subject to fines or other penalties, or suffered business or other reputational harm, as a result of actual or alleged money laundering or terrorist financing activities in the past. However, our policies and procedures may not be completely effective in preventing other parties from using us, any of our institutional funding partners, or payment service providers as a conduit for money laundering (including illegal cash operations) or terrorist financing without our knowledge. If we were to be associated with money laundering (including illegal cash operations) or terrorist financing activities, our reputation could suffer and we could become subject to regulatory fines, sanctions, or legal enforcement, including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, all of which could have a material adverse effect on our financial condition and results of operations. Even if we, our institutional funding partners and payment service providers comply with the applicable anti-money laundering laws and regulations, we, our institutional funding partners and payment service providers may not be able to fully eliminate money laundering and other illegal or improper activities in light of the complexity and the secrecy of these activities. Any negative perception of the industry, such as that which might arise from any failure of other online consumer finance platforms to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could tarnish our image, undermine the trust and credibility we have established, and negatively impact our financial condition and results of operations.

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We cannot assure you that the anti-money laundering policies and procedures we have adopted will be deemed to be in compliance with applicable anti-money laundering implementation rules if and when adopted.

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

We may evaluate and consider strategic investments, combinations, acquisitions or alliances with other businesses or international expansion to further better serve borrowers and enhance our competitive position. These transactions could have a material impact on our financial condition and results of operations if consummated. Even if we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction and, even if we do consummate such a transaction, we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction, which may result in investment losses. In addition, we made certain investments through nominee arrangements where we have appointed nominees as registered shareholders of certain investee companies, as we currently do not qualify under certain regulatory financial requirements to be registered as a shareholder of such investee companies. While we believe such investments and the nominee arrangements reflect the true intentions of us and the respective business partners, and are therefore legal and valid under PRC Civil Code, we cannot assure you that the PRC courts or other regulators would hold the same view as ours, and such investments may not have the same effect as direct shareholding ownership in the investee companies where our nominee shareholders may fail to perform their respective obligations under the nominee arrangements, such as, among others, to vote on the shareholders' meetings per our instructions, or to transfer all dividends obtained from such companies to us on a timely manner.

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

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

We may not make any investments, acquisitions or international expansion, or, alternatively, any future investments, acquisitions or international expansion may not be successful, may not benefit our business strategy, may not generate sufficient revenues to offset the associated acquisition costs or may not otherwise result in the intended benefits.

Our business depends on the continued efforts of our senior management and key technology development personnel. If one or more of our key executives or key technology development personnel 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 and key technology development personnel. In particular, Mr. Yue (Justin) Tang, our founder, Chairman and Chief Executive Officer, Mr. Shaoyong (Simon) Cheng, our Vice Chairman, Mr. Kan (Kent) Li, our president and Chief Risk Officer, Mr. Ding (Gardon) Gao, our co-founder and Chief Technology Officer and Mr. Frank Fuya Zheng, our Chief Financial Officer are critical to the management of our business and operations and the development of our strategic direction. While we have provided different incentives to our management and key technology development personnel, we cannot assure you that we can continue to retain their services. If one or more of our key executives or key technology development personnel were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel. In addition, we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team and technology development team will not join our competitors or form a competing business. If any dispute arises between our current or former officers or key technology development personnel 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, primarily including technology development, financial products, risk management, general management and sales and marketing. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. It is competitive to attract and retain skilled talent with expertise in technology, risk management, and general management. 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 resources in the training of our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements, and the quality of our services and our ability to serve users could diminish, resulting in a material adverse effect to our business.

If we grant employees stock options or other equity incentives in the future, our net income could be adversely affected.

We granted incentives and rewards to employees and executives under our share incentive plan. We are required to account for share-based compensation in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, which generally requires a company to recognize, as an expense, the fair value of stock options and other equity incentives to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. As of December 31, 2022, holders of our outstanding options and other equity incentives were entitled to purchase a total of 57,684,784 ordinary shares. As a result, we incurred share-based compensation expense of RMB53,537,815 (US\$7,762,254) in during the year ended December 31, 2022. If we grant more options or other equity incentives in the future, we could incur significant compensation charges and our results of operations could be adversely affected.

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

In recent years, the Chinese economy has experienced inflationary and labor costs increases. Average wages are projected to continue to increase. Further, under PRC law we are required to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. If we are unable to control our labor costs or pass such increased labor costs on to our users by increasing the fees of our services, our financial condition and results of operations may be adversely affected.

We do not have any business insurance coverage for our operations.

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 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 substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

We are subject to the risk of a severe or prolonged downturn in the Chinese or global economy and deterioration of credit profiles of borrowers, which may materially and adversely affect our business and financial condition.

The global macroeconomic environment is facing challenges, including the economic slowdown in the Eurozone since 2014, potential impact of the United Kingdom's exit from the European Union on January 31, 2020, and the adverse impact on the global economies and financial markets as the COVID-19 outbreak evolved into a worldwide health crisis in 2020. The growth of the PRC 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 expansionary 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. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa and over the conflicts involving Ukraine, Syria and North Korea. The Federal Reserve has signaled its intention to raise interest rates in the United States. Recently, the Russia-Ukraine conflict has caused, and continues to intensify, significant geopolitical tensions in Europe and across the world. There have also been concerns on the relationship among China and other Asian countries and the trade disputes between the United States and China. The ongoing trade tensions between the United States and China may have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. If economic conditions deteriorate, we may face increased risk of default or delinquency of borrowers, which will result in lower returns or losses. In the event that the creditworthiness of our borrowers deteriorates or we cannot track the deterioration of their creditworthiness, the criteria we use for the analysis of borrower credit profiles may be rendered inaccurate, and our risk management system may be subsequently rendered ineffective. This in turn may lead to higher default rates and adverse impacts on our reputation, business, results of operations and financial positions.

Economic conditions in China are sensitive to global economic conditions, changes in domestic economic and political policies, and the expected or perceived overall economic growth rate in China. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing in recent years. Although growth of China's economy remained relatively stable, there is a possibility that China's economic growth may materially decline in the near future. Any severe or prolonged slowdown in the global or PRC economy may materially and adversely affect our business, results of operations and financial condition.

The offering of our products and services depends on effective use of mobile operating systems and distribution through mobile application stores, which we do not control.

Our loan products Xiaoying Credit Loan and loan facilitation services to other platforms are offered through mobile applications. We may need to devote significant resources to support and maintain of such applications. The mobile applications are dependent on the interoperability of popular mobile operating systems that we do not control, such as Android and iOS. Any changes in such systems that degrade the accessibility of our mobile applications or give preferential treatment to competing products and services could adversely affect the usability of our mobile applications. In addition, we rely upon third party mobile application stores for users to download our mobile applications. As such, the distribution, operation and maintenance of our mobile applications are subject to application stores' standard terms and policies for application developers.

Our future growth and results of operations could suffer if we experience difficulties in the future in offering our products and services through our mobile applications, or if we face increased costs to distribute our mobile applications. If it becomes increasingly difficult for our users to access and utilize our products and services on their mobile devices, or if the prevailing mobile operating systems do not support our mobile applications, our business and financial condition and operating results may be adversely affected.

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

Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. We primarily rely on a limited number of telecommunication service providers to provide it with data communications capacity through local telecommunications lines and Internet data centers to host its servers. We may have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with increasing traffic. We cannot assure you that our cloud computing service provider and the underlying Internet infrastructure and the fixed telecommunications networks in China will be able to support the demand associated with the continued growth in Internet usage. In addition, we have no control over the costs of the services provided by telecommunication service providers which in turn, may affect our costs of using customized cloud computing services. If the prices we pay for customized cloud computing services rise significantly, our results of operations may be adversely affected. Furthermore, if Internet access fees or other charges to Internet users increase, our user traffic may decline and our business may be harmed.

Risks Relating to Our Corporate Structure

We do not have direct ownership of some of our operating entities in China, but exercise control over the operating activities that most impact the economic performance, bear the risks of, enjoys the rewards normally associated with ownership of the entity, and consolidate the financial results of the VIEs in our consolidated financial statements in accordance with U.S. GAAP through contractual arrangements with the VIE and its shareholders, which may not be effective in providing control over our operating entities.

We do not have direct ownership of some of our operating entities in China, but through contractual arrangements (the "VIE Agreements"), we exercise control over the operating activities that most impact the economic performance, bears the risks of, and enjoys the rewards normally associated with ownership of the entity. As a result, through such contractual arrangements with the VIE and its shareholders, we are the primary beneficiary of the VIE, and, therefore, consolidate the financial results of the VIE in our consolidated financial statements in accordance with U.S. GAAP. 38% of our current revenue is derived from our VIEs in China. To comply with PRC laws and regulations, we do not have an equity ownership interest in our VIEs but rely on the VIE Agreements with VIEs to control and operate their businesses. However, as discussed below, these VIE Agreements may not be effective from PRC laws in providing us with the necessary control over VIEs and their operations. Any deficiency in these VIE Agreements may result in our loss of control over the management and operations of VIEs, which will result in a significant loss in the value of an investment in our company. Because of the practical restrictions on direct foreign equity ownership imposed by the PRC government authorities, we must rely on contractual rights through our VIE structure to effect control over and management of VIEs, which exposes us to the risk of potential breach of contract by the shareholders of VIEs. For further description about our VIE Agreements, please see "4.C. Organizational Structure - Contractual Arrangements with Consolidated VIEs and Their Shareholders."

Because we are an offshore holding company and our business was conducted through the VIE Agreements with our VIEs in China, if the PRC government deems that the contractual arrangements in relation to our consolidated VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

We are an offshore holding company incorporated in the Cayman Islands. As a holding company with no material operations, our operations were conducted in China by our subsidiaries and through the VIE Agreements with our VIEs in China, the equity of which is owned by Xiaoying (Beijing) Information Technology Co., Ltd., or Beijing WFOE, through the VIE Agreements, as a result of which, under United States generally accepted accounting principles, the assets and liabilities of the VIEs are treated as our assets and liabilities and the results of operations of VIEs are treated in all respects as if they were the results of our operations. The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are not allowed to own more than 50% equity interest in any PRC company engaging in value-added telecommunications businesses (except for e-commerce, domestic multi-party communication, store-and-forward and call center services). The primary foreign investor must also have operating experience and a good track record in providing value-added telecommunications services, or VATS, overseas. On March 29, 2022, the Decision of the State Council on Revising and Repealing Certain Administrative Regulations, which took effect on May 1, 2022, was promulgated to amend certain provisions of regulations including the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision), the requirement for major foreign investor to demonstrate a good track record and experience in operating value-added telecommunications businesses is deleted.

Because we are an exempted company incorporated with limited liability in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, Xiaoying (Beijing) Information Technology Co., Ltd., or Beijing WFOE, is a foreign-invested enterprise, or an FIE. To comply with the current PRC laws and regulations, we conduct our business in China through our certain consolidated VIEs and their affiliates. Beijing WFOE has entered into a series of contractual arrangements with our consolidated VIEs and their shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders.” As certain shareholder of the VIEs has changed his nationality, our consolidated VIEs may be deemed as foreign-invested telecommunications enterprises. Therefore, we are required to reapply for the ICP licenses as foreign-invested telecommunications enterprises. However, we cannot assure you that we will be able to complete such procedure in a timely manner, or even at all. In addition, we cannot assure you that we will be able to comply with these laws and regulations in all respects. We may also be subject to fines, legal or administrative sanctions and other adverse consequences, and may not be able to become in compliance with relevant laws and regulations in a timely manner, or at all. These may materially and adversely affect its business, financial condition, results of operations and reputation.

The Guideline No.2 on the Application of Regulatory Rules on Overseas Securities Offerings and Listings, or the Guideline No.2, as one of the supporting guidelines for the Trial Measures, provides that the filing documents submitted to the CSRC shall specify, among other things: (i) whether the issuer’s business, licenses or qualifications are not allowed to be controlled by way of contractual arrangements by PRC laws, administrative regulations or relevant provisions; (ii) whether the domestic operating entities controlled by way of contractual arrangements are subject to any restricted or prohibited industries for foreign investments. The officials from the CSRC clarified at the press conference held for the Trial Measures on February 17, 2023 that, the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of companies with VIE structure which duly meet the compliance requirements. Uncertainty still remains on how such rules will be interpreted and implemented, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, the Trial Measures, and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that how the PRC government authorities, such as the Ministry of Commerce, or the MOFCOM, the MIIT, the CSRC or other authorities that regulate online consumer finance platforms and other participants in the telecommunications industry, would ultimately take a view of our corporate structure or any of the above contractual arrangements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

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

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

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. See *"Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Our business may be significantly affected by the newly enacted PRC Foreign Investment Law, and its enactment may materially and adversely affect our business and financial condition."* Occurrence of any of these events could materially and adversely affect our business and financial condition and results of operations. In addition, if the imposition of any of these penalties or requirements to restructure our corporate structure causes us to lose the right to direct the activities of our consolidated VIEs or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of such VIEs in our consolidated financial statements. If our corporate structure and contractual arrangements are deemed to be illegal by relevant regulators, our business and results of operations would be materially and adversely affected and the price of our ADSs may decline. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or our consolidated VIEs or their subsidiaries. See *"Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders."*

We do not hold equity interests in the VIEs. We rely on contractual arrangements with our consolidated VIEs and their shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and may have potential conflicts of interests with us. If the PRC government determines that the VIE Agreements do not comply with PRC regulations, or if these regulations change or are interpreted differently in the future, our ADSs may decline in value or become worthless if the determinations, changes, or interpretations result in our inability to assert contractual control over the assets of our VIEs that conduct all or substantially all of our operations.

We do not hold equity interests in the VIEs. We rely on contractual arrangements with our consolidated VIEs and their shareholders to operate our business. For a description of these contractual arrangements, see “Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and Their Shareholders.” A significant portion of our revenue is attributed to our consolidated VIEs. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated VIEs. If our consolidated VIEs or their shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our consolidated VIEs is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of the record holders of equity interest in our consolidated VIEs, including such equity interest, may be put under court custody. The validity of the VIE Agreements has not been tested in the PRC jurisdiction. These VIE Agreements may not be enforceable in China if PRC government authorities or courts take a view that such VIE Agreements contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event we are unable to enforce these VIE Agreements, we may not be able to exert effective control over the VIEs, and our ability to conduct our business may be materially and adversely affected. As a consequence, our ADSs may decline in value or become worthless if the determinations, changes, or interpretations result in our inability to assert contractual control over the assets of our VIEs that conduct all or substantially all of our operations.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our consolidated VIEs, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in laws and regulations in China could adversely affect us and limit the legal protections available to you and us.”

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

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

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

Mr. Yue (Justin) Tang, our Chief Executive Officer, beneficially owns all of the Class B ordinary shares issued and outstanding, representing 37.03% of our total issued and outstanding share capital and 91.51% of our aggregate voting power as of March 31, 2023. As a result, he will have the ability to control or exert significant influence over important corporate matters and investors may be prevented from influencing important corporate matters involving our company that require approval of shareholders, including:

- the composition of our board of directors and, through the voting of the board of directors, any determinations with respect to our operations, business direction and policies, including the appointment and removal of officers;
- any determinations with respect to mergers or other business combinations;
- our disposition of all or substantially all of our assets; and
- any change in control.

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

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

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

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

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

Our business may be significantly affected by the newly enacted PRC Foreign Investment Law, and its enactment may materially and adversely affect our business and financial condition.

On March 15, 2019, the National People's Congress promulgated the PRC Foreign Investment Law, which took effect on January 1, 2020 and replaced the existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. Meanwhile, the Regulations for the Implementation of the Foreign Investment Law, or the FIL Implementations, came into effect on January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law.

Since the Foreign Investment Law and the FIL Implementations are newly enacted, there is still uncertainties in relation to its interpretation and implementation. The PRC Foreign Investment Law have revised the definition of "foreign investment" and removed all references to the definitions of "actual control" or "variable interest entity structure" under the 2015 Draft Foreign Investment Law. Instead, the PRC Foreign Investment Law stipulates that foreign investment includes "*foreign investors invest in China through other methods under laws, administrative regulations, or provisions prescribed by the State Council*". Therefore, there are still possibilities that future laws, administrative regulations or provisions of the State Council may deem contractual arrangements as a way of foreign investment. There can be no assurance that our contractual arrangements will not be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Once an entity falls within the definition of foreign investment entity, it may be subject to foreign investment "restrictions" or "prohibitions" set forth in a "negative list" to be separately issued by the State Council later. If a foreign investment entity proposes to conduct business in an industry subject to foreign investment "restrictions" in the "negative list," it must go through a pre-approval process.

The most updated negative list, issued on December 27, 2021 and became effective on January 1, 2022, stipulates that any PRC domestic enterprise engaging in the fields prohibited by the negative list shall obtain the consent of the relevant competent PRC authorities for overseas listing, and the foreign investors shall not participate in the operation and management of such enterprise, and the shareholding percentage of the foreign investors in such enterprise shall be subject to the relevant administrative provisions of PRC domestic securities investment by foreign investors. Such negative list does not further elaborate whether existing overseas listed enterprise will be subject to such requirements. The staff of the NDRC addressed in an interview on December 27, 2021 that certain existing overseas listed enterprises whose foreign investors' shareholding percentage exceed the aforementioned threshold are not required to make adjustment or deduction. If any of the businesses that we operate were in the "restricted" category on the "negative list," and the enacted version of the PRC Foreign Investment Law and the final "negative list" mandate further actions to be taken by us, such as a pre-approval process, there is no assurance that we can obtain such pre-approval on a timely basis, or at all. Such determination would materially and adversely affect the value of our ADSs, and such further actions required to be taken by us under the newly enacted PRC Foreign Investment Law may materially and adversely affect our business and financial condition. 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.

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In addition, the PRC Foreign Investment Law provides a five-year period for the existing foreign invested enterprises established according to the existing laws regulating foreign investment to maintain their structure and corporate governance after the implementation of the PRC Foreign Investment Law. Thus we may be required to adjust the structure and corporate governance of certain of our PRC entities after the expiration of such period. 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.

Contractual arrangements in relation to our variable interest entities, may be subject to scrutiny by the PRC tax authorities and they may determine that we, or our 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, our 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 our 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 our variable interest entities for PRC tax purposes, which could in turn increase their tax liabilities without reducing the tax expenses of our PRC subsidiaries. Please see Note 12 "Income taxes" to our audited consolidated financial statements. In addition, if a PRC subsidiary requests the shareholders of our 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 our variable interest entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially adversely affected if our variable interest entities' tax liabilities increase or if they are required to pay late payment fees and other penalties.

In December 2021 and January 2022, our two subsidiaries and two VIEs received Tax Treatment Decisions issued by the First Inspection Bureau of the Shenzhen Municipal Taxation Bureau ("the First Inspection Bureau") for our tax payments status from January 1, 2016, to June 30, 2019. We were subject to certain adjustments on taxations and were required to pay back certain value-added taxes, city maintenance and construction taxes, the enterprise income taxes, as well as the respective late payment fees, due to our failure to file the correct taxable income as required by relevant laws and regulations during the period from January 1, 2016, to June 30, 2019. We have paid such taxes and late payment fees as requested in full in December 2021 and January 2022. As of the date of this annual report, we have not been involved in any other investigations, inquiries, notices, warnings, or sanctions from any other PRC government authorities regarding our tax payments.

Risks Relating to Doing Business in China

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

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

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

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

Uncertainties with respect to the PRC legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in laws and regulations in China could adversely affect us and limit the legal protections available to you and us.

Our operating subsidiaries are incorporated under and governed by the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. As a significant part of our business is conducted in China, our operations are principally governed by PRC laws and regulations. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Uncertainties due to evolving laws and regulations could also impede the ability of a China-based company, such as our company, to obtain or maintain permits or licenses required to conduct business in China. In the absence of required permits or licenses, governmental authorities could impose material sanctions or penalties on us. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other PRC government authorities (including local government authorities), thus making strict compliance with all regulatory requirements impractical, or in some circumstances impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict 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 on a timely basis or at all and 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.

Furthermore, if China adopts more stringent standards with respect to corporate social responsibilities or financial regulations, we may incur increased compliance costs or become subject to additional restrictions in our operations. Intellectual property rights and confidentiality protections in China may also not be as effective as in the United States or other countries. In addition, we cannot predict the effects of future developments in the PRC legal system on our business operations, including the promulgation of new laws, or changes to existing laws or the interpretation or enforcement thereof. These uncertainties could limit the legal protections available to us and our investors, including you. Moreover, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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The PRC government has significant oversight and discretion over the conduct of our business and may intervene or influence our operations as the government deems appropriate to further regulatory, political and societal goals. The PRC government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our industry that could adversely affect our business, financial condition and results of operations. Furthermore, the PRC government has recently indicated an intent to exert more oversight and control over securities offerings and other capital markets activities that are conducted overseas and foreign investment in China-based companies like us. On July 6, 2021, State Council issued the Opinions on Lawfully and Severely Combating Illegal Securities Activities to further strengthen cross-border supervision and consolidate the primary responsibility for information security of overseas listed companies. On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, and five supporting guidelines which took effect on March 31, 2023. Pursuant to the Trial Measures, Chinese companies that seek to offer and list securities overseas shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws, (ii) it may endanger national security as reviewed and determined by competent PRC authorities under the State Council in accordance with law, (iii) the PRC domestic companies intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years, (iv) the PRC domestic companies intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no clear conclusion has yet been made thereof, (v) it has material ownership disputes over equity interests held by the PRC domestic companies' controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller. The Trial Measures stipulate that the overseas securities offering and listing of any issuer will be deemed as indirect overseas offering by PRC domestic companies if the following conditions are met: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by PRC domestic companies; and (ii) the main parts of the issuer's business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. Further, at the press conference held for the Trial Measures on February 17, 2023, officials from the CSRC clarified that the PRC domestic companies that have already been listed overseas on or before the effective date of the Trial Measures (i.e. March 31, 2021) shall be deemed as existing issuers, or the Existing Issuers. The Existing Issuers are not required to complete the filing procedures immediately but shall carry out filing procedures as required if they conduct refinancing or are involved in other circumstances that require filing with the CSRC. The officials from the CSRC have also confirmed that for the PRC domestic companies that seek to list overseas with VIE structure, the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of companies with VIE structure which duly meet the compliance requirements. However, given that the Trial Measures were recently promulgated, there are substantial uncertainties as to the implementation and interpretation, and how they will affect our listing status and future financing. If we fail to complete the filing with the CSRC in a timely manner or at all, for any future offering or any other activities which are subject to the filing requirements under the Trial Measures, our ability to raise or utilize funds and our operations could be materially and adversely affected. On February 24, 2023, the CSRC, Ministry of Finance of the PRC, National Administration of State Secrets Protection and National Archives Administration of China promulgated the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Archives Rules, which took effect on March 31, 2023. Pursuant to the Archives Rules, PRC domestic companies that seek overseas offering and listing shall strictly abide by applicable laws and regulations of the PRC and the Archives Rules, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. Such domestic companies shall not leak any state secret and working secret of government agencies, or harm national security and public interest. Furthermore, a PRC domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any document and materials that contain state secrets or working secrets of government agencies, shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level. Moreover, a PRC domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals and entities including securities companies, securities service providers and overseas regulators, any other documents and materials that, if leaked, will be detrimental to national security or public interest, shall strictly fulfill relevant procedures stipulated by applicable national regulations. The Archives Rules also stipulate that a PRC domestic company that provides accounting archives or copies of accounting archives to any entities including securities companies, securities service providers and overseas regulators and individuals shall fulfill due procedures in compliance with applicable national regulations. However, given that the Archives Rules were recently promulgated, there are substantial uncertainties as to the implementation and interpretation. We cannot predict the impact of the Trial Measures and the Archives Rules on us, including but not limited to the maintenance of the listing status of our ADSs and/or other securities, or any of our future offerings of securities overseas at this stage. Any failure of us to fully comply with new regulatory requirements may significantly limit or completely hinder our ability to continually offer our Shares, cause significant disruption to our business operations, severely damage our reputation, materially and adversely affect our financial condition and results of operations and cause our Shares to significantly decline in value or become worthless. Substantially all of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries and VIEs are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. Any such intervention in or influence on our business operations or action to exert more oversight and control over securities offerings and other capital markets activities, once taken by the PRC government, could adversely affect our business, financial condition and results of operations and the value of our Class A ordinary shares or the ADSs, or significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or in extreme cases, become worthless.

Uncertainties exist with respect to the enactment timetable, interpretation and implementation of the laws and regulations with respect to our online platform business operation.

Our online platform business is subject to various internet-related laws and regulations. These internet-related laws and regulations are relatively new and evolving, and their enactment timetable, interpretation and implementation involve significant uncertainties.

For example, On February 7, 2021, the State Administration for Market Regulation, or the SAMR, promulgated Guidelines to Anti-Monopoly in the Field of Platform Economy, or the Anti-Monopoly Guidelines for Platform Economy. The Anti-Monopoly Guidelines for Platform Economy provides operational standards and guidelines for identifying certain internet platforms' abuse of market dominant position which are prohibited to restrict unfair competition and safeguard users' interests, including without limitation, prohibiting personalized pricing using big data and analytics, selling products below cost without reasonable causes, actions or arrangements seen as exclusivity arrangements, using technology means to block competitors' interface, using bundle services to sell services or products. In addition, internet platforms' compulsory collection of user data may be viewed as abuse of dominant market position that may have the effect to eliminate or restrict competition. On August 20, 2021, the Standing Committee of the National People's Congress promulgated the Personal Information Protection Law of the PRC, or the Personal Information Protection Law which took effect on November 1, 2021. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (i) an individual's consent shall be obtained to use sensitive personal information, (ii) personal information operators using sensitive personal information shall notify individuals of the necessity of such use and impact on the individual's rights, and (iii) where it is necessary for personal information to be provided by a personal information processor to a recipient outside the territory of the PRC due to any business need or any other need, a security assessment organized by the national cyberspace authority shall be passed. In addition, on June 10, 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law, among others, provides for security review procedures for data activities that may affect national security. Furthermore, Measures for Cybersecurity Review, which became effective on June 1, 2020, as amended on December 28, 2021, and became effective on February 15, 2022, set forth the cybersecurity review mechanism for critical information infrastructure operators, and provide that (i) critical information infrastructure operators who intend to purchase internet products and services that affect or may affect national security shall be subject to a cybersecurity review; (ii) online platform operators who are engaged in data processing are also subject to the regulatory scope; (iii) the CSRC is included as one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review working mechanism; (iv) the online platform operators holding more than one million users/users' individual information and seeking a listing outside China shall file for cybersecurity review; (v) the risks of core data, material data or large amounts of personal information being stolen, leaked, destroyed, damaged, illegally used or illegally transmitted to overseas parties and the risks of critical information infrastructure, core data, material data or large amounts of personal information being influenced, controlled or used maliciously shall be collectively taken into consideration during the cybersecurity review process. Although we do not believe we are a critical information infrastructure provider, and as the date of this annual report, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis and we have not received any inquiry, notice, warning, or sanctions from any other PRC government authorities in this regard, the PRC authorities could interpret such term broadly. If we are deemed to be a critical information infrastructure operator under such rules, we could be subject to cybersecurity review by Cyberspace Administration of China and other relevant PRC regulatory authorities and be required to change our existing practices in data privacy and cybersecurity matters at substantial costs. During such cybersecurity review, we may be required to stop providing services to our customers, and such review could also result in negative publicity to us and diversion of our managerial and financial resources.

On August 31, 2018, the Standing Committee of the National People's Congress promulgated the E-commerce Law, which came into effect on January 1, 2019. The E-commerce Law imposes a series of requirements on e-commerce operators including e-commerce platform operators, merchants operating on the platform and the individuals and entities carrying out business online. The platform governance measures we adopt in response to the enhanced regulatory requirements may fail to meet these requirements and may lead to penalties or our loss of merchants to those platforms, or to complaints or claims made against us by customers on our platforms.

As there are uncertainties regarding the enactment timetable, interpretation and implementation of the existing and future internet-related laws and regulations, we cannot assure you that our business operations will comply with such regulations in all respects and we may be ordered to terminate certain of our business operations that are deemed illegal by the regulatory authorities and become subject to fines and/or other sanctions.

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 a company 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, all our senior executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Shareholder claims that are common in the United States, including securities law class actions and fraud claims, generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such regulatory cooperation with the securities regulatory authorities in the United States have not been efficient in the absence of mutual and practical cooperation mechanism. No organization or individual may provide the documents and materials relating to securities business activities to overseas parties arbitrarily without the consent of the competent securities regulatory authority in China according to the PRC Securities Law. See also “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.

According to Article 177 of the PRC Securities Law which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties.

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

The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by the SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

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

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

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

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or Circular 19, effective on June 1, 2015 and amended on December 30, 2019, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, or Circular 59, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45. According to Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of bank loans that have been transferred to a third party. Although Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to grant loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our initial public offering, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

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

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

Any failure to comply with PRC regulations regarding employee share 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 share incentive plans in overseas non-publicly-listed companies due to their positions as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. In February 2012, SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, according to which, employees, directors, supervisors and other management members who are PRC residents and non-PRC citizens who reside in China for a continuous period of not less than one year participating 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 a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options are subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under our share incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC law.

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

We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements.

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

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Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside at least 10% of its net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves, together with the registered capital, are not included in the retained earnings distributable as cash dividends. Furthermore, under PRC law, our wholly-owned PRC subsidiary, which is a wholly foreign-owned enterprise under PRC law, cannot distribute any profits until all of its losses from prior fiscal years have been offset. In accordance with the articles of association of our wholly-owned PRC subsidiary, profit distributions also need to be approved by its executive directors and shareholders before any distribution plan becomes effective. As a result, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends, loans or advances. In addition, registered share capital and statutory reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary.

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

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

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

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

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

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

In October 2017, the State Administration of Taxation issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source, or Bulletin 37, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009, and partially replaced and supplemented rules under the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises or Bulletin 7, issued by the State Administration of Taxation, on February 3, 2015 and amended in December 2017. Pursuant to Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises and any gains from the transfer of such asset by a direct holder, who is a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In the case of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and may consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding agent shall declare and pay the withheld tax to the competent tax authority in the place where such withholding agent is located within 7 days from the date of occurrence of the withholding obligation, while the transferor is required to declare and pay such tax to the competent tax authority within the statutory time limit according to Bulletin 7. Late payment of applicable tax will subject the transferor to default interest. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of Bulletin 37 or previous rules under Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxes if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under Bulletin 37 and Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under Bulletin 37 and Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 37 and Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

We are subject to restrictions on currency exchange.

All of our net income is denominated in Renminbi. The Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or consolidated VIE. Currently, certain of our PRC subsidiary, may purchase foreign currency for settlement of “current account transactions,” including payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities. Since a significant amount of our future net income and cash flow will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize cash generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, including holders of our ADSs, and may limit our ability to obtain foreign currency through debt or equity financing for our subsidiaries and consolidated VIEs.

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

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. 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.

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

Proceedings brought by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in our inability to file future financial statements in compliance with the requirements of the Exchange Act.

In December 2012, the SEC instituted administrative proceedings under Rule 102(e)(1)(iii) of the SEC’s Rules of Practice against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ audit work papers with respect to certain PRC-based companies under the SEC’s investigation.

On January 22, 2014, the administrative law judge, or the ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC's rules of practice by failing to produce audit workpapers to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. On February 12, 2014, the Big Four PRC-based accounting firms appealed the ALJ's initial decision to the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents would normally be made to the CSRC. The Chinese accounting firms would receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and would be required to abide by a detailed set of procedures with respect to such requests, which in substance would require them to facilitate production via the CSRC. The CSRC for its part initiated a procedure whereby, under its supervision and subject to its approval, requested classes of documents held by the accounting firms could be sanitized of problematic and sensitive content so as to render them capable of being made available by the CSRC to US regulators.

Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was on February 6, 2019. Despite the final ending of the proceedings, the presumption is that all parties will continue to apply the same procedures: i.e. the SEC will continue to make its requests for the production of documents to the CSRC, and the CSRC will normally process those requests applying the sanitisation procedure. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law. If additional challenges are imposed on the Chinese affiliates of the "big four" accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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

If the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

The HFCA Act was signed into law on December 18, 2020 and amended pursuant to the Consolidated Appropriations Act, 2023 on December 29, 2022. Under the HFCA Act and the rules issued by the SEC and the PCAOB thereunder, if we have retained a registered public accounting firm to issue an audit report where the registered public accounting firm has a branch or office that is located in a foreign jurisdiction and the PCAOB has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction, the SEC will identify us as a "covered issuer", or SEC-identified issuer, shortly after we file with the SEC a report required under the Securities Exchange Act of 1934, or the Exchange Act (such as our annual report on Form 20-F) that includes an audit report issued by such accounting firm; and if we were to be identified as an SEC-identified issuer for two consecutive years, the SEC would prohibit our securities (including our shares or ADSs) from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

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On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms.

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

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities. Any actions by Chinese government, including any decision to intervene or influence our operations or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause us to make material changes to our operation, may limit or completely hinder our ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless.

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Substantially all of our operations are located in China. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, data information, environmental regulations, land use rights, property and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

As such, our business segments may be subject to various government and regulatory interference in the provinces in which they operate. We could be subject to regulation by various political and regulatory entities, including various local and municipal agencies and government sub-divisions. We may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply.

Furthermore, it is uncertain when and whether we will be required to obtain permission from the PRC government to list on U.S. exchanges or enter into the VIE Agreements in the future, and even when such permission is obtained, whether we will be denied or rescinded. Although we are currently not required to obtain permission from any of the PRC federal or local government to obtain such permission and has not received any denial to list on the U.S. exchange and/or enter into VIE Agreements, our operations could be adversely affected, directly or indirectly, by existing or future laws and regulations relating to our business or industry.

Risks Relating to Our Ordinary Shares and ADSs

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

The trading price of our ADSs is 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 market prices, of other companies with business operations located mainly in China that have listed their securities in the United States. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including Internet companies, online retail and mobile commerce platforms and consumer finance service providers, 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 matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011 and in 2015, which may have a material and adverse effect on the trading price of the 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 or our industry;
- announcements of studies and reports relating to the quality of our credit offerings or those of our competitors;
- changes in the economic performance or market valuations of other consumer finance service providers;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the market for consumer finance services;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- allegations of a lack of effective internal control over financial reporting resulting in financial; inadequate corporate governance policies, or allegations of fraud, among other things, involving China-based issuers;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

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

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

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

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in the ADSs will likely depend mainly upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in the ADSs and you may even lose your entire investment in the ADSs.

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

Sales of the ADSs in the public market, or the perception that these sales could occur, could cause the market price of the ADSs to decline significantly. The total number of ordinary shares outstanding as of March 31, 2023 was 288,900,553 ordinary shares, comprised of 191,300,553 Class A ordinary shares and 97,600,000 Class B ordinary shares. All ADSs representing our ordinary shares will be freely transferable by persons other than our “affiliates” without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act. All of the other ordinary shares outstanding will be available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Any or all of these ordinary shares may be released prior to the expiration of the applicable lock-up period at the discretion of the designated representatives. To the extent shares are released before the expiration of the applicable lock-up period and sold into the market, the market price of the ADSs could decline significantly.

Certain major holders of our ordinary shares will have the right to cause us to register under the Securities Act the sale of their shares, subject to the applicable lock-up periods in connection with our initial public offering. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these ADSs in the public market could cause the price of the ADSs to decline significantly.

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 your Class A ordinary shares underlying your ADSs.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the Class A ordinary shares underlying 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 holder of the Class A ordinary shares underlying your ADSs. Upon receipt of your voting instructions, the depositary may try to vote the Class A ordinary shares underlying your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depositary will try to vote the underlying Class A ordinary shares in accordance with those instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise any right to vote with respect to the underlying Class A ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to enable you to withdraw the shares underlying your ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our second amended and restated 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 Class A ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depositary will notify you of the upcoming vote and to deliver our voting materials to you. We cannot assure you that you will receive the voting material in time to ensure you can direct the depositary to vote your shares. 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 how the shares underlying your ADSs are voted and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

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

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

You may not receive non-cash distributions if the depositary decides it is impractical to make them available to you.

To the extent that there is a distribution, the depositary has agreed to distribute to you the securities or other property it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent.

However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

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

Your ADSs are transferable on the books of the 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.

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

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

If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

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

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

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

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, substantially all of our directors and executive officers and the experts named in this annual report reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States in the event that you believe that your rights have been infringed under the 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, China or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and China.

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 incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Cayman Companies Act and the common law of the Cayman Islands. The rights of our 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 have a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than copies of our memorandum and articles of association, our register of mortgages and charges, and copies of any special resolutions passed by the shareholders) or to obtain copies of lists of shareholders of these companies. Our directors will have discretion under our second 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 our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Cayman Companies Act and the laws applicable to companies incorporated in the United States and their shareholders.

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

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

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;



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- 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 NYSE. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

As a foreign private issuer, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NYSE corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards.

We are an exempted company incorporated in the Cayman Islands, and our ADSs are listed on the NYSE. The NYSE market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from the NYSE corporate governance listing standards.

Among other things, we are not required under the NYSE corporate governance listing standards to: (i) have a majority of the board be independent; (ii) obtain shareholders' approval for issuance of securities in certain situations; or (iii) have regularly scheduled executive sessions with only independent directors each year.

We intend to rely on the first exemption described above unless otherwise required under the applicable laws and regulations or disclosed in this annual report. As a result, you may not be provided with the benefits of certain corporate governance requirements of the NYSE.

There is a significant risk that we were a passive foreign investment company, or PFIC, for 2020 and we may be a PFIC for the current or subsequent taxable years, which could result in adverse U.S. federal income tax consequences to U.S. investors in our ADSs or our ordinary shares.

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the quarterly value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes interest (and income equivalent to interest), dividends, rents, royalties and gains from financial investments. Cash is generally a passive asset for these purposes. Goodwill (which may be determined by reference to the excess of the sum of the corporation's market capitalization and liabilities over the value of its assets) is an active asset to the extent attributable to business activities that produce active income.

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Due to the decrease in our market capitalization and uncertainties as to the proper classification of certain items of our income and assets for purposes of the PFIC rules, there is a significant risk that we were a PFIC for our 2020 taxable year. The proper application of the PFIC rules to us is not clear. For example, it is uncertain whether for purposes of the PFIC rules we should be treated as the owner of the Consolidated Trusts' assets. Although such trusts are consolidated on our financial statements for accounting purposes, based on the manner in which we and the trusts currently operate and the nature of our rights and obligations with respect to the trusts, we believe it is reasonable to treat the trusts' assets (to the extent not attributable to any investment by us in the trusts) as not owned by us for purposes of the PFIC rules, but there can be no assurance in this regard. If the trusts' assets were treated as owned by us for PFIC purposes, we would be a PFIC for our 2020 taxable year. Moreover, the value of our goodwill for 2020 was not a positive amount and it is not entirely clear how the percentage of our active assets should be calculated in such circumstances, and to what extent certain assets shown on our balance sheet should be treated as active for purposes of determining our PFIC status. In addition, it is not entirely clear how the contractual arrangements between us and our VIEs will be treated for purposes of the PFIC rules. Because we exercise effective control over the operation of our VIEs and are entitled to substantially all of their income, we believe it is appropriate to treat the VIEs as owned by us for purposes of the PFIC rules. However, there can be no assurance in this regard and we may be a PFIC for any taxable year if our VIEs are not treated as owned by us for such purposes. For these reasons, there is a significant risk that we were a PFIC for our taxable 2020 year and that we will be a PFIC for our current and future taxable years.

If we are a PFIC for any taxable year during which a U.S. investor owns ADSs or ordinary shares, certain adverse U.S. federal income tax consequences could apply to such U.S. investor. For example, a U.S. investor may be subject to increased tax liabilities and generally will be subject to certain reporting requirements. See "Item 10. Additional Information—10.E. Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company."

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

Since the completion of our initial public offering, we have incurred 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 the NYSE, imposes various requirements on the corporate governance practices of public companies. As a company with less than US\$1,235,000,000 in total annual gross revenue for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to "opt out" of the provision that allow us to delay adopting new or revised accounting standards and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time consuming and costly. After we are no longer an "emerging growth company," we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

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.

Risks Relating to Our Investment

We make investments using our own capital and do not expect to realize any profits from these investments for a considerable period of time.

We make investments using our own capital in certain limited partnership interests of private partnerships. We believe that those investments can bring an opportunity of exploring innovative technologies and the potential for improved profitability in long term, which is in line with our business strategies, and currently have no plans to dispose of our current investments. We may make unsound investment decisions for this reason or due to fraudulent and concealed, inaccurate or misleading statements from a target partnership in the course of our due diligence, which could lead us to mistakenly estimate the value of the target company and affect our ability to derive profit from such investments. In addition, our understanding and judgment of the investments that those partnerships make may be mistaken and result in unwise investment decisions.

Certain of our investments in partnerships focus on the blockchain industry and digital assets and are subject to certain risks of the blockchain industry and digital assets. Digital assets built on blockchain technology remain in the early stages of development. Digital assets are a new asset class that, as of yet, have not been widely adopted. Any significant decline in the value of our investment portfolio may therefore adversely impact our business, results of operations, and financial condition.

In addition, as a limited partner, we do not have ability to take in the control or management of the affairs or the conduct of the business of those partnerships. We do not have the necessary power to mandate or block material partnership actions. If these partnerships fail to carry out business in a compliant manner, incur overly excessive amount of debt or go bankrupt, or the business operations decline, the fair value of our investment in these companies may deteriorate or, in extreme cases, decrease to zero. The partnerships that focus on the high-tech industry or emerging companies normally put the funds raised from limited partners in small or mid-size banks that are more likely subject to financial instability and liquidity risks. If these small or mid-size banks fail or go bankrupt, we may suffer the loss of our investments in the partnerships. We are subject to the risk that the general partners or the management of these partnerships may act in a manner that does not serve our interests. The general operational risks, such as inadequate or failing internal control of these partnerships, may also expose our investments to risks. Furthermore, these partnerships may fail to abide by their agreements with us, for which we may have limited or no recourse. Our investees may not issue distributions, or even if they do, we may not be able to secure liquidity conveniently until we receive such distributions. Failure of our investees to perform their obligations or to achieve their expected results, or any negative publicity, whether or not substantiated, may adversely affect our reputation and brand. If any of the foregoing were to occur, our business, reputation, financial condition and results of operations could be materially and adversely affected.

Poor performance of our investments could cause a decline in our revenue and could negatively impact our ability to raise capital.

Poor performance of our investments may deter future investment in us and thereby decrease our revenue and thus have a material adverse effect on our results of operations, financial condition and cash flow. If an investee performs poorly, we will receive little or no income, or possibly losses, from any principal investment, which could adversely affect our financial position.

Our strategic investing business is subject to liquidity risks.

Certain of our investments are in the form of limited partnership interests that are not publicly traded and are subject to liquidity risks. In many cases, there may be prohibition by contract or by applicable laws from selling such limited partnership interests for a period of time or there may not be a public market for such securities. Accordingly, under certain conditions, we may be forced to either sell limited partnership interests at lower prices than we had expected to realize or defer, potentially for a considerable period of time, sales that we had planned to make. Investing in these securities can involve a high degree of risk, and we may lose some or all of the principal amount of such investments. In addition, market conditions and regulatory environment can also delay our exit and realization of investments.

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The investigation process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.

Before making our investments, we conduct investigation that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment opportunity. The objective of the investigation process is to identify both the attractive attributes of and risks associated with an investment. When conducting investigation, we may need to evaluate important and complex business, financial, regulatory, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, and accountants may be involved in the process in varying degrees depending on the type of investment.

When conducting investigation and assessing an investment, we rely on the resources available to us, including information from the target and, in some circumstances, third-party investigations and analysis. The information available to us in conducting investigation of our investment may be limited. Accordingly, the investigation that we carry out with respect to an investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating it.

In addition, investment opportunities may involve companies that have historic and/or unresolved regulatory, tax-, fraud or accounting-related investigations, audits or inquiries and/or have been subject to accusations of improper behavior (including bribery and corruption). Even specific, enhanced investigations with respect to such matters may not reveal or highlight all facts and circumstances that may be relevant to evaluating the investment opportunity and/or accurately identifying and assessing settlements, enforcement actions and judgments that could arise and have a material adverse effect on the portfolio company's operations, financial condition, cash flow, reputation and prospects. Our investigations may not result in us making successful investments. Failure to identify risks associated with our investments could have a material adverse effect on our results of operations, financial condition and cash flow.

Volatility in the price of digital assets could cause significant fluctuation in the value of our investment and adversely affect our financial position.

Certain private partnerships we invested in focus on the blockchain industry investment. The prices of digital assets have historically been subject to dramatic fluctuations and are highly volatile. A decrease in the price of a single digital asset may cause volatility in the entire digital asset industry. Certain digital assets may become more volatile and less liquid in a very short period of time, resulting in market prices being subject to erratic and abrupt market movement, which could harm our investments. Since May 2022, market volatility in the prices of digital assets has been elevated due to a variety of factors, including, but not limited to, the macroeconomic environment (high inflation and rising interest rates) as well as the "crypto credit crisis" brought on by the collapse and bankruptcy of a small number of key players in the sector (cryptocurrency Luna collapse, hedge fund Three Arrows Capital default on loans and filing for bankruptcy, crypto-lending platform Celsius freezing all withdrawals, cryptocurrency lender Voyager Digital filing for bankruptcy, Crypto exchange FTX filing for bankruptcy among others). Certain of our investments have been negatively impacted by the market volatility in 2022 and we have provided additional impairment and loss for those investments in the year ended December 31, 2022. However, there are still uncertainties of the volatility in the price of digital assets in the future, which depend on a number of factors beyond the Company's control and are difficult to predict. As a result, the market volatility in the prices of digital assets in the future could cause significant fluctuation in the value of our investment and adversely affect our financial position.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd., or Shenzhen Ying Zhong Tong, was incorporated in March 2014 and controlled by Mr. Yue (Justin) Tang. In August 2014, we, through Shenzhen Ying Zhong Tong, began to facilitate investment products to individual investors in China with a variety of terms and rates of return to meet the demand from individual investors. In July 2015, Shenzhen Ying Zhong Tong commenced loan facilitation business to facilitate loan products to borrowers who are underserved by the current traditional financial system in China. In October 2016, entities controlled by Mr. Yue (Justin) Tang, Mr. Baoguo Zhu and other investors incorporated Shenzhen Xiaoying Technology Co., Ltd., or Shenzhen Xiaoying. In December 2016, Shenzhen Xiaoying acquired all of the equity interest in Shenzhen Ying Zhong Tong. In December 2017, we underwent a restructuring in contemplation of our initial public offering. After such restructuring, the shareholders of Shenzhen Xiaoying were changed to Mr. Yue (Justin) Tang, entities controlled by Mr. Yue (Justin) Tang and Mr. Baoguo Zhu.

In March 2015, our co-founders, Mr. Yue (Justin) Tang and Mr. Baoguo Zhu, incorporated Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd, or Beijing Ying Zhong Tong, which is controlled by Mr. Yue (Justin) Tang.



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In February 2016, Shenzhen Beier Assets Management Co., Ltd., or Shenzhen Beier, was incorporated and was controlled by us as one of our VIEs. Shenzhen Beier was deregistered in March 2023 as approved by Beijing WFOE pursuant to the relevant variable interest entity agreements.

In December 2016, Xi'an Bailu Enterprise Management Co., Ltd., or Xi'an Bailu, incorporated Shenzhen Xintang Information Consulting Co., Ltd., or Shenzhen Xintang, which used Shenzhen Tangren Financing Guarantee Co., Ltd as its name at that time. Xi'an Bailu, which held 100% equity interest in Shenzhen Xintang, is ultimately controlled by Mr. Yue (Justin) Tang and two other individuals who are his business partners, while the capital contribution of Shenzhen Xintang paid by Xi'an Bailu was borrowed from Shenzhen Xiaoying. We control Shenzhen Xintang and receive the economic benefits of Shenzhen Xintang's business operation through the VIE Agreements entered with Xi'an Bailu.

In January 2015, we incorporated Winning Financial Service Inc. under the laws of the Cayman Islands as our offshore holding company, which later changed its name to X Financial in August 2017. Subsequently, we incorporated YZT (HK) Limited as X Financial's wholly-owned subsidiary and our intermediate holding company to facilitate financing. In October 2015, YZT (HK) Limited incorporated Xiaoying (Beijing) Information Technology Co., Ltd., or Beijing WFOE, as its wholly-owned subsidiary in the PRC, through which we obtained control over Shenzhen Xintang on a series of contractual arrangements entered into on December 9, 2022 and Beijing Ying Zhong Tong and Shenzhen Xiaoying (together with Shenzhen Xintang, the VIEs) on a series of contractual arrangements entered into on December 22, 2017, respectively. Such contractual arrangements consist of equity pledge agreements, shareholders' voting rights proxy agreement, spousal consent letter, and exclusive business cooperation agreements, exclusive call option agreements. See "Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders" for details. In September 2018, we completed an initial public offering of 11,763,478 ADSs (including the ADSs sold upon the exercise of the over-allotment option granted to the underwriters), representing 23,526,956 Class A ordinary shares. On September 19, 2018, our ADSs were listed on the NYSE under the symbol "XYF."

On May 31, 2021, Shenzhen Xiaoying Microcredit Co., Ltd., or Xiaoying Microcredit, was incorporated in the PRC with online microcredit business operating license by Shenzhen Xiaoying. Shenzhen Xiaoying had completed the capital contributions of RMB1 billion to Xiaoying Microcredit by the end of November, 2021.

On May 20, 2022, Tianjin Yuexin Financing Guarantee Co., Ltd., or Tianjin Yuexin was incorporated in the PRC with financing guarantee license by Shenzhen Puhui. Shenzhen Puhui had completed the capital contributions of RMB50 million to Tianjin Yuexin.

In December 2022, with our permission, Xi'an Bailu transferred 100% equity interest in Shenzhen Xintang to Shenzhen Lelebu Information Consulting Co., Ltd, or Shenzhen Lelebu. We continue to control Shenzhen Xintang by entering new VIE Agreements with Shenzhen Lelebu on December 9, 2022.

Our corporate headquarters is located at 7-8F, Block A, Aerospace Science and Technology Plaza, No. 168, Haide Third Avenue, Nanshan District, Shenzhen, 518067, the PRC. Our telephone number at this address is +86-0755-86282977. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. We maintain a website at <http://ir.xiaoyinggroup.com/> that contains information about our Company, but that information is not part of this report or incorporated by reference herein.

4.B. Business Overview

Overview

X financial is a leading online personal finance company in China. We are committed to connecting borrowers on our platform with institutional funding partners. With proprietary big data-driven technology, we have established strategic partnerships with financial institutions across multiple areas of its business operations, enabling us to facilitating loans to prime borrowers under a robust risk assessment and control system.

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We offer differentiated products specifically catered to the financing needs of individuals in China. Our main category of loan products is Xiaoying Credit Loan, a category of online personal credit loan products facilitated through our platform, including Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we introduce from time to time. Xiaoying Card Loan is our flagship product under Xiaoying Credit Loan, which offers borrowers a combination of small credit line and attractive APR in China. We ceased facilitation of Xiaoying Preferred Loan in October 2019. We ceased facilitation of Xiaoying Revolving Loan at the end of 2020 to optimize our product portfolio with a focus on Xiaoying Card Loan, which targets prime borrowers and has proven to meet customers' needs and fits better into our strategy to drive long-term profitable growth. Xiaoying Revolving Loan was a category of products that provide borrowers with a credit limit, enabling borrowers to repay the borrowed amount at any time with an interest-free period or repay by installments. The major product under the category Xiaoying Revolving Loan was Yaoqianhua, initially named as Xiaoying Wallet when it was launched in August 2018.

Our proven risk management and credit assessment capabilities, and the accompanying insurance/guarantee protection from third parties, enable us to attract a diversified and low-cost funding base to support our growth. Before 2020, we had both individual investors and corporate investors on our Xiaoying Wealth Management platform, a platform that was designed for investors who invested in our loan products by providing funding for such loans. We actively expanded institutional funding and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020. As of December 17, 2020, the Company had repaid all the outstanding investment principal and interest to individual investors who previously made investments as a P2P investor through Xiaoying Wealth Management platform. In May 2021, we obtained a network microcredit license from the Local Financial Regulatory Bureau of Shenzhen Municipality and started online microcredit business in July 2021 by providing loans funded from own capital. Our registered capital for microcredit reached RMB1,000,000,000 by the end of November, 2021. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners. In 2021, 98.0% of the total funding for loans we facilitated were provided by institutional funding partners and 2.0% were provided by our own funds. In 2022, 97.3% of the total funding for loans we facilitated were provided by institutional funding partners and 2.7% were provided by our own funds. In 2020, 2021 and 2022, the overall funding cost for the loans we facilitated was 8.31%, 8.62% and 8.38% respectively.

Our business model is light in labor commitment, and we believe we manage our transaction and operating costs in an effective way. Benefiting from our superior loan product offerings, strong credit performance and accompanying insurance/guarantee protection, we continue to expand our user base primarily through referral without incurring significant sales and marketing expenses, resulting in relatively low user acquisition costs. Furthermore, our highly automated risk management system and technology infrastructure enable us to automatically facilitate a large number of transactions simultaneously. In 2020, 2021 and 2022, our net revenue per employee was RMB4,798,599, RMB8,552,983 and RMB7,728,742 respectively, and our general and administrative expenses as a percentage of our total net revenues was 8.3%, 5.2% and 4.8% respectively.

We utilize data-driven and technology-empowered credit analysis. Our proprietary risk control system, WinSAFE, builds risk profiles of our prospective borrowers upon data from reputable credit information providers employed by traditional financial institutions, augmented by a variety of social and behavioral data from internet and mobile platforms not typically utilized by traditional financial institutions. Leveraging data analysis and machine learning in assessing a borrower's value, repayment capability and propensity, we are able to offer differentiated credit limits to borrowers based on individual credit assessment result. Our rigorous data-driven credit assessment methodology has helped us to achieve a strategic balance between borrower expansion and asset quality control. In 2020, 2021 and 2022, the total loans we facilitated amounted to RMB29,676 million, RMB51,859 million and RMB73,655 million, respectively, while the delinquency rate for all outstanding loans that were 31-60 days past due decreased from 1.48% as of December 31, 2021 to 1.02% as of December 31, 2022.

We benefit from our strategic partnership with various licensed financial institutional cooperators. The protection offered by their credit insurance or financing guarantee on the loans that we facilitate significantly enhances our institutional funding partners' trust in our business. Our risk management system is also strengthened by those financial institutional cooperators' insurance or guarantee decision opinion. Our financial institutional cooperators' credit assessment models are based on information from various databases, including information from PBOC CRC which is only available to licensed financial institutions. Our financial institutional cooperators' insurance or guarantee decision opinion serves as one of the inputs of our comprehensive credit risk management system, along with other behavior and credit information.

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We also partner with Baihang Credit and Pudao Credit, the only two licensed individual credit bureaus in China, which integrate, save and process the data collected from their partner companies and provide information searching and other additional services to their partner companies in return. The cooperations strengthen our credit assessment system and allow us to quickly and accurately assess the creditworthiness of borrowers, target a broader user base for financial services, and reduce the cost of risk management. According to a new regulation, loan facilitation platforms are restricted from submitting credit assessment-related personal data directly to financial institutions, and such data transfer must be conducted through a licensed credit agency. In response, we have been working closely with Baihang Credit and Pudao Credit to execute a plan to comply with the new regulation.

We generate revenues primarily from (i) the fees that we charge for our service of matching institutional funding partners with borrowers (i.e., our loan facilitation service) and for other services we provide over the lifetime of the loan (i.e., our post-origination service and guarantee service); (ii) interests from borrowers from our microcredit business and the financing fees we charge for the loans facilitated through the Consolidated Trusts and Partnerships (i.e., our financing income). We charge a service fee from the borrower indirectly through financing guarantee companies or from certain institutional funding partners directly. The financing guarantee companies charge borrowers a guarantee fee, a portion of which will be subsequently paid to us as the service fee. We cooperated with Shenzhen Xintang, our consolidated VIE, to provide guarantees for certain loan products that we facilitate in the past. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. In 2020, our service fee rate (annualized based on original amount of loan principal) of our major loan products ranged from 0.0% to 21.4% and the service fees we charged for loan facilitation services, post-origination services and guarantee services accounted for 59.6%, 9.3% and 0.7%, respectively, of our total net revenues. In 2021, our service fee rate (annualized based on original amount of loan principal) of our major loan products ranged from 0.1% to 11.8% and the service fees we charged for loan facilitation services, post-origination services and guarantee services accounted for 70.2%, 8.7%, and 0.4%, respectively, of our total net revenues. In 2022, our service fee rate (annualized based on original amount of loan principal) of our major loan products ranged from 0.8% to 12.9% and the service fees we charged for loan facilitation services, post-origination services and guarantee services accounted for 57.4%, 10.5%, and 0.1%, respectively, of our total net revenues. In 2020, 2021 and 2022, our financing income accounted for 27.9%, 18.5% and 27.1% , respectively, of our total net revenues.

The total borrowing cost is expressed as APR, the actual annualized cost of borrowing over the term of a loan. The following table sets forth the APR range of our major loan products for the periods indicated.

Loan Product	Year Ended December 31,		
	2020	2021	2022
Xiaoying Credit Loan (1)	8.00%~36.00 %	8.00%~24.38 %	12.95%~24.23 %
Xiaoying Revolving Loan (2)	14.37%~25.27 %	—	—
Loan facilitation services to other platforms (3)	4.39 %	—	—

Note:

- (1) Xiaoying Credit Loan is a category of online personal credit loan products facilitated through our platform, including Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we introduce from time to time. We ceased facilitation of Xiaoying Preferred Loan in October 2019.
- (2) Xiaoying Revolving Loan is category of products that provide borrowers with a credit limit, enabling borrowers to repay the borrowed amount at any time with an interest-free period or repay by installments. The major product under the category Xiaoying Revolving Loan is Yaoqianhua, initially named as Xiaoying Wallet when it was launched in August 2018. We have ceased the operation of Xiaoying Revolving Loan in 2020.
- (3) Different from APR used to express the total borrowing cost for our loan products, the figures set forth in the table represent the service fee range we collect from borrowers referred from other platforms for loans successfully allocated to investors or other funding sources. We have ceased to facilitate loans for other platforms in 2020.

Our total net revenue was RMB2,193.0 million in 2020, RMB3,626.5 million in 2021 and RMB3,563.0 million (US\$516.6 million) in 2022. We had a net income of RMB825.4 million in 2021 and RMB812.0 million (US\$117.7 million) in 2022.

Our Borrowers and Loan Products

Overview

We strategically target the prime borrowers underserved by traditional financial institutions. We believe we set a high standard of credit quality by defining our borrowers as prime borrowers, who we define as an individual having sound credit history, who has credit records with PBOC CRC and usually no late payment record of over 60 days in the previous six months. For the determination of a prime borrower, we review their credit history, along with our sophisticated risk management review system.

Our differentiated loan products suite addresses the financing needs of our target prime borrower segments. Xiaoying Credit Loan is our main category of loan products, which consists of Xiaoying Card Loan catering to the young consumers, Xiaoying Preferred Loan catering to small business owners and other unsecured loan products that we introduce from time to time. Xiaoying Revolving Loan mainly consists of Yaoqianhua (initially named as Xiaoying Wallet) catering to online purchasing users. Xiaoying Housing Loan caters to the property owners. Our Xiaoying Credit Loan and Xiaoying Revolving Loan are unsecured loan products and our Xiaoying Housing Loan is a secured loan product. We ceased facilitation of Xiaoying Preferred Loan and Xiaoying Housing Loan in 2019. And we ceased facilitation of Xiaoying Revolving Loan and loan facilitation for other platforms in 2020. In 2021 and 2022, we focus on our flagship product, Xiaoying Card Loan, which offers borrowers a combination of small credit line and attractive APR in China.

We facilitated loans to 10,276,021 active borrowers, each of whom made at least one transaction on our platform during the period from the commencement of our loan facilitation business to December 31, 2022. The number of our active borrowers increased from 1,663,737 in 2020 to 2,371,537 in 2021 and then further increased to 3,326,774 in 2022. The amount of loans we facilitated to borrowers increased from RMB29,676 million in 2020 to RMB51,859 million in 2021 and then further increased to RMB73,655 million in 2022. The table below sets forth the breakdown of loan facilitation amount by product for the periods indicated.

Loan Product	Year Ended December 31, 2020		Year Ended December 31, 2021		Year Ended December 31, 2022	
	RMB in millions	%	RMB in millions	%	RMB in millions	%
Xiaoying Credit Loan (1)	24,057	81.1 %	51,859	100 %	73,526	99.8 %
Xiaoying Revolving Loan (2)	5,618	18.9 %	N/A	N/A	N/A	N/A
Loan facilitation services to other platforms (3)	1	0.0 %	N/A	N/A	N/A	N/A
Others	—	—	—	—	129	0.02 %
Total	29,676	100.0 %	51,859	100 %	73,655	100 %

Notes:

- (1) The data set forth herein includes Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we operated. Xiaoying Card Loan was launched in December 2016. Xiaoying Preferred Loan was launched in November 2015 and was ceased in October 2019.
- (2) The major product under the category Xiaoying Revolving Loan is Yaoqianhua, initially named as Xiaoying Wallet when it was launched in August 2018. We ceased the operation of Yaoqianhua in December 2020.
- (3) We started to provide loan facilitation services to other platforms in December 2015. We have ceased to facilitate loans for other platforms in 2020.

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Loans that are delinquent for more than 60 days are charged-off and excluded in the outstanding balance, except for Xiaoying Housing Loan. As Xiaoying Housing Loan is a secured loan product and we are entitled to payment by exercising our rights to the collaterals, we do not exclude Xiaoying Housing loan delinquent for more than 60 days in the outstanding loan balance. The outstanding balance of loans we facilitated to borrowers increased from RMB13.2 billion as of December 31, 2020 to RMB24.9 billion as of December 31, 2021 and then further increased to RMB38.0 billion as of December 31, 2022. The table below sets forth the breakdown of outstanding loan balance by product as of the dates indicated.

Loan Product	As of December 31, 2020		As of December 31, 2021		As of December 31, 2022	
	RMB in millions	%	RMB in millions	%	RMB in millions	%
Xiaoying Credit Loan	12,714	96.2 %	24,864	99.8 %	37,892	99.7 %
Xiaoying Revolving Loan	399	3.0 %	0	0.0 %	N/A	N/A
Xiaoying Housing Loan	105	0.8 %	48	0.2 %	40	0.1 %
Others	—	—	—	—	60	0.2 %
Total	13,218	100.0 %	24,912	100 %	37,992	100 %

To make the outstanding loan balance comparable to our peers, we also present the outstanding loan balance excluding loans overdue more than 180 days, except for Xiaoying Housing Loan. The outstanding balance of loans we facilitated to borrowers increased from RMB13.7 billion as of December 31, 2020 to RMB25.9 billion as of December 31, 2021 and then further increased to RMB39.1 billion as of December 31, 2022. The table below sets forth the breakdown of outstanding loan balance by product as of the dates indicated.

Loan Product	As of December 31, 2020		As of December 31, 2021		As of December 31, 2022	
	RMB in millions	%	RMB in millions	%	RMB in millions	%
Xiaoying Credit Loan	13,075	95.7 %	25,859	99.8 %	38,958	99.7 %
Xiaoying Revolving Loan	482	3.5 %	1	0.0 %	N/A	N/A
Xiaoying Housing Loan	105	0.8 %	48	0.2 %	40	0.1 %
Others	—	—	—	—	62	0.2 %
Total	13,662	100.0 %	25,908	100 %	39,060	100 %

Xiaoying Credit Loan

Considering that both Xiaoying Card Loan and Xiaoying Preferred Loan are unsecured online personal credit loan products, in 2018 we integrated those two products with similar features into one general product category, Xiaoying Credit Loan, to improve management efficiency. We have ceased the facilitation of Xiaoying Preferred Loan since October 2019. We may introduce other unsecured loan products from time to time under the category of Xiaoying Credit Loan.

Xiaoying Card Loan

Launched in December 2016, Xiaoying Card Loan, primarily an online personal credit loan product, is our flagship product targeting prime borrowers.

Borrowers

Xiaoying Card Loan's target borrowers are primarily young consumers who are in the early stages of their careers with insufficient credit lines granted by traditional credit card issuers, and they choose Xiaoying Card Loan to supplement their credit lines to fulfill their consumption needs.

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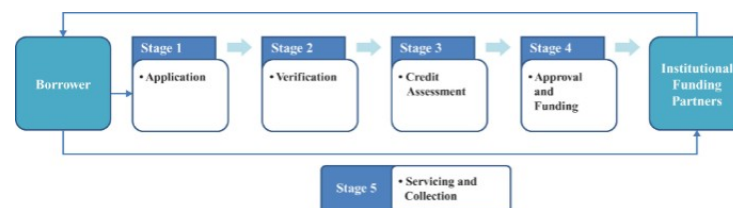
Products

We offer Xiaoying card loan in amounts ranging from RMB1,000 to RMB50,000 with terms of three, six, nine and twelve installments. Borrowers usually repay the principal and interest accrued based on the original principal amount in equal monthly installments, provided that, prior to December 7, 2017, we deducted part of the service fees from the loan principal in advance and received the remaining service fees paid by borrowers in equal monthly installments. In October 2017, we introduced a new loan product “Xiaoying Professional Loan” to credit card holders who have been assigned with the highest credit grade by our risk management system and require long-term liquidity and large-amount capital. Xiaoying Professional Loan has a term of one to three years. Borrowers of this product can repay at any time after three months of origination and all monthly service fees for the remaining period is waived upon termination. We started to operate and manage Xiaoying Professional Loan under Xiaoying Card Loan since January 1, 2018. We have ceased the facilitation of Xiaoying Preferred Loan and the outstanding balance of Xiaoying Professional Loan we facilitated to borrowers was nil as of December 31, 2022. In 2020, 2021 and 2022, the average APR of Xiaoying Card Loan paid by borrowers was 21.9%, 19.34% and 17.58%.

We facilitated 2,462,468 loans, 4,926,629 loans and 6,217,145 loans for Xiaoying Card Loans in 2020, 2021 and 2022, respectively. The total loan amount of Xiaoying Card Loan we facilitated increased from RMB23,841 million in 2020 to RMB51,859 million in 2021 and then further increased to RMB73,526 million in 2022. The average loan amount per transaction was RMB9,682 in 2020, RMB10,526 in 2021 and RMB11,826 in 2022. The outstanding balance of Xiaoying Card Loan we facilitated to borrowers increased from RMB12,615 million as of December 31, 2020 to RMB24,864 million as of December 31, 2021 and further increased to RMB37,892 million as of December 31, 2022.

Transaction Process

We facilitate most of Xiaoying Card Loan through mobile application which is a simple, secure and convenient loan application process. The following diagram illustrates a simplified transaction process of Xiaoying Card Loan:



Stage 1: Application

Applicants of Xiaoying Card Loan must first register a user account by providing requested personal details, including mobile phone number and PRC identity card information. With the applicant’s authorization, the PRC identity card will be automatically captured and recognized by our authentication module through Optical Character Recognition, or OCR technology. Applicants are also required to do specific poses facing the front camera of their phones to complete automatic biometric recognition. When the registered users choose their desired loan amount and term of a loan product, they are required to further provide additional information including current residential addresses, contacts and debit card information used for monthly repayment.

Stage 2: Verification

Upon submission of a completed application, we verify each applicant’s information using multiple authentication technologies and internal and external databases, including, among others, face scanning and OCR technology, the internal and industry blacklist provided by third party database and the mobile activities of the applicant, to identify and screen for fraudulent applications. See “—Risk Management” for details.

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Stage 3: Credit Assessment

Once an applicant's information is input into our proprietary risk control system, WinSAFE, we will conduct credit assessment based on our database. We will also send the identity information of the applicant to our financial institutional cooperators and receive their credit opinion on insurance or guarantee based on their credit analysis model. We will, in accordance with our own risk management strategies, embed such credit opinion on insurance or guarantee into our risk management model for determining and assigning each applicant a credit grade. Such credit grade is a comprehensive credit level reflecting our prediction of the applicant's likelihood of future delinquency, considering multiple factors, among others, the applicant's ability to fund repayment obligations. We continue to optimize our risk management model as we modify and identify more effective proxies to estimate an applicant's income level. We constantly incorporate new information into our credit assessment process with our own accumulated data as well as external third party collaboration such as other online lending platforms to better evaluate the overall indebtedness of the applicant and his or her likelihood to repay our loans with loans from other platforms. Credit grade will not be adjusted until the same applicant applies for another loan, when the repayment history of all the existing loans will be added into the risk model to determine the credit grade for the new loan application. See "—Risk Management" for a detailed description of WinSAFE and other aspects of our risk management.

Stage 4: Approval and Funding

Following the credit assessment, we may (i) approve the loan application, (ii) approve the loan subject to modification of the loan amount, or (iii) decline the loan application. Applicants are notified of the results.

Once the applicant's loan application is approved, we may send the application to institutional funding partners for their credit assessment. Once a loan is fully subscribed after the credit assessment of our institutional funding's risk control model, funds are transferred to the borrower's account. The borrower will enter into related agreements for funding.

Stage 5: Servicing and Collection

We provide repayment reminder services through in-app notifications, SMSs or phone calls by our service representatives before the due date for each scheduled repayment. We collect a penalty fee from a defaulting borrower on a daily basis for past due loan principal.

We establish a score model to differentiate the risk level of a defaulting borrower based on the type of loan products, outstanding amount, delinquent days and historical repayment pattern. We adopt various approaches, including text messages, phone calls and other legitimate actions to request repayment of the delinquent loan balance and accrued interests and default charges.

We outsource most of our collection services to third party collection agencies and we require them to use our serving and collection system and comply with our guidelines and standards. We also monitor the performance of such third party collection agencies to ensure appropriate collection methods and practices through KPI monitoring, phone call recording playback, site visits, complaint call playback, internal training, as well as assessments.

Borrower Acquisition and Retention

Xiaoying Card Loan is very attractive to prime borrowers looking for a combination of small credit line and attractive APR. Supported by our advanced credit analytics, we are able to deliver a superior user experience through user-friendly loan application process, efficient credit decision, and speedy remittance, which in turn enables us to expand our borrower base. We also advertise our loan products and loan facilitation services through online channels, including our website and mobile application and cooperation with search engines, app stores, third party apps and WeChat self-media public accounts.

We continue to provide existing borrowers with convenient lending services to enhance borrower stickiness. For borrowers with good transaction history, we may raise their loan limit, offer discounted service fees and a better referral program.

Xiaoying Preferred Loan

Launched in November 2015, Xiaoying Preferred Loan is a high-credit-limit unsecured personal loan product. Xiaoying Preferred Loan's target borrowers were primarily self-employed business owners with established credit record who have liquidity and capital needs for daily operations. We have strategically ceased the facilitation of Xiaoying Preferred Loan since October 2019 due to the high cost of its servicing and collection and the related risks.

Xiaoying Revolving Loan

In August 2018, we introduced Xiaoying Revolving Loan (mainly including Yaoqianhua, which was previously named as Xiaoying Wallet), which is an evolving loan product for online purchases and mobile payments. Borrowers are able to use Xiaoying Revolving Loan to have a credit limit, and they can repay the borrowed amount at any time, enjoying an interest-free period of up to 7 or 32 days depending on a user's rating. Borrowers are also able to choose to repay by 3, 6, 10 or 11 monthly installments through Xiaoying Revolving Loan. We ceased the operation of Yaoqianhua in December 2020 and currently we do not have any other new loan products under the category of Xiaoying Revolving Loan. We facilitated 13,357,630 loans of Xiaoying Revolving Loan in 2020. The outstanding balance of Xiaoying Revolving Loan we facilitated to borrowers decreased from RMB399 million as of December 31, 2020 to RMB0.01 million as of December 31, 2021 and further decreased to nil as of December 31, 2022.

Xiaoying Housing Loan

In July 2015, we started to facilitate Xiaoying Housing Loan, a home equity loan product secured by properties owned by borrowers. Xiaoying Housing Loan's target borrowers are primarily small business owners holding properties with short-term liquidity and capital needs for daily operations and consumption. Since February 2019, we have strategically ceased the facilitation of Xiaoying Housing Loan due to the time-consuming foreclosure process of underlying collateral for defaulted loans. We do not charged-off and exclude Xiaoying Housing loan delinquent for more 60 days in the outstanding loan balance, as Xiaoying Housing Loan is a secured loan product and we are entitled to payment by exercising our rights to the collaterals. The outstanding balance of Xiaoying Housing Loan we facilitated to borrowers decreased from RMB105 million as of December 31, 2020 to RMB48 million as of December 31, 2021 and further decreased to RMB40 million as of December 31, 2022. Borrowers of Xiaoying Housing Loan entered into an entrusted guarantee agreement and a security agreement with Shenzhen Xintang under which the borrower paid fees to Shenzhen Xintang for providing guarantee to the investor or institutional funding partners of Xiaoying Housing Loan and established mortgage in its real properties as a security for Shenzhen Xintang's guarantee services. The guarantee related to the default of the outstanding balance of Xiaoying Housing Loan were all settled by the end of the first quarter of 2020.

Loan Facilitation Services to Other Platforms

In December 2015, we started to cooperate with selected financial technology companies and facilitate loan products designed by them to their referred borrowers. Such loans have terms primarily ranging from one to three months. Through such cooperation, we have expanded our borrower acquisition channels. We have ceased to facilitate loans for other platforms since the second half of 2020. We required the selected financial technology companies to pay us a deposit as a credit enhancement, and the outstanding balance of the deposit that we received from them was RMB19.7 million as of December 31, 2022. The remaining balance of the deposit will be released upon expiry of the co-operation agreements or newly signed settlement agreement.

Our Investors and Institutional Funding Partners

We used to provide investment products to individual investors on our Xiaoying Wealth Management platform. Since early 2019, the Company began the transformation of its business model from a P2P platform to a platform that focuses on the facilitation of its institutional funding partners to provide loans to borrowers. The change was initiated primarily in response to the rapidly evolving regulations in China, including requirements to reduce loan balance, investor count and fees for the P2P business. We ceased accepting new investment in our loan products from individual investors on the Xiaoying Wealth Management platform at the end of 2019 and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020. In December 2020, we fully repaid the investment principals and interest to all of the individual investors who invested in our loan products on the Xiaoying Wealth Management platform. Individual investors are still able to purchase other financial products, including money market products and insurance products, on our Xiaoying Wealth Management platform. In May 2021, we obtained a network microcredit license from the Local Financial Regulatory Bureau of Shenzhen Municipality and started online microcredit business in July 2021. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners. In 2021, 98.0% of the total funding for loans we facilitated were provided by institutional funding partners and 2.0% were provided by our own capital. In 2022, 97.3% of the total funding for loans we facilitated were provided by institutional funding partners and 2.7% were provided by our own capital.

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As part of our efforts to expand our cooperation with institutional funding partners, we established a business relationship with certain trusts which were administered by third party trust companies. The trusts were set up to invest solely in the loans facilitated by us on our platform to provide returns to the beneficiaries of the trusts through interest payments made by the borrowers. In 2021, we further developed a new business model with certain trust partners. We and certain trusts jointly established several limited partnership enterprises, or LPs, to invest solely in the loans facilitated by us on our platform to provide returns to us through interest payments made by the borrowers. In terms of the partnership agreements, we, as the general partner, are responsible for the business operations of the LPs and authored to execute contracts on behalf of the LPs. We determine to consolidate these trusts and LPs as we have the power to direct the operating activities and absorb or enjoys the potential residual losses or returns of the trusts and LPs.

In connection with our collaboration with institutional funding partners, we have jointly established effective risk control management system. We work with various financial institutional cooperators, such as insurance company and financing guarantee companies to provide insurance or guarantee covering loans funded by institutional funding partners, which enhances the funding partners' confidence and enables us to obtain funding sources at favorable terms.

In light of the regulatory update, we have reviewed and adjusted our cooperation with banking financial institution partners, such as suspending certain cooperation, to better comply with these regulatory requirements. We ceased the online intermediary model in April 2017. We gradually reduced the volume of loans facilitated through the offline intermediary model with funding from banking financial institution partners after December 31, 2017 due to regulatory requirement and completely ceased such operations in February 2018. We continue the operations through the offline intermediary model with funding from other partners to the extent permitted under applicable laws and regulations. Those institutional funding partners may invest their funds in the loans facilitated under direct model and/or intermediary model, depending on their investment strategies.

Our Partnership with Financial Institutional Cooperators

We have established in-depth cooperation with ZhongAn who provides credit insurance to protect funding providers against default for both the principal and interest. We monitor ZhongAn's financial condition and credit quality periodically through public information disclosed as required by PRC regulatory authorities since its establishment in October 2013 and by Hong Kong Stock Exchange since its listing in September 2017. As disclosed in ZhongAn's 2022 annual report and 2021 annual report, ZhongAn's comprehensive solvency margin ratio was 560%, 472% and 299% as of December 31, 2020, 2021 and 2022, respectively. 6.66% of our outstanding loans were covered by the credit insurance products provided by ZhongAn as of December 31, 2022.

We have also established cooperation with high-quality financing guarantee companies who provide guarantee services to protect institutional funding partners from losses. Substantially all of them have at least AA+ credit rating issued by rating companies including China Lianhe Credit Rating Co., Ltd., China Chengxin Credit Management Co., Ltd., Shenzhen Lianhe Credit Information Service Co., Ltd and Fujian China Chengxin Credit Rating Consulting Co., Ltd. Our financing guarantee partners provide guarantee services covering both the North China and South China areas, most of which have a registered capital of more than RMB1 billion. 81.74% of our outstanding loans were covered by the guarantee services provided by external financing guarantee companies as of December, 2022.

Credit Insurance and Guarantee Services

Prior to September 2017, ZhongAn provided credit insurance to substantially all the loans we facilitated. ZhongAn initially reimbursed the loan principal and interest to the investor upon the borrower's default. In order to maintain stable business relationship with ZhongAn, we would then at our sole discretion, compensate ZhongAn for substantially all the loan principal and interest default but have not been subsequently collected.

From September 2017, we revised the arrangement with ZhongAn. Starting from 2020, we enter into a series of arrangements with various external financing guarantee companies, which is similar to the revised arrangement with ZhongAn. We cooperated with Shenzhen Xintang, our consolidated VIE, to provide guarantees for certain loan products that we facilitate in the past according to these arrangements. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire, and we will cooperate with other loan products guarantor to provide guarantees for the loan products that we facilitate in the future. Shenzhen Xintang will compensate those financial institutional partners for the amount they had paid under investors' claims arising from defaults by borrowers; however, Shenzhen Xintang's compensation obligation shall not exceed the pre-agreed Cap. The arrangements also clarify that in case of any adjustment to the guarantee service fee rate Shenzhen Xintang collectible from borrowers, the total guarantee service fees Shenzhen Xintang collectible from all borrowers will change accordingly and the upper limit of Shenzhen Xintang's compensation obligation will also change in accordance with such adjustment.

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We have expanded our cooperation with high-quality external financing guarantee companies that provide guarantee services to protect institutional funding partners from losses incurred from borrowers' defaults and charge guarantee fees from borrowers. A portion of guarantee fees will be subsequently paid to us by the external financing guarantee companies as the service fee.

Deposit Arrangement

Starting from November 2019, we enter into a series of deposit arrangements with financing institutional cooperators. We are required to pay deposits to those financial institutional cooperators monthly or in accordance with an agreed payment schedule. The amount of deposit is separately agreed with each institutional cooperator, usually calculated by multiplying the outstanding loan balance on the reconciliation date by an agreed percent rate ("the standard amount"). The agreed percent rate may be adjusted from time to time. If the balance of the deposits exceeds the standard amount or supplementary payment of deposit is needed, the financial institutional cooperators shall refund the excess part to us or we shall make supplementary payment of deposit in accordance with an agreed payment schedule.

Cooperation on Technology

We cooperate with financial institutional cooperators in technology development. The risk decision system established by our financial institutional cooperators which is based on their credit analysis model, leveraging its resources and access to various databases, including PBOC CRC that is only available to licensed financial institutions, provide assistant services to our risk decision process. Such services include product management, business monitoring and management risk policies. In addition to our financial institutional cooperators' decision and input, we also incorporate other credit and fraud related data and models to complete our full credit evaluation.

Third Party Payment Service Providers

We cooperate with third party payment service providers for the payment, settlement and clearance of the proceeds of the loans for our borrowers and investors. In choosing the third party payment agent, we take into consideration numerous criteria, including network infrastructure, security measures, reliability, information technology capabilities and experience.

Risk Management

We have adhered to the principal of "Respect Risk" in our operations since our establishment. Leveraging its extensive knowledge and in-depth insights in risk management from years of working experiences with large and reputable financial institutions, our risk management team has developed comprehensive risk management system, policies and measures covering data collection and reprocess, development and upgrading of risk control system, fraud detection and credit scoring and pricing.

The three core elements of our risk management are data, technology and management. We base our credit assessment on rigorous quantitative analysis. We have developed our proprietary risk control system, WinSAFE, on the foundations of traditional consumer banking risk management modules with reputable credit information and big data generated from mobile internet to manage the risk in our daily operation.

Data Collection and Reprocessing

Sufficient and high-quality data is the foundation for effective risk management. We collect data that is directly provided and authorized for our use by the user and from multiple third party data providers. We cooperate with third party credit agencies for credit data of borrowers. Moreover, we accumulate data from social activities, including but not limited to, social circles, website activities, mobile behavior and contact information. All the data collected by our internal team enables us to build up a comprehensive credit database to analyze user data from both traditional consumer finance data and the big data generated from mobile internet relating to users' social behavior and spending pattern that are typically ignored by traditional financial institutions.

We take advantage of our accumulated massive data and have established a comprehensive profile of each user containing over 2,500 variables covering traditional consumer banking data and the big data generated from mobile internet, providing the solid base for our credit assessment and decision-making and differentiating us from other consumer finance companies who may only have data in certain areas. We utilize various data reprocessing technology such as data smoothing algorithm and social network graphic to ensure the reliability and accuracy of data and perform in-depth data analysis.



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Risk Control System and Models

We have independently developed our proprietary risk control system, WinSAFE, which is our decision center and is able to carry out thousands of testing simultaneously. Based on data collection, processing and analytics, through our WinSAFE system, we continue to fine-tune mobile lending credit policy through numerous tests each month to achieve best risk returns. The two major components of our risk management procedures are risk assessment model optimization and credit policy adjustments.

The risk assessment model optimization maintains over 100 models primarily including logistics regression and machine learning models that are employed at different stages for different products. Each model performs the function independently but operates in close synchronization with each other, enabling WinSAFE to effectively analyze a borrower's value, payment capability and payment attitude to accurately evaluate the borrower's credit worthiness. Apart from the traditional numerical variables, we also convert unorthodox inputs, such as human behavior, social relationships and mobile activities, into numerical covariates through complex algorithms. The credit policy adjustments is established through lifetime value of the users and rigorous stress tests to achieve a balance between business volume and profitability with an emphasis on business resiliency. We continuously modify and incorporate new information into our credit policy, such as economic environment, user clientele change and new testing results. The models are updated daily or regularly to match the business development through machine learning with traditional modeling, providing an increasingly accurate indicator of default risk with the increasing availability of data.

Currently, through our continuous optimization, WinSAFE is able to process data through the processes from loan application to approval and is able to make decisions within ten minutes for over half of Xiaoying Card Loan, providing instant feedback that the mobile users are in desire of and strengthening our risk control and fully automatic decision-making capability.

Fraud Detection

We utilize internal and third party databases and authentication technologies, including face scanning and OCR verification of identity cards and bank cards, to verify and authenticate the identity of the applicant and the submitted application information. We effectively implement over 300 anti-fraud rules and use our multiple-source database containing various internal and industry blacklists and multiple-dimension tagging system to detect the probability of individual and group fraud.

Leveraging our in-depth data analysis of the comprehensive data we have collected, we assess the applicant's payment capability and payment attitude. We adopt over 2,500 variables in credit assessment and crosscheck with a blacklist of over 1,000,000 fraud data. Utilizing big data, we apply various analytical processes, such as machine learning, deep learning, graphical analysis, to identify credit risks and potential fraudulent behavior of each applicant and build and optimize our credit assessment model.

When our risk control system receives an application, we will send the applicant's insurance or guarantee application to our financial institutional cooperators and will receive the insurance or guarantee decision opinion from those financial institutional cooperators based on their credit analysis. We will, in accordance with our own risk management strategies, embed such assessment results into our risk management models for decision making.

Credit Scoring and Pricing

We offer differentiated credit pricing and credit limits to prime borrowers based on individual credit grades. Based on our prediction of the applicant's likelihood of future delinquency and his/her profile, our risk management system assigns a credit grade to each remaining Xiaoying Card Loan applicant, with risk level A representing the lowest risk, risk level D representing the highest risk. Such credit grade is a comprehensive credit level generally determined based on the grouping of an applicant's basic information, credit history and behavior data, including personal identity information, education background, consumption and social network behavior, and insurance or guarantee decision opinion from our financial institutional cooperators. Credit grade is determined at the time of a loan application and will not be adjusted until the borrower applies for another loan, when the repayment history of all the existing loans will be added into the risk model to determine the credit grade for the new loan application. In addition to the individual specification attaching to the credit grade for each applicant, from time to time, we adjust the overall standard of each credit risk level based on market conditions and our risk management policies when we believe necessary.

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

Our Technology and IT Infrastructure

Technology System

We believe our technology and IT infrastructure are a competitive advantage and an important reason that borrowers and institutional funding partners utilize our platform. Key features of our technology and IT infrastructure include:

Abundant Mobile Internet Data

We collected a large amount of borrowers' credit and behavioral data. The substantial volume of data in the system enables us to build a comprehensive credit profile for each borrower.

Advanced Computing Technology

We adopt innovative risk pricing models for the accumulation of credit data for loan facilitation platform.

User-friendly Mobile Applications

We have independently developed the mobile applications for borrowers of Xiaoying Card Loan, Xiaoying Revolving Loan and investors of Xiaoying Wealth Management, respectively. The mobile applications enable users to access our platform at any time and at any location to make transactions in a convenient way.

The mobile application of Xiaoying Card Loan and Xiaoying Revolving Loan adopts the OCR identity verification technology (ID card, face, bank card) for borrowers to complete the verification. We also incentivize the borrowers to recommend the application to their friends by issuing coupons as discounts to the service fee.

We have completely ceased the investment in loans on our Xiaoying Wealth Management platform, while individual investors are still able to purchase other financial products, including money market products and insurance products, on our Xiaoying Wealth Management platform.

Data and Transaction Security and Stability

We collect and store a large amount of user data, including mobile phone numbers, identification card numbers, bank card numbers and borrowing information in our database. We take the privacy of our users and security of their information seriously, and have implemented a strict internal user data security management policy and to protect our users' confidential information. The policy establishes user's authorization to data usage, data and information classification, approval procedures and access rights for confidential information and data. We require written records of each of our employee's access and retrieval of the data and monitor the process.

We adopt remote backup technology and have built up a disaster recovery structure of "two locations, three centers." In addition, we back up our core business database daily on dedicated backup servers. We have implemented a data-backup policy to ensure the safety of our data.

Research and Development

Our technology development personnel have extensive experience with leading internet, online consumer finance and mobile commerce and financial technology companies, and focuses on the following that support our long-term business growth:

- Maintaining and strengthening all of our platform and application system, including but not limited to: main website, mobile applications, back-stage system, proprietary data and credit analysis systems, payment system and big data system;
- Ensuring our technology system is well established, reviewed, tested and continuously strengthened; and
- Organizing and participating in the industry seminars, exploring relevant cutting-edge technologies.

Brand, Sales and Marketing

Our general marketing efforts are designed to build brand awareness and reputation and to attract and retain borrowers and institutional funding partners. We believe reputation and word-of-mouth marketing drive continued organic growth in borrower base. As a supplement, we use offline network channel and online marketing initiatives to promote our brand and products. For example, we work with several advertising companies to promote our mobile applications with internet companies through online advertisements. We also cooperate with media and organize branding events to enhance our brand awareness.

Users Service

To better serve our users, we have independently developed a comprehensive user service system. We provide user service from 9:00 a.m. to 6:00 p.m. every day through our user service hotline, 24/7 artificial intelligence customer service and human customer service from 9:00 a.m. to 7:00 p.m. every day through our website, mobile applications and WeChat public account. Our user service personnel are responsible for answering calls for our user service hotlines, responding to queries in emails, as well as providing online user service support. To monitor the quality of our user services, each inquiry made by our users will be recorded and reviewed on a selective basis.

Intellectual Property

We regard our trademarks, domain names, copyrights, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark and trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. We have registered 325 trademarks in the PRC and 3 trademarks under application in the PRC. We are the registered holder of 163 domain names. We also have 74 copyrights for our proprietary techniques in connection with our systems. We have registered 6 patents in the PRC and 9 patents under application in the PRC.

Seasonality of Our Business

We experience seasonality in our business, reflecting seasonal fluctuations in internet usage and traditional personal consumption patterns, as our individual borrowers typically use their borrowing proceeds to finance their personal consumption needs. For example, we generally experience lower transaction volume during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. As we facilitate loans to institutional funding partners, such as commercial banks, our business may also be affected by liquidity seasonality in the banking system. For example, liquidity in China's banking sector has historically had a tendency to be looser at the beginning of each calendar year and tighter towards the end of each calendar year. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

Competition

The online personal finance industry in China is an emerging industry in China. It provides a new means for consumers to obtain financing. As a leading player in China's online personal finance platform market, we face intensive competition from other online marketplaces, online finance service providers, technology giant backed internet finance platforms, as well as traditional financial institutions.

Online personal finance marketplaces which operate online platforms connecting borrowers and institutional funding partners compete directly with us for both borrowers and institutional funding partners. We also compete with traditional financial institutions, including credit card issuers, consumer finance business units in commercial banks and other consumer finance companies. Some of our larger competitors have substantially broader product or service offerings and rich financial resources to support heavy spending on sales and marketing. In light of the low barriers to entry in the online consumer finance industry, more players may enter this market and increase the level of competition. We anticipate that more established internet, technology and financial services companies that possess large, existing user bases, substantial financial resources and established distribution channels may enter the market in the future.

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As evidenced by our market leadership, we believe that we are able to compete effectively for borrowers and institutional funding partners by leveraging our competitive advantages including our strategic positioning to target the prime borrower segment, superior user experience on our platform, effectiveness of our risk management, the return offered to institutional funding partners, our partnership with various business partners, and the strength and reputation of our brands.

Recent Investment

YTZ (HK) Limited, a wholly-owned subsidiary of X Financial, entered into a subscription agreement dated March 2, 2021, for subscribing certain limited partnership interests in Dragonfly Ventures II, L.P., a limited partnership governed under the laws of the Cayman Islands and managed by Dragonfly GP II, LLC, focusing on the blockchain industry investment with its long-term value investment strategy and research-driven process. Pursuant to the subscription agreement, we invested in an aggregate amount of US\$10 million in the partnership. As a limited partner, we do not have ability to take in the control or management of the affairs or the conduct of the business of the partnership. In connection with the restructuring of Dragonfly Ventures II, L.P., YTZ (HK) Limited entered into certain Withdrawal, Contribution and Adherence Agreement dated December 30, 2021 and entered into an amended and restated exempted limited partnership agreement.

YTZ (HK) Limited entered into a second amended and restated limited partnership agreement dated March 15, 2021, for subscribing certain limited partnership interests in IOSG Fund II LP, a limited partnership governed under the laws of the Cayman Islands and managed by IOSG Ptd Ltd. focusing on the blockchain industry investment with its long-term value investment strategy and research-driven process. Pursuant to the agreement, we committed to invest US\$3 million to the partnership. As a limited partner, we do not have ability to take in the control or management of the affairs or the conduct of the business of the partnership.

YTZ (HK) Limited entered into a subscription agreement dated January 28, 2022, and an amended and restated exempted limited partnership agreement dated January 28, 2022, for subscribing certain limited partnership interests in Dragonfly Ventures III Feeder, L.P., a limited partnership governed under the laws of the Cayman Islands and managed by Dragonfly GP III, LLC. Pursuant to the agreement, we committed to invest US\$10 million to the partnership. As a limited partner, we do not have ability to take in the control or management of the affairs or the conduct of the business of the partnership.

YTZ (HK) Limited entered into a subscription agreement dated February 23, 2022, and an amended and restated exempted limited partnership agreement dated January 28, 2022, for subscribing certain limited partnership interests in Dragonfly HF (Parallel) L.P., a limited partnership governed under the laws of the Cayman Islands and managed by Dragonfly GP III, LLC. Pursuant to the agreement, we committed to invest US\$3 million to the partnership. As a limited partner, we do not have ability to take in the control or management of the affairs or the conduct of the business of the partnership.

YTZ (HK) Limited entered into a subscription agreement dated May 15, 2022, for subscribing US\$5 million convertible notes in C Squared Ventures, a company governed under the laws of the Cayman Islands. The notes are convertible into class B ordinary shares of C Squared Ventures.

In 2021, Shenzhen Ying Ai Gou Trading Co., Ltd. (“Shenzhen Ying Ai Gou”), a wholly-owned subsidiary of Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd. (“Beijing Ying Zhong Tong”), one of our VIEs, entered into a share purchase agreement with Shenzhen SUNHOPE Investment Development Co., Ltd, a PRC company (“SUNHOPE”), and Shenyang Tianxinhao Technology Limited, a PRC company (“Tianxinhao”) which is a wholly-owned subsidiary of SUNHOPE. Pursuant to the agreement, Shenzhen Ying Ai Gou acquired 45% issued and outstanding shares of Tianxinhao from SUNHOPE for approximately RMB315 million. After the closing of this acquisition, Shenzhen Ying Ai Gou owned 12.6% of issued and outstanding shares of Newup Bank of Liaoning, a PRC company and non-state-owned bank (“Newup Bank”), through Tianxinhao. As an indirect minority shareholder of Newup Bank, we do not have ability to take in the control or management of the affairs or the conduct of the business of Newup Bank.

Insurance

We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We also provide additional commercial medical insurance coverage for our key management. We do not maintain business interruption insurance, general third party liability insurance, product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China and in line with market practice.

Regulation

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

Regulations Relating to Foreign Investment

On March 15, 2019, the National People's Congress promulgated the PRC Foreign Investment Law, which became effective on January 1, 2020 and replaced the existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. Meanwhile, the Regulations for the Implementation of the PRC Foreign Investment Law came into effect on January 1, 2020, which clarified and elaborated the relevant provisions of the PRC Foreign Investment Law. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the PRC Company Law and the PRC Partnership Enterprise Law. Foreign-invested enterprises established before the implementation of the PRC Foreign Investment Law may retain the original business organization and so on within five years after the implementation of this Law. The Foreign Investment Law and the Implementation Regulations do not mention the relevant concept and regulatory regime of VIE structures.

The PRC Foreign Investment Law is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the PRC Foreign Investment Law, "foreign investment" refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country (collectively referred to as "foreign investor") within China, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other similar rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) investments in other means as provided by laws, administrative regulations, or the State Council.

According to the PRC Foreign Investment Law, foreign investments are entitled to pre-entry national treatment and subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is no lower than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields. Foreign investors' investment, earnings and other legitimate rights and interests within the territory of China shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises.

Investment activities in the PRC by foreign investors are governed by the Catalog of Industries for Encouraging Foreign Investment, or the Catalog, which became effective on January 27, 2021, and the Special Administrative Measures (Negative List) for Foreign Investment Access, or the Negative List promulgated by the MOC, which became effective on July 23, 2020 and has been amended from time to time by the MOC and the National Development and Reform Commission. It sets out the industries in which foreign investments are prohibited or restricted. Foreign investors will not make investments in prohibited industries, while must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. According to the Negative List, the proportion of foreign investment in entities engaged in value-added telecommunication services (excluding e-commerce, domestic multi-party communications services, store-and-forward services, and call center services) shall not exceed 50%. The most updated Negative List, issued on December 27, 2021 and became effective on January 1, 2022, stipulates that any PRC domestic enterprise engaging in the fields prohibited by the Negative List shall obtain the consent of the relevant competent PRC authorities for overseas listing, and the foreign investors shall not participate in the operation and management of such enterprise, and the shareholding percentage of the foreign investors in such enterprise shall be subject to the relevant administrative provisions of PRC domestic securities investment by foreign investors. Such Negative List does not further elaborate whether existing overseas listed enterprise will be subject to such requirements. The staff of the NDRC addressed in an interview on December 27, 2021 that certain existing overseas listed enterprises whose foreign investors' shareholding percentage exceed the aforementioned threshold are not required to make adjustment or deduction.

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Among others, the state guarantees that foreign invested enterprises participate in the formulation of standards in an equal manner and that foreign-invested enterprises participate in government procurement activities through fair competition in accordance with the law. Further, the state shall not expropriate any foreign investment except under special circumstances. In special circumstances, the state may levy or expropriate the investment of foreign investors in accordance with the law for the needs of the public interest. The expropriation and requisition shall be conducted in accordance with legal procedures and timely and reasonable compensation shall be given.

The *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision)*, which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures with the foreign investors owning no more than 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and sound experience in operating a value-added telecommunications business, provided that qualified foreign investors must obtain prior approvals from the MIIT and the MOFCOM or their authorized local counterparts, for its commencement of value-added telecommunication business in China. However, on March 29, 2022, the Decision of the State Council on Revising and Repealing Certain Administrative Regulations, which took effect on May 1, 2022, was promulgated to amend certain provisions of regulations including the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision), the requirement for major foreign investor to demonstrate a good track record and experience in operating value-added telecommunications businesses is deleted.

Circular of the Ministry of Industry and Information Technology on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business, or Circular 196, which was promulgated on June 19, 2015, provides that foreign investors are permitted to invest up to 100% of the registered capital in a foreign-invested telecommunication enterprise engaging in the operation of online data processing and transaction processing (E-commerce). However, foreign investors are only permitted to invest up to 50% of the registered capital in a foreign-invested telecommunication enterprise that engages in the operation of Internet information services. While Circular 196 permits foreign ownership, in whole or in part, of online data and deal processing businesses (E-commerce), a sub-set of value-added telecommunications services, it is not clear whether our marketplace lending platform will be deemed as online data and deal processing.

In July 2006, the MIIT issued the *Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business*, or the MIIT Notice, pursuant to which, for foreign investor invest in telecommunications service business in China, a foreign-invested telecommunications enterprise must be established, and such enterprise must hold a telecommunications businesses operation license. Furthermore, under the MIIT Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities or other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MIIT Notice, a foreign-invested value-added telecommunication service operator (or its shareholders) shall legally own the Internet domain names and registered trademarks used for its business operation.

Due to the above restrictions and requirements, we conduct our value-added telecommunications businesses through Shenzhen Xiaoying Technology Co., Ltd., one of our consolidated VIEs, and Shenzhen Ying Ai Gou Trading Co., Ltd., one of the subsidiaries of our consolidated VIEs. However, there is uncertainty as to how the requirements in the above rules will be interpreted and implemented and whether there will be new rules issued which would establish further requirements and restrictions on our contractual arrangements.

Regulations Relating to Value-Added Telecommunication Services

The *Telecommunications Regulations of the PRC*, or the Telecommunications Regulations, promulgated by the State Council on September 25, 2000 and amended on July 29, 2014 and February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations distinguish “basic telecommunications services” from “value-added telecommunications services. The basic telecommunications services provider who provides public network infrastructure, public data transmission and basic voice communications services shall obtain a Basic Telecommunications Service Operating License, and the value-added service provider who provides telecommunications and information services provided through the public network infrastructure shall obtain a Value-added Telecommunications Service Operating License, or VATS License. A catalogue was issued as an attachment to the Telecommunications Regulations to categorize telecommunications services as either basic or value-added. The current catalogue, as most recently updated on June 6, 2019, categorizes online information services and online data processing and transaction processing services as value-added telecommunications services. Internet content provider may be required to obtain an Internet content provider license, or ICP license, and e-commerce operator may be required to obtain an online data processing and transaction processing license, or ODPTP license.

On July 3, 2017, the MIIT promulgated the *Administrative Measures on Telecommunications Business Operating Licenses*, under which, a commercial operator of value-added telecommunications services must first obtain the VATS License, from the MIIT or its provincial level counterparts, otherwise such operator might be subject to sanctions including corrective orders and warnings from the competent administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites may be ordered to close.

On August 17, 2016, the China Banking Regulatory Commission, or the CBRC (one of the predecessors of the CBIRC), the MIIT, the Ministry of Public Security and the State Internet Information Office jointly issued the *Interim Measures on Administration of Business Activities of Online Lending Information Intermediaries*, or the Interim Measures. Pursuant to the Interim Measures, online lending information service providers shall apply for VATS License in accordance with relevant rules issued by competent telecommunication authority after completing the filing records to local financial regulators. However, the relevant implementation rules regarding such filing is yet to be issued therefore currently we are not able to make the necessary filing and then to apply for the VATS License. See “*Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We may be required to obtain or reapply for additional value-added telecommunication business licenses.*”

Regulations Relating to Online Lending Information Services

On July 18, 2015, the *Guidelines on Promoting the Healthy Development of Online Finance Industry*, or the Guidelines, were jointly promulgated by ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC. The Guidelines set out definition of online peer-to-peer lending as direct loans between individuals through an online platform, which is under the supervision of the CBRC, and governed by the PRC Contract Law, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People’s Court. Pursuant to the Guidelines, an online peer-to-peer lending information services provider shall specify its nature as an information intermediary that provides information services to facilitate the lending between borrowers and lenders, rather than offer credit enhancement services or engage in illegal fund-raising.

On April 12, 2016, the *Notice on the Implementation Plan of the Special Rectification of Peer-to-peer Online Lending Risk*, or the Notice, was issued by the China Bank Regulatory Commission, or the CBRC, which reiterated the requirements set out in the Guideline and further clarified the activities online peer-to-peer lending information service providers are prohibited to engage in.

The Interim Measures define online peer-to-peer lending as direct loans between peers, including nature persons, legal persons or organizations, through online platforms, which is in line with the definition of “online peer-to-peer lending” in the Guideline. Pursuant to the Interim Measures, companies engaged in the online lending information intermediary business shall only provide financial information services to borrowers and lenders for the purpose of facilitating their direct lending. Online lending information service providers shall complete registration with local financial regulatory authority and obtain appropriate telecommunication business license in accordance with relevant rules issued by competent telecommunication authority. The Interim Measures also require the online lending information service providers to substantially cover “online lending information intermediary” in its business scope filed with the local registration regulatory authority.

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According to the Interim Measures, online lending information providers shall, depending on the risk management capability, set upper limits on the outstanding loan balance of a single borrower borrowed both on one online lending platform and across all online lending platforms. In the case of natural persons, the balance of loan borrowed on one online lending platform shall not exceed RMB200,000, and the aggregated balance of loan borrowed across all platforms shall not exceed RMB1 million; in the case of legal persons or organizations, the limit for the outstanding loan balance on one platform and across all platforms shall be RMB1 million and RMB5 million respectively.

The Interim Measures stipulate that online lending information service providers shall not directly or indirectly engage in certain prohibited actions, including but not limited to, (i) self-financing, (ii) accepting or gathering funds of lenders, (iii) providing any guarantee to lenders directly or in a disguised form, (iv) issuing financial products to raise fund or acting as an agent to sell financial products, (v) splitting or fractionalizing the term of any financing product, (vi) asset securitization, (vii) falsifying or exaggerating the truthfulness and earnings of financing products or concealing the defects and risks of financing products, (viii) extending loans.

With respect to the online lending information service providers established prior to the implementation of the Interim Measures, which have not been in full compliance with the applicable requirements of the Interim Measures, the competent local financial regulatory department provide those not in full compliance with applicable requirements of the Interim Measures, a grace period of twelve months, within which such platforms shall rectify any violation against the Interim Measures and comply with all applicable requirements in the Interim Measures.

According to the Interim Measures, online lending information providers are subject to sanctions or penalties by local financial regulatory authorities or other competent authorities if found to be in violation of any applicable laws and regulations or relevant regulatory provisions relating to online lending information services. The sanctions and penalties include supervisory inquiry, regulatory warning, correction order, condemnation, credit record modification, fine up to RMB30,000, and criminal liabilities where applicable.

On October 28, 2016, the CBRC, the MIIT and State Administration for Industry and Commerce, or the SAIC, jointly issued the *Guidance on the Administration of Registration of Online Lending Information Intermediaries*, or the Registration Guidelines, which provides the general filing rules for online lending intermediaries, and delegates the filing authority to local financial authorities. The Registration Guidelines, sets forth that online lending intermediaries are approved locally. Under the general filing procedures for online lending intermediaries, before an filing application is submitted to local financial regulators, the online lending intermediaries may be required to: (i) rectify any breach of applicable regulations as required by local financial regulators; and (ii) apply to the Industry and Commerce Administration Department to amend or register such entity's the business scope.

The CBRC also authorizes local financial regulators to make detailed implementation rules regarding filing procedures. However, relevant local financial regulators are also in the process of making such implementation rules, which may require us to complete filing records under such future requirements within a grace period.

On February 22, 2017, the CBRC released the *Guidelines on Online Lending Funds Custodian Business*, or the Custodian Guidelines, which set out requirements on the fund custodian services for online lending information intermediaries. The Custodian Guidelines define custodian as commercial banks qualified for providing depositary services for online lending information providers and specify the criteria for qualification. Pursuant to the Custodian Guideline, an online lending information service provider may only enter into fund depositary agreement with one custodian for the funds of lenders and borrowers held by it, and shall segregate the funds of lenders, borrowers and the proprietary funds of online lending information service providers in separate accounts. For any online lending information service providers and custodian operating prior to the implementation of the Custodian Guideline, which are not in full compliance with the Custodian Guidelines, they are required to rectify any violation of the Custodian Guideline within a six-month grace period starting from the issuance of the Custodian Guideline.

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On August 23, 2017, the CBRC further issued the *Guidelines on Information Disclosure of the Business Activities of Online Lending Information Intermediaries*, or the Disclosure Guidelines, which clarified the disclosure obligation of online lending information service providers. Pursuant to the Disclosure Guidelines, online lending information service providers shall set a special column of information disclosure on the eye-catching locations of its official website and all other available internet channels, such as mobile applications and WeChat official accounts to disclose certain information, including, among other things (i) basic information of the online lending information service provider, such as its registration information, organization information, and financial data; (ii) transaction related information, such as the total notional and number of transactions matched through the online lending information platform; and (iii) any event that could result in a material adverse effect on the operations of online lending information providers. The Disclosure Guidelines also require online lending information service providers to record all the disclosed information and retain such information for no less than five years from the date of the disclosure. For any online lending information service providers are not in full compliance with the Disclosure Guidelines, they are required to rectify any violation of the Custodian Guideline within a six-month grace period upon issuance of the Disclosure Guideline.

On July 4, 2017, Financial Development and Service Office of the People's Government of Shenzhen published a discussion draft on the proposed *Administrative Measures on the Registration of Shenzhen based Online Lending Information Intermediary*, or the Proposed Administrative Measures, for public review and comments. The Proposed Administrative Measures set out detailed requirements and procedures for the registration of online lending information service providers, which, including, among others, to require the online lending information providers to implement robust network security protection system, select a qualified commercial bank that has a branch in Shenzhen as its fund custodian institution and opened the custodian accounts for online lending in its Shenzhen branch, and employ at least three senior executives with more than five years' experience in the financial industry holding bachelor degrees or above. The public review and comments for the Proposed Administrative Measures has now concluded, but it is still uncertain when the draft will become effective and whether the definitive version would have substantial changes from the draft.

On December 1, 2017, the *Notice on Rectification of Cash Loan Business*, or Circular 141, was promulgated by the Head Office for Special Rectification of Online Finance Risk and the Head Office for Special Rectification of Peer-to-Peer Online Lending. In accordance with Circular 141, cash loan, which is characterized by the lack of specific scenes, designated purposes, targeted users and mortgage may be inspected and rectified. Circular 141 further specifies that the overall cost of loan, including among others, the loan interest and other forms of fees, charged by the institutions shall be subject to the restrictions on interest rates as specified in applicable rules on private lending. In addition, Circular 141 provides that banking financial institutions shall not receive credit enhancement services offered by any third party that lacks qualifications to provide guarantee, and shall ensure such third party not to charge fees from borrowers.

Moreover, pursuant to Circular 141, an online lending information provider shall not (i) provide online lending intermediary services for the lending whose interest rate violates the regulatory requirement, (ii) deduct the interest, service fee, administrative fee and deposit from a loan principal in advance, or set high overdue interest, overdue fine payment or default interest; (iii) outsource core business such as user information collection, information screening, credit assessment, and account opening to any third party; (iv) assist the banking financial institutions to participate in peer-to-peer online lending; (v) assist to match the loans for students or any borrower unable to repay; (vi) provide online lending intermediary services for loans used for purchasing real property, or any loan without specific usage of funds.

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On December 8, 2017, the Head Office for Special Rectification of Peer-to-Peer Online Lending issued the *Notice on the Special Rectification and Inspection of Risk of Online Lending Intermediaries*, or Circular 57, providing further clarification on several matters in connection with the rectification and registration of online lending information intermediaries, including, among other things:

Requirements to qualify for registration. Circular 57 sets forth certain requirements for online lending intermediary to qualify for the registration, including, among others, an online lending intermediary (i) shall cease conducting any thirteen prohibited actions regulated in the Interim Measures or exceeding the individual lending amount upper limit as stipulated in the Interim Measures after August 24, 2016, and shall fully eliminate the outstanding balance of such non-compliance products offered before August 24, 2016; (ii) shall cease offering the down payment loan for purchasing real property, campus loan or cash loan, and gradually reduce the outstanding balance of the abovementioned loan within certain timetable; and (iii) set up custody accounts with qualified banks that have passed certain testing and evaluation procedures run by the Head Office for Special Rectification of Peer-to-Peer Online Lending to hold user funds. For the online lending intermediaries that are unable to accomplish the rectification and registration but are continuing to participate in the online lending business, the relevant authorities shall subject such online lending intermediaries to administrative sanctions, including but not limited to revoking the operation license for telecommunication service, shutting down the websites, ceasing the entire business and forbidding the financial institutions to provide any financial service to such online lending intermediaries.

Requirements relating to the timing of the registration. The local governmental authorities shall complete inspection and registration with the following timetable: (i) completion of registration for major online lending information intermediaries by the end of April 2018; (ii) with respect to online lending information intermediaries with substantial outstanding balance of those loans prohibited under the relevant laws and regulations and difficulties to timely eliminate all those balance, the full elimination of such balance and registration shall be completed by the end of May 2018; (iii) with respect to those online lending information intermediaries with complex and extraordinary circumstances and substantial difficulties to complete rectification, the 'relevant work' shall be completed by the end of June 2018.

Requirements relating to the transfer of creditor's rights. The low-frequency transfer of creditor's rights among lenders shall be regarded as legitimate, while transfer of creditor's rights by means of, (i) quasi-asset securitization services or in form of packaged assets, securitized assets, trust assets or fund shares, (ii) "super-lender" mode where the executives or related parties of the online lending intermediary enter into a loan agreement with a borrower, and then transfer the creditor's rights of such loan to the actual lender through online lending platform; (iii) connecting with the current and regular financial products, shall be deemed as illegal.

In August 2018, the Notice on Conducting Compliance Inspections of Online Lending Intermediaries, or the Inspection Notice, and the Compliance Checklist of Online Lending Information Intermediaries, or the Compliance Checklist, were promulgated by the Head Office for Special Rectification of Peer-to-Peer Online Lending, on the basis of Interim Measures, Custodian Guidelines, Disclosure Guidelines, Circular 141 and Circular 57. According to the Inspection Notice, the compliance inspection, which consists of self-inspection conducted by online lending information intermediaries, inspection conducted by local and national Internet Finance Associations, and verification conducted by the local online lending rectification office, shall be completed by the end of December 2018. The online lending information intermediaries that are in compliance with the applicable rules and regulations could be granted access to the information disclosure system and the product registration system, and subject to certain conditions, such online lending information intermediaries are allowed to submit the filing applications.

The Compliance Checklist sets forth 108 inspection items. The main focuses of the compliance inspection under the Inspection Notice and the Compliance Checklist are, including among others, whether the online lending information intermediaries (1) conduct any business other than the information intermediary business, such as the credit intermediary business, (2) form any capital pool, or advance any funds to users; (3) finance for themselves directly or indirectly; (4) provide guarantee to lenders or promise full repayment of principal and interest; (5) provide promise of guaranteed redemption; (6) conduct risk evaluation of lenders and categorize lenders; (7) fully disclose risk information of the borrowers to the lenders; (8) strictly follow the principle of spreading money across small amount loans; (9) raise funds by offering wealth management products on their own or through their affiliates; (10) attract investors or lenders by means of high profits or other methods. However, the specific standards and procedures for the access to the information disclosure system and the product registration system and the application procedures of P2P registration will be subject to further notice.

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In December 2018, the relevant PRC regulatory authorities of the P2P lending industry issued the Circular on Making Efforts to Prevent Risk and Classify Online Lending Institutions, or Circular 175, in which the regulatory authorities, for the first time, classified the online P2P lending marketplaces into six categories:

(i) marketplaces on which investors are not fully repaid or that are otherwise unable to operate their businesses and under investigation of the public security department, (ii) marketplaces that have been unable to operate their businesses but are not under investigation of the public security department, (iii) shell companies with zero loan balance or loan origination for more than three months and marketplaces that no longer facilitate loan application and investment, or are otherwise not in operation, (iv) small-scale marketplaces, (v) marketplaces with high risks, and (vi) Normal Marketplaces. Pursuant to Circular 175, the scope of the rectification of online lending institution shall be limited to institutions which have entered into the Data Submission System of Online Security Centre, and any institutions out of this scope shall be treated as illegal fund raising. We submitted our application materials for the P2P registration, to the Shenzhen Financial Services Office, our competent authority, in April 2018, and we have entered into the Data Submission System of Online Security Centre since November 2018. According to Circular 175, for the institutions in the Data Submission System of Online Security Centre, only Normal Marketplaces are allowed to continue to operate in the P2P lending industry. As of the date of this annual report, we have not received any notice that we have been classified as high-risk characteristics and we do not believe we would fall into categories (i) to (v) above. Although Circular 175 does not require Normal Marketplaces to exit the industry or shut down and imposes minimum restrictions, such as control the existing size and number of investors, on Normal Marketplaces, we may be encouraged by PRC government authorities to convert into other types of online financing institutions such as online microcredit companies or loan facilitation platforms, and we have already started taking various measures, such as expanding cooperation with institutional partners, in order to reduce the adverse impact on our business volume. If we were encouraged or required to change the type of business we operate, our business, financial condition and results of operation might be materially and adversely affected. However, due to the un-clarification of Circular 175, there is a risk that applicable regulatory authorities interpret the regulations differently than we do. See *“Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We have ceased the P2P operation business, but we cannot assure you that our operations were in full compliance with relevant legal requirements and would not be punished under relevant regulations.”*

Requirements relating to risk reserve funds. The online lending information intermediaries shall cease setting aside additional fund as risk reserve funds, and shall gradually reduce the existing scale of risk reserve funds. In addition, the online lending information intermediaries are encouraged to seek third parties to provide guarantee to lenders.

We have taken considerable measures to comply with the Interim Measures, the Custodian Guidelines, Circular 141, Circular 57, the Inspection Notice, the Compliance Checklist and other laws and regulations applicable to our business operations. For example, we have selected qualified banks to deposit the funds of lenders and borrowers and manage our own funds separately from the funds of lenders and borrowers, enhanced the risk disclosures of online lending on our platform, and set up systematic rules on cooperating with business partners to realize the isolation of risks. However, given that detailed regulations and guidance in the area of online lending information services are yet to be promulgated, we cannot be certain that our existing practices would not be deemed to violate any existing or future rules, laws and regulations. See *“Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We have ceased the P2P operation business, but we cannot assure you that our operations were in full compliance with relevant legal requirements and would not be punished under relevant regulations.”*

In January 2019, the Head Office for Special Rectification of Peer-to-Peer Online Lending and the Head Office for Special Rectification of Online Finance Risk jointly issued the *Notice on Further Proceed with Compliance Inspection of P2P Online Lending and Follow-up Work*, which stipulates P2P online lending platform passed the inspections by the administrative authorities shall provide real time data step by step.

In September 2019, the Head Office for Special Rectification of Peer-to-Peer Online Lending and the Head Office for Special Rectification of Online Finance Risk jointly issued the Circular of Strengthening the Construction of Credit Support System of Online Lending, as reported, which encourages operating peer-to-peer online lending institutions connect to credit reporting system, including the professional agency of basic database for financial credit information (i.e. the Credit Reference Center of the People's Bank of China), Baihang Credit and etc, cracking down malicious debt evasion behaviors of non-operating peer-to-peer online lending entities, increasing the punishment of discredited enterprise and strengthening publicity and public opinion guidance.

Regulations Relating to Microcredit Business

Chinese regulators also encourage Normal Marketplace under Circular 175 to transform into online microcredit companies. In late December, 2019, the Head Office for Special Rectification of Online Finance Risk and the Head Office for Special Rectification of Peer-to-Peer Online Lending jointly issued Guiding Opinions on Pilot Program of Transforming Peer-to-Peer Lending Information Intermediaries to Microcredit Companies, or Circular 83, which provides detailed guidelines for the conversion of peer-to-peer online lending information intermediaries into microcredit companies from the following aspects: (i) compliance requirement; (ii) qualified shareholders and management team; (iii) the feasibility of the transforming plan; and (iv) with strong financial technology and be capable to online operation requirement. However, uncertainties still exist in relation to the interpretation and implementation of Circular 83.

On September 7, 2020, the CBIRC issued the *Circular on Strengthening the Supervision and Administration of Microcredit Companies*, or the Microcredit Circular. The Microcredit Circular provides that the microcredit companies shall mainly operate the lending business and shall act in accordance with the requirements regarding the loan concentration, loan purposes, fund management, debt collection and disclosure. Local authorities shall enhance supervision and administration of the establishment of the microcredit companies and suspend newly-incorporated microcredit companies from engaging in the Internet microcredit business and other inter-provincial business.

On November 2, 2020, CBIRC and PBOC published the *Interim Administrative Measures for Online Microcredit Business (Draft for Comment)*, or the Draft Interim Administrative Measures, for public review and comments. Pursuant to the Draft Interim Administrative Measures, “online microcredit business” refers to any microcredit business engaged in by a microcredit company through using big data, cloud computing, mobile internet and other technical means, utilizing internally generated data and information on customer operation, online consumption, online transaction, etc., accumulated via internet platforms as well as other data and information obtained through legitimate channels to analyze and appraise the credit risk of borrowing customers, determine the mode and quota of loans, and complete such processes as loan application, risk review, loan approval, loan granting and loan recovery online. Online microcredit business engaged in by a microcredit company shall mainly be carried out in the provincial-level administrative region to which its place of registration belongs. Without the approval of the banking regulator under the State Council, no microcredit company may carry out online microcredit business across provincial-level administrative regions. The registered capital of a microcredit company which engages in online microcredit business shall not be less than CNY1 billion and shall be one-off paid-up monetary capital. The registered capital of a microcredit company which engages in online microcredit business across provincial-level administrative regions shall not be less than CNY5 billion and shall be one-off paid-up monetary capital. In principle, the balance of single-account online microcredit loans granted to a natural person shall not exceed CNY300,000 or one-third of its average annual income in the last three years, between which the lower one shall be the maximum loan amount; and in principle, the balance of single-account online microcredit loans granted to a legal person or any other organization and its related parties shall not exceed CNY1 million. The Draft Interim Administrative Measures was released for public comment only, there remains substantial uncertainty regarding the Draft Interim Administrative Measures, including with respect to its final content, adoption timeline or effective date.

On December 31, 2021, PBOC published the Regulations on Local Financial Supervision and Administration (Draft for Public Comments), or the Draft Local Financial Supervision and Administration Regulation, for public review and comments. Pursuant to the Draft Local Financial Supervision and Administration Regulation, “Local Financial Organizations” refers to microcredit companies, financing guarantee companies, regional equity markets, pawn shops, financial leasing companies, commercial factoring companies, local asset management companies, and other institutions engaged in local financial business that are supervised and managed by laws, administrative regulations, and provincial-level people’s governments authorized by the State Council. The Draft Local Financial Supervision and Administration Regulation specify that provincial governments shall perform their duties of supervision, management, and risk disposal of local financial organizations, and no individual or entity shall set up Local Financial Organizations without prior approval. The merger, division, reduction of registered capital, change of the business scope or operating area, the change of the shareholders holding more than 5% of its equity interests, as well as change of the actual controller of the Local Financial Organization shall be subject to the approval of the provincial local financial supervision and management department. Also, Local Financial Organization shall make filings to provincial local financial supervision and management department for setting up branches within the provincial administrative region, changing the name or address of business, increasing the registered capital, changing the directors, supervisors and senior management personnel. Penalties such as fines or criminal liability may be imposed if the Local Financial Organizations fail to comply with the Draft Local Financial Supervision and Administration Regulation.

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Xiaoying Microcredit has obtained the approval of the business qualification to operate microcredit businesses as issued by the competent supervising authority, which allows Xiaoying Microcredit to conduct microcredit businesses through the internet. However, as the regulatory regime and practice with respect to online microcredit companies are evolving, there is uncertainty as to how the requirements in the above rules will be interpreted and implemented and whether there will be new rules issued which would establish further requirements and restrictions on online microcredit companies.

Regulation Relating to Money Market Funds

According to the *Administrative Measures on Supervision of Money Market Funds* issued by the CSRC and the PBOC on December 17, 2015 and became effective on February 1, 2016, a fund manager or fund sales institution shall not carry out the sales of money market funds in cooperation with any internet institution or other institution engaged in the promotion or the sale, subscription or redemption of units of funds or other relevant business without adequate qualification for fund sales business registered with the CSRC.

The money market products we facilitated on Xiaoying Wealth Management platform are provided by certain qualified business partners of us pursuant to the Administrative Measures on Supervision of Money Market Funds, and we do not carry out any of the sale, subscription or redemption of any money market products on our Xiaoying Wealth Management platform by ourselves. Thus, we believe we are not subject to the above mentioned regulations in China.

Regulations Relating to Loans between Individuals

On May 28, 2020, the National People's Congress approved the PRC Civil Code, which came into effect on January 1, 2021 and repealed the PRC Contract Law and the General Principles of the Civil Law of the PRC. The PRC Civil Code confirms the validity of loan agreement between individuals and provides that a loan agreement becomes effective when an individual lender provides loan to an individual borrower provided that the interest rates charged under the loan agreement do not violate the applicable provisions of the PRC laws and regulations.

Pursuant to the *Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases* issued by the Supreme People's Court on August 6, 2015, or the Private Lending Judicial Interpretations, which came into force on September 1, 2015, in the event that loans are made through an online lending information intermediary platform and the platform only provides intermediary services, courts shall dismiss any claim concerned against the platform demanding the repayment of loans by the platform as a guarantor.

Pursuant further to the PRC Private Lending Judicial Interpretations, PRC courts shall uphold any interest rate below 24% as agreed between borrowers and lenders; as to the loans with annual interest rate between 24% and 36%, if the interest rate has been paid to the lender, so long as the interest payment does not damage or pose any threat to the state, the community or any third party, PRC courts will not support borrower's request for the return of the excess interest payment; if the annual interest rate agreed exceeds 36%, the agreement on the excess part of the interest shall be invalid, and PRC courts shall support any claim against the return of the excess part of the interest payment.

On August 4, 2017, the Supreme People's Court issued the *Several Opinions on Further Strengthening the Judicial Work in the Finance Sector*, according to which if an online lending information intermediary and a lender attempt to evade the upper limit to the legally protected interest by charging part of interest rate as intermediary fees or other service fees, such arrangements shall be deemed as invalid. In addition, PRC courts shall support the borrower's claim to reduce the overall annual interest rate to 24%, on the basis that the aggregate amount of interest, compound interest, default interest, liquidated damages and other fees claimed by the lender is overly high.

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On August 19, 2020, the Private Lending Judicial Interpretations was amended by the Supreme People's Court, pursuant to which where a lender claims that corresponding borrower shall pay interest as per the interest rate contractually stipulated, relevant people's court shall uphold such claim, except where the interest rate agreed on by both parties concerned exceeds four times the LPR for one-year loan when the contract is concluded. "LPR for one-year loan" refers to the LPR for one-year loan to be published on a monthly basis by the National Interbank Funding Center authorized by the PBOC as of August 20, 2019. On December 29, 2020, the Supreme People's Court issued the Official Reply of the Supreme People's Court to the Issues concerning the Scope of Application of the New Judicial Interpretation on Private Lending, or the Official Reply. According to the Private Lending Judicial Interpretations and the Official Reply, for financial institutions and branches engaging in loan business and established upon the approval of the financial regulatory authorities, including but not limited to microcredit company, Private Lending Judicial Interpretations shall not apply to disputes caused by granting loans and relevant financial business.

Although the Judicial Interpretation Amendment and the Supreme People's Court Reply provide that they do not apply to licensed financial institutions including microcredit companies that conduct loan and consumer finance business, there remain uncertainties in the interpretation and implementation of the Judicial Interpretation Amendment, including whether licensed financial institutions may be subject to its jurisdiction under Circular 141 or in certain circumstances, the basis of calculation formula used to determine the interest limit, the scope of inclusion of related fees and insurance premiums, as well as inconsistencies between the standard and level of enforcement by different PRC courts.

Apart from the above, pursuant to the PRC Civil Code, a creditor's rights under a loan agreement is assignable to a third party, provided that the debtor is notified before such assignment takes effect for the debtor. Upon due assignment of the creditor's rights, the assignee is entitled to the creditor's rights and the debtor must perform the relevant obligations under the agreement for the benefit of the assignee.

Regulations Relating to Guarantee

On March 8, 2010, CBRC, NDRC, MIIT, MOFCOM, PBOC, SAIC and Ministry of Finance of PRC promulgated the *Tentative Administrative Measures for Financing Guarantee Companies*, or the Tentative Administrative Measure. The Tentative Administrative Measures 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.

On August 2, 2017, the State Council issued Regulations on the Supervision and Administration of Financing Guarantee Companies, or the Financing Guarantee Rules, which came into effect on October 1, 2017. The Financing Guarantee Rules defines financing guarantee as activities whereby guarantors provide guarantee for the borrowing of funds, issuance of bonds and other debt financing activities of the guaranteed parties, and financing guarantee companies refer to limited liability companies or companies limited by shares that are duly established and engage in financing guarantee business. Pursuant to the Financing Guarantee Rules, the establishment of a financing guarantee company shall be subject to the approval of the relevant regulatory authority. In the event that a company commences financing guarantee business without first obtaining relevant approval, the company will be ordered by the regulatory authority to cease financing guarantee business, be imposed a fine from RMB500,000 up to RMB1,000,000, have its illegal gains confiscated, and be investigated for criminal liabilities.

We might be deemed as providing guarantee on some of the loans formed offline between institutional funding partners and the borrowers. However, given the lack of further interpretations, the exact definition and scope of "operating financing guarantee business" under the Financing Guarantee Rules is unclear, we cannot be certain that our existing practices will not be determined to violate any existing or future rules, laws and regulations. See "*Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We may be deemed to operate financing guarantee business by the PRC regulatory authorities.*"

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. The PBOC and other governmental authorities issued a series of administrative rules and regulations to specify the anti-money laundering obligations of financial institutions and certain non-financial institutions, such as payment institutions. However, the State Council has not promulgated the list of the non-financial institutions with anti-money laundering obligations.

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

Pursuant to the Interim Measures, an online lending intermediary shall perform the anti-money laundering obligations by verifying client identity, reporting suspicious transactions, keeping identity data and transaction records, etc. In addition, the Custodian Guidelines requires that the anti-money laundering obligation be included in the fund custodian agreements between an online lending intermediary and the commercial bank acting as the depository, and the online lending intermediary shall fulfill and cooperate with depository to fulfill anti-money laundering obligations. The Measures for the Anti-money Laundering and Anti-terrorist Finance of Internet Finance, promulgated on October 10, 2018, further specified that, any Internet finance institutions (including online lending intermediary) incorporated upon approval or upon record-filing by applicable regulatory authority, shall report any forms of cash receipts and payments whose transaction value reaches or exceeds RMB50,000 or foreign currency equivalent of USD10,000 on a per-transaction or cumulative basis on a given day, within five working days from the date when such transaction takes place.

We have adopted and implemented various policies and procedures, such as internal controls and “know-your-customer” procedures, for anti-money laundering purposes. However, our policies and procedures may not be completely effective in preventing other parties from using us for money laundering without our knowledge. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Any failure by us, institutional funding partners or payment service providers to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations could damage our reputation, expose us to significant penalties, and decrease our revenues and profitability.”

Regulations Relating to Illegal Fund-Raising

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 *Measures for the Banning of Illegal Financial Institutions and Illegal Financial Business Operations* promulgated by the State Council in July 1998 amended in January 2011, and 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.

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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*, or the Illegal Fund-Raising Judicial Interpretations, which came into force in January 2011 and was amended on March 1, 2022. 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 the following four criteria: (i) the fund-raising has not been licensed by the relevant authorities or is concealed under the guise of legitimate acts; (ii) the fundraising carries out public promotional activities via such channels as the Internet, media, promotion meetings, leafleting and phone message; (iii) the fundraiser promises to repay, after a specified period of time, the capital and interests, or investment returns in cash, property in kind and other forms; and (iv) the fund-raising targets the general public as opposed to specific individuals. Pursuant to the Illegal Fund-Raising Judicial Interpretations, an offender that is an entity will be subject to criminal liabilities, if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form (i) with the amount of deposits involved 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, or if it illegally solicits deposits from the general public or illegally solicits deposits in disguised form with the amount of deposits involved exceeding RMB500,000, or with the direct economic loss caused to fund-raising targets exceeding RMB250,000 and falls under any of the following circumstances: (I) where such entity has been criminally prosecuted due to illegal fund-raising; (II) where such entity has been subject to any administrative penalty due to any illegal fund-raising within two years; and (III) where there is baneful influences to the public or have led to other severe consequences.

In addition, an individual or an entity who has aided in illegal fund-raising from the general public and charges fees, including but not limited to agent fees, rewards, rebates and commission, would constitute an accomplice of the crime of illegal fund-raising. In accordance with the *Opinions of the Supreme People's Court, the Supreme People's Procurator and the Ministry of Public Security on Several Issues concerning the Application of Law in the Illegal Fund-Raising Criminal Cases*, administrative proceedings for determining the nature of illegal fund-raising activities is not a prerequisite procedure for the initiation of criminal proceeding concerning the crime of illegal fund-raising, and the administrative departments' failure in determining the nature of illegal fund-raising activities does not affect the investigation, prosecution and trial of cases concerning the crime of illegal fund-raising.

On January 26, 2021, the State Council promulgated the Regulations for the Prevention and Handling of Illegal Fund-raising, or the Illegal Fund-raising Regulations, which became effective as of May 1, 2021. The Illegal Fund-raising Regulations stipulates that Internet information service providers shall strengthen the management of information published by users, and shall not produce, reproduce, publish or spread information on suspected illegal fund-raising practices. If any information on suspected illegal fund-raising practices is found, relevant records shall be kept and reported to the authority handling illegal fund-raising. Competent authorities in charge of telecommunications shall shut down websites established and mobile applications developed for illegal fund-raising and other Internet applications in accordance with the law.

We have taken measures to avoid conducting any activities that are prohibited under the illegal-funding related laws and regulations. For example, we managed the funds of lenders, borrowers and the proprietary funds of us in separate accounts by entering into fund depositary agreement with a qualified bank.

Regulations on Mobile Internet Applications Information Services

Mobile Internet applications and the Internet application store are especially regulated by the *Administrative Provisions on Mobile Internet Applications Information Services*, or the APP Provisions, which was promulgated by the Cyberspace Administration of China or the CAC on June 28, 2016 and entered into force on August 1, 2016 and was amended on June 14, 2022. The APP Provisions regulate the APP information service providers and the Internet application store service providers, while the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively. The APP information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations provided by the APP Provisions.

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The APP information service providers shall acquire relevant qualifications in accordance with laws and regulations and fulfill the information security management obligations as follows: (1) shall authenticate the identity information of the registered users including their mobile telephone number and other identity information under the principle that mandatory real name registration at the back-office end, and voluntary real name display at the front-office end; (2) shall establish and perfect the mechanism for the protection of users' information, and follow the principle of legality, rightfulness and necessity, indicate expressly the purpose, method and scope of collection and use and obtain the consent of users while collecting and using users' personal information; (3) shall establish and perfect the mechanism for the examination and management of information content, and in terms of any information content released that violates laws or regulations, take such measures as warning, restricting the functions, suspending the update and closing the accounts as the case may be, keep relevant records and report the same to relevant competent authorities; (4) shall safeguard users' right to know and to make choices when users are installing or using such applications, and shall neither start such functions as collecting the information of users' positions, accessing users' contacts, turning on the camera and recording the sound, or any other function irrelevant to the services, nor forcefully install any other irrelevant applications without prior consent of users when noticed expressly; (5) shall respect and protect the intellectual properties and shall neither produce nor release any application that infringes others' intellectual properties; and (6) shall record the users' log information and keep the same for 60 days.

We have established necessary mechanisms and adopted data encryption and protection technology in our mobile application to ensure the collection, protection and storage of user information are in compliance with the requirements of the APP Provisions in all material aspects.

Regulations on Internet Information Security

In 1997, the Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

Internet information in China is regulated and restricted from a national security standpoint. The Standing Committee of the National People's Congress, or the SCNPC, has enacted *the Decisions on Maintaining Internet Security* on December 28, 2000 and further amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights.

The *PRC Cybersecurity Law* was promulgated by the SCNPC on November 7, 2016 and became effective on June 1, 2017. Under this regulation, network operators, including online lending information service providers, shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services, and take all necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

On 10 June 2021, the SCNPC promulgated *the PRC Data Security Law*, or the Data Security Law, which took effect on 1 September 2021. The Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system. The Data Security Law also provides that the state shall establish a data security review system, where data handling activities that affect or may affect the national security will undergo national security review, and shall implement export controls on certain data. In addition, *Measures for Cybersecurity Review*, which became effective on June 1, 2020, as amended on December 28, 2021, and became effective on February 15, 2022, set forth the cybersecurity review mechanism for critical information infrastructure operators, and provide that (i) critical information infrastructure operators who intend to purchase internet products and services that affect or may affect national security shall be subject to a cybersecurity review; (ii) online platform operators who are engaged in data processing are also subject to the regulatory scope; (iii) the CSRC is included as one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review working mechanism; (iv) the online platform operators holding more than one million users/users' individual information and seeking a listing outside China shall file for cybersecurity review; (v) the risks of core data, material data or large amounts of personal information being stolen, leaked, destroyed, damaged, illegally used or illegally transmitted to overseas parties and the risks of critical information infrastructure, core data, material data or large amounts of personal information being influenced, controlled or used maliciously shall be collectively taken into consideration during the cybersecurity review process.

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We have, in accordance with relevant provisions on network security of the PRC, established necessary mechanisms to protect information security, including, among others, adopting necessary network security protection technologies such as anti-virus firewalls, intrusion detection and data encryption, keeping record of network logs, and implementing information classification framework. Although we do not believe we are a critical information infrastructure provider, the PRC authorities could interpret such term broadly to capture a leading online personal finance company like us. If we are deemed to be a critical information infrastructure operator under such rules, we could be subject to cybersecurity review by Cyberspace Administration of China and other relevant PRC regulatory authorities and be required to change our existing practices in data privacy and cybersecurity matters at substantial costs. During such cybersecurity review, we may be required to stop providing services to our customers, and such review could also result in negative publicity to us and diversion of our managerial and financial resources.

On July 7, 2022, the CAC published the *Outbound Data Transfer Security Assessment Measures* that took effect on September 1, 2022 and outline the potential security assessment process for outbound data transfer. Under the Outbound Data Transfer Security Assessment Measures, data processors that provide important data and personal information outbound that are collected or produced through operations within the territory of the PRC, where a security assessment shall be conducted according to the law, shall apply to the provisions of these Measures. Under the Outbound Data Transfer Security Assessment Measures, data processors providing outbound data shall apply for outbound data transfer security assessment with the CAC in any of the following circumstances: (i) where a data processor provides important data abroad; (ii) where a critical information infrastructure operator or a data processor processing the personal information of more than one million individuals provides personal information abroad; (iii) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year; and (iv) other circumstances prescribed by the CAC for which declaration for security assessment for outbound data transfers is required. The Outbound Data Transfer Security Assessment Measures also provide procedures for security assessment and submissions, important factors to be considered in conducting assessment, and legal liabilities of a data processor for failure to apply for assessment.

Regulations on Privacy Protection

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

In addition, pursuant to the *Decision on Strengthening the Protection of Online Information* issued by the SCNPC in December 2012 and the *Order for the Protection of Telecommunication and Internet User Personal Information* issued by the MIIT in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes.

The *Guidelines* jointly released by ten PRC regulatory agencies in July 2015 purport, among other things, to require Internet finance service providers to improve technology security standards, and safeguard user and transaction information. The Guidelines also prohibit Internet finance service providers from illegally selling or disclosing users' personal information. Pursuant to the *Ninth Amendment to the Criminal Law* issued by the SCNPC in August 2015, which became effective in November 2015, any Internet service provider that fails to fulfill the obligations related to Internet information security administration as required by applicable laws and refuses to rectify upon orders is subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtain any personal information is subject to criminal penalty in severe situation.

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Pursuant to the PRC Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that needs to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others. Furthermore, information processors shall not divulge or tamper with personal information collected or stored by them; without the consent of a natural person, information processors shall not illegally provide personal information of such person to others, except for information that has been processed so that specific persons cannot be identified and that cannot be restored. In addition, an information processor shall take technical measures and other necessary measures to ensure the security of the personal information that is collected and stored and to prevent the information from being divulged, tampered with or lost; where personal information has been or may be divulged, tampered with or lost, the information processor shall take remedial measures in a timely manner, inform the natural person concerned in accordance with the provisions and report the case to the relevant competent department.

On August 20, 2021, the SCNP Congress promulgated the *PRC Personal Information Protection Law*, or the Personal Information Protection Law, which took effect on November 1, 2021. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (i) an individual's consent shall be obtained to use sensitive personal information, (ii) personal information operators using sensitive personal information shall notify individuals of the necessity of such use and impact on the individual's rights, and (iii) where it is necessary for personal information to be provided by a personal information processor to a recipient outside the territory of the PRC due to any business need or any other need, a security assessment organized by the national cyberspace authority shall be passed.

Furthermore, the Interim Measures require online lending information service providers to reinforce the management of lenders' and borrowers' information, so as to ensure the legitimacy and security regarding the collection, processing and use of lenders' and borrowers' information. Also, online lending information service providers should keep confidential the lenders' and borrowers' information collected in the course of their business, and should not use such information for any other purpose except for services they provide without approval of lenders or borrowers. On February 13, 2020, the PBOC also issued the *Personal Financial Information Protection Technical Specification*, which is an industry standard, to specify the security protection requirements for all aspects of personal financial information life cycle processing, including collection, transmission, storage, use, deletion, and destruction. This standard is applicable for financial industry institutions to provide financial products and services, and also provides a reference for security assessment agencies to conduct security inspections and assessments. According to the potential impact caused by unauthorized viewing or unauthorized change of financial information, this standard classifies personal financial information into three categories of C3, C2, and C1 from high to low sensitivity, and different requirements are put forward for the whole life cycle processing of all kinds of information according to different categories.

On September 17, 2021, the CAC, together with eight other government authorities jointly issued the *Guidelines on Strengthening the Comprehensive Regulation of Algorithms for Internet Information Services*. On December 31, 2021, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly promulgated the *Administrative Provisions on Internet Information Service Algorithm-Based Recommendation*, which took effect on March 1, 2022. The Administrative Provisions on Internet Information Service Algorithm-Based Recommendation, among others, (i) implement classification and hierarchical management for algorithm-based recommendation service providers based on various criteria, (ii) require algorithm-based recommendation service providers to inform users of their provision of algorithm-based recommendation services in a conspicuous manner, and publicize the basic principles, purpose intentions, and main operating mechanisms of algorithm-based recommendation services in an appropriate manner, and (iii) require such service providers to provide users with options that are not specific to their personal profiles, or convenient options to cancel algorithm-based recommendation services.

We have obtained consent from users to collect and use their personal information in providing consumer finance service. While we have taken measures to protect the personal information that we have access to, our security measures could be breached resulting in the leak of such confidential personal information. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—If we are unable to protect the confidential information of our users and adapt to the relevant regulatory framework regarding protection of such information, our business and operations may be adversely affected."

Regulations Related to Credit Information

On September 27, 2021, the PBOC promulgated the Administrative Measures for Credit Information Services, or the Credit Information Services Measures, which took effect on January 1, 2022. Pursuant to the Credit Information Services Measures, Credit Information Services, shall mean the collection, sorting, retention, and processing of credit information of enterprises and individuals, and the provision of the foregoing information to information users. Credit information, shall mean the basic individual information, lending information and other relevant information used for identification and determination of creditworthiness status of enterprises and individuals, and collected pursuant to the law for the purpose of providing services for financial activities, as well as the analyzed and evaluated information formed based on the foregoing information. Entities engaging in personal credit information services shall obtain the personal credit information organization license pursuant to the Credit Information Services Measures. Financial institutions shall not carry out commercial cooperation with entities who have not obtained business qualifications for engaging in credit information services to obtain any credit information services.

Regulations Related to Intellectual Property

The SCNPC and the State Council have promulgated comprehensive laws and regulations to protect trademarks. The *Trademark Law of the PRC*, or the PRC Trademark Law, promulgated on August 23, 1982 and most recently amended on November 1, 2019 and the *Implementation Regulation of the PRC Trademark Law* issued by the State Council on August 3, 2002 and amended on April 29, 2014 are the main regulations protecting registered trademarks. The Trademark Office under the State Administration of Industry and Commerce administers the registration of trademarks on a “first-to-file” basis, and grants a term of ten years to registered trademarks.

The *PRC Copyright Law*, adopted in 1990 and most recently revised on June 1, 2021 respectively, with its implementation rules adopted on August 8, 2002 and revised in 2011 and 2013 respectively, and the *Regulations for the Protection of Computer Software* as promulgated on December 20, 2001 and amended in 2011 and 2013 provide protection for copyright of computer software in the PRC. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the National Copyright Administration Center or its local branches to obtain software copyright registration certificates.

The MIIT, promulgated the *Administrative Measures on Internet Domain Name*, or the Domain Name Measure on August 24, 2017 to protect domain names. According to the Domain Name Measures, domain name applicants are required to duly register their domain names with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

We have adopted necessary mechanisms to register, maintain and enforce intellectual property rights in China. However, we cannot assure you that we can prevent our intellectual property from all the unauthorized use by any third party, neither can we promise that none of our intellectual property rights would be challenged any third party. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position.”

Regulation Relating to Insurance Brokers

The *PRC Insurance Law* and related regulations were amended in 2002, 2009, 2014 and 2015. The 2015 amendments involved a number of significant changes to the regulatory regime, including eliminating the requirement for any insurance agent, broker or claims adjusting practitioners to obtain a qualification certificate issued by the China Insurance Regulatory Commission (“CIRC”).

The principal regulation governing insurance brokers is the *Provisions on the Supervision and Administration of Insurance Brokers*, or the POSAIB, promulgated by the CIRC on February 1, 2018 and effective May 1, 2018, replacing the *Provisions on the Supervision of Insurance Brokers* issued on September 25, 2009, as amended on April 27, 2013 and October 19, 2015, and the *Measures on the Supervision and Administration of Insurance Brokers and Insurance Claims Adjustors* issued by the CIRC on January 6, 2013.

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The term of “insurance broker” refers to an entity which, representing the interests of insurance applicants, acts as an intermediary between insurance applicants and insurance companies for entering into insurance contracts, and collects commissions for the provision of such brokering services. The term of “insurance brokerage practitioner” refers to a person affiliated with an insurance broker who drafts insurance application proposals or handle the insurance application formalities for insurance applicants or the insured or assists insurance applicants or the insured in claiming compensation or who provides clients with disaster or loss prevention or risk assessment or management consulting services or engages in reinsurance broker, among others.

To engage in insurance brokerage business within the territory of the PRC, an insurance broker shall satisfy the requirements prescribed by the CIRC and obtain an insurance brokerage business permit issued by the CIRC, after obtaining a business license. An insurance broker may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company.

The minimum registered capital of an insurance broker company whose business area is not limited to the province in which it is registered is RMB50 million while the minimum registered capital of an insurance broker whose business area is limited to its place of registration is RMB10 million. However, on October 28, 2021, CBIRC promulgated the *Implementation Measures for Administrative Licensing and Filing of Insurance Intermediaries*, which took effect on February 1, 2022, according to which, the registered capital of regional insurance brokers has been changed to RMB20 million yuan.

The name of an insurance broker shall include the words “insurance brokerage.” An insurance broker must register the information of its affiliated insurance brokerage practitioners with Insurance Intermediary Supervision Information System (“IISIS”). One person can only be registered with the IISIS through one insurance broker.

An insurance broker may conduct the following insurance brokering businesses:

- making insurance proposals, selecting insurance companies and handling the insurance application procedures for the insurance applicants;
- assisting the insured or the beneficiary to claim compensation;
- reinsurance brokering business;
- providing consulting services to clients with respect to disaster and damage prevention, risk assessment and risk management; and
- other business activities approved by the CIRC.

An insurance broker shall submit a written report to the CIRC through the IISIS and make public disclosure within five days from the date of occurrence of any of the following matters: (i) change of name, domicile or business premises; (ii) change of shareholders, registered capital or form of organization; (iii) change of names of shareholders or capital contributions; (iv) amendment to the articles of association; (v) equity investment, establishment of offshore insurance related entities or nonoperational organizations; (vi) division, merger and dissolution or termination of insurance brokering business activities of its branches; (vii) change of the primary person in charge of its branches other than provincial branches; (viii) being a subject of administrative or criminal penalties, or under investigation for suspected involvement in any violation of law or a crime; and (x) other reportable events prescribed by the CIRC.

The principal regulation governing insurance brokerage practitioners is the Provisions on the Supervision and Administration of Insurance Brokers, or the POSAIB, promulgated by the CIRC on February 1, 2018 and effective May 1, 2018, replacing the Measures for the Supervision and Administration of Insurance Brokerage Practitioners and Insurance Assessment Practitioners, which was issued by the CIRC on January 6, 2013 and effective on July 1, 2013. Under this regulation, insurance brokerage practitioners shall have the professional ability required for engaging in insurance brokerage business. Insurance brokers shall, in accordance with the relevant provisions, obtain registrations with the CIRC for their insurance brokerage practitioners, who can only obtain his or her registration through one insurance broker

Insurance broker and its practitioners are not allowed to sell non-insurance financial products, except for those products approved by relevant financial regulatory institutions and the insurance broker and its practitioners shall obtain relevant qualification in order to sell non-insurance related financial products that meets regulatory requirements.

Personnel of an insurance broker and its branches who engage in any of the insurance brokering businesses described above must comply with the qualification requirements prescribed by the CIRC. The senior managers of an insurance broker must meet specific qualification requirements set forth in the POSAIB.

During 2018, we acquired an insurance broker license. As of the date hereof, we have not engaged in any insurance brokerage business.

Regulations Related to Employment

The *PRC Labor Law*, or the Labor Law, which was promulgated by the SCNPC in July 1994, became effective in January 1995, and was most recently amended in December 2018. The *PRC Labor Contract Law*, or the Labor Law Contract Law, which took effect on January 1, 2008 and was amended on December 28, 2012. Pursuant to the Labor Law and the *Labor Contract Law*, employers must execute written employment contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. Violations of the PRC Labor Law and the Labor Contract Law may result in the imposition of fines and other administrative sanctions, and serious violations may constitute criminal offences.

On December 28, 2012, the PRC Labor Contract Law was amended with effect on July 1, 2013 to impose more stringent requirements on labor dispatch. Under such law, dispatched workers are entitled to pay equal to that of full-time employees for equal work, but the number of dispatched workers that an employer hires may not exceed a certain percentage of its total number of employees as determined by the Ministry of Human Resources and Social Security. Additionally, dispatched workers are only permitted to engage in temporary, auxiliary or substitute work. According to the *Interim Provisions on Labor Dispatch* promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched workers). The Interim Provisions on Labor Dispatch require employers not in compliance with the PRC Labor Contract Law in this regard to reduce the number of its dispatched workers to below 10% of the total number of its employees prior to March 1, 2016.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. The enterprise may be ordered to pay the full amount within a deadline if it fails to make adequate contributions to various employee benefit plans and may be subject to fines and other administrative sanctions.

Regulations Relating to Foreign Exchange

Regulations on Foreign Currency Exchange

Under the *PRC Foreign Currency Administration Rules* promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange, or the SAFE, and other relevant PRC government authorities, payment of current account items in foreign currencies, such as trade and service payments, payment of interest and dividends can be made without prior approval from SAFE by following the appropriate procedural requirements. By contrast, the conversion of RMB into foreign currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office.

On February 13, 2015, SAFE promulgated the *Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment*, or the SAFE Circular No. 13, effective from June 1, 2015 and amended on December 30, 2019, which cancels the requirement for obtaining approvals of foreign exchange registration of foreign direct investment and overseas direct investment from SAFE. The application for the registration of foreign exchange for the purpose of foreign direct investment and overseas direct investment may be filed with qualified banks, which, under the supervision of SAFE, may review the application and process the registration.

The Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or the SAFE Circular No. 19, was promulgated on March 30, 2015, became effective on June 1, 2015 and was further amended on December 30, 2019. According to the SAFE Circular No. 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. *The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts*, the SAFE Circular No. 16 was promulgated and became effective on June 9, 2016. According to the SAFE Circular No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self—discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Circular No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

On January 26, 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification*, or Circular No. 3, which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) banks must check whether the transaction is genuine by reviewing board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements, and (ii) domestic entities must retain income to account for previous years' losses before remitting any profits. Moreover, pursuant to Circular 3, domestic entities must explain in detail the sources of capital and how the capital will be used, and provide board resolutions, contracts and other proof as a part of the registration procedure for outbound investment.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

SAFE issued the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or the SAFE Circular 37, which became effective in July 2014, to replace the Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Roundtrip Investments by Domestic Residents through Offshore Special Purpose Vehicles, or the SAFE Circular 75 to regulate foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. SAFE Circular 37 defines a SPV as an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" is defined as direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 stipulates that, prior to making contributions into an SPV, PRC residents or entities be required to complete foreign exchange registration with SAFE or its local branch. In addition, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015, as amended in December 2019, which amended SAFE Circular 37 and became effective on June 1, 2015, requiring PRC residents or entities to register with qualified banks rather than SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

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PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to SPVs but had not obtained registration as required before the implementation of the SAFE Circular 37 must register their ownership interests or control in the SPVs with qualified banks. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and *may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary or limit our PRC subsidiary’s ability to increase their registered capital or distribute profits.”*

Regulations Relating to Stock Incentive Plans

SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, or the Stock Incentive Plan Notice, in February 2012, replacing the previous rules issued by SAFE in March 2007. Pursuant to the Stock Incentive Plan Notice and other relevant rules and regulations, PRC residents participating in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and follow certain other procedures. Participants of a stock incentive plan who are PRC residents must conduct the SAFE registration and other procedures with respect to the stock incentive plan through a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution appointed by the PRC subsidiary. In addition, the PRC agent is required to update the relevant SAFE registration should there be any material change to the stock incentive plan, the PRC agent or other material changes. The PRC agent must, on behalf of the PRC residents who have the right to exercise the employee stock options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee stock options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents prior to distribution to such PRC residents.

We have adopted a share incentive plan, under which we have the discretion to award incentives and rewards to eligible participants. See “Item 6. Directors, Senior Management and Employees—6.B. Compensation—Share Incentive Plan.” We have advised the recipients of awards under our Share Incentive Plan to handle relevant foreign exchange matters in accordance with the Stock Incentive Plan Notice. However, we cannot guarantee that all employee awarded equity-based incentives can successfully register with SAFE in full compliance with the Stock Incentive Plan Notice. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—Any failure to comply with PRC regulations regarding employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.”

In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiary and VIE have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

Regulations Relating to Dividend Distribution

Distribution of dividends of foreign investment enterprises are mainly governed by the PRC Company Law promulgated in January 2006 and last amended in October 2018 and the Wholly Foreign-owned *Enterprise Law* promulgated in April 1986 and amended in September 2016 and its implementation regulations. The Wholly Foreign-owned Enterprise Law was replaced by the PRC *Foreign Investment Law* on January 1, 2020. Under these regulations, foreign investment enterprises in the PRC may distribute dividends only out of their accumulative profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, no less than 10% of the accumulated profits of the foreign investment enterprises in the PRC are required to be allocated to fund certain reserve funds each year unless these reserves have reached 50% of the registered capital of the enterprises. A PRC company is not permitted to distribute any profits until any losses from previous fiscal years have been offset.

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Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from Xiaoying (Beijing) Information Technology Co., Ltd., which is a wholly foreign-owned enterprise incorporated in China, to fund any cash and financing requirements we may have. Limitation on the ability of our consolidated VIEs to make remittance to the wholly-foreign owned enterprise and on the ability of our wholly-foreign owned enterprise to pay dividends to us could limit our ability to access cash generated by the operations of those entities. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements.”

Regulations Related to Taxation

Dividend Withholding Tax

In March 2007, the National People’s Congress enacted the *Enterprise Income Tax Law* which became effective on January 1, 2008 and last amended on December 29, 2018. According to Enterprise Income Tax Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the *Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates*, issued on January 29, 2008 and supplemented and revised on February 29, 2008, and the *Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income*, which became effective on December 8, 2006 and applicable to income derived in any year of assessment commencing on or after April 1, 2007 in Hong Kong and in any year commencing on or after January 1, 2007 in the PRC, such withholding tax rate may be lowered to 5% if a Hong Kong enterprise is deemed the beneficial owner of any dividend paid by a PRC subsidiary by PRC tax authorities and holds at least 25% of the equity interest in that particular PRC subsidiary at all times within the 12-month period immediately prior to the distribution of the dividends. Furthermore, pursuant to the Announcement on Issues concerning “Beneficial Owners” in Tax Treaties issued on February 3, 2018 by the SAT, when determining the status of “beneficial owners”, a comprehensive analysis may be conducted through materials such as articles of association, financial statements, records of capital flows, minutes of board of directors, resolutions of board of directors, allocation of manpower and material resources, the relevant expenses, functions and risk assumption, loan contracts, royalty contracts or transfer contracts, patent registration certificates and copyright certificates, etc. However, even if an applicant has the status as a “beneficiary owner”, if the competent tax authority finds necessity to apply the principal purpose test clause in the tax treaties or the general anti-tax avoidance rules stipulated in domestic tax laws, the general anti-tax avoidance provisions shall apply. On October 14, 2019, SAT promulgated the *Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Treaties*, or SAT Circular 35, which became effective on January 1, 2020. SAT Circular 35 provides that non-PRC resident enterprises are not required to obtain pre-approval from the relevant tax authorities in order to enjoy the reduced withholding tax. Instead, non-PRC resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and include necessary forms and supporting documents in the tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities.

Enterprise Income Tax

In December 2007, the State Council promulgated the *Implementing Rules of the Enterprise Income Tax Law*, or the Implementing Rules, which became effective on January 1, 2008 and amended on April 23, 2019. The Enterprise Income Tax Law and its relevant Implementing Rules (i) impose a uniform 25% enterprise income tax rate, which is applicable to both foreign invested enterprises and domestic enterprises (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules and (iii) introduces new tax incentives, subject to various qualification criteria.

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

On October 17, 2017, the State Administration of Taxation issued the *Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source*, or the Bulletin 37, as amended in June 2018, which replaced the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009, and partially replaced and supplemented rules under the *Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises*, or the Bulletin 7, issued by the State Administration of Taxation, on February 3, 2015 and last amended in December 2017. Under Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding party shall declare and pay the withheld tax to the competent tax authority in the place where such withholding party is located within 7 days from the date of occurrence of the withholding obligation. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—We and our existing shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.”

Value-Added Tax

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*, or the Pilot Plan. In March 2016, the Ministry of Finance and the State Administration of Taxation further promulgated the *Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax, as amended from time to time*. Pursuant to the Pilot Plan and the relevant notice, VAT at a rate of 6% is generally imposed, on a nationwide basis, on the revenue generated from the provision of service in lieu of business tax in the modern service industries. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

Regulations Relating to Overseas Listing

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly issued a document to crack down on illegal activities in the securities market and promote the high-quality development of the capital market, which, among other things, requires the relevant governmental authorities to strengthen cross-border oversight of law-enforcement and judicial cooperation, to enhance supervision over China-based companies listed overseas, and to establish and improve the system of extraterritorial application of the PRC securities laws.

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On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, and five supporting guidelines, together with five supporting guidelines, which took effect on March 31, 2023. Pursuant to the Trial Measures, PRC domestic companies that directly or indirectly seek to offer or list their securities overseas are required to fulfil the filing procedure with the CSRC and report relevant information to the CSRC. Specifically, the overseas securities offering and listing of any issuer will be deemed as indirect overseas offering by PRC domestic companies if the following conditions are met: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by PRC domestic companies; and (ii) the main parts of the issuer's business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. Where a PRC domestic company fails to fulfill the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such PRC domestic company may be subject to administrative penalties such as order to rectify, warnings and fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties such as warnings and fines. In addition, pursuant to the Trial Measures, an overseas offering and listing of the securities of a PRC domestic company is prohibited under any of the following circumstances, if (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (ii) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) the PRC domestic companies intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the PRC domestic companies intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no clear conclusion has yet been made thereof; or (v) there are material ownership disputes over equity interests held by the PRC domestic companies' controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller.

On February 24, 2023, the CSRC, Ministry of Finance of the PRC, National Administration of State Secrets Protection and National Archives Administration of China promulgated the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Archives Rules, which took effect on March 31, 2023. Pursuant to the Archives Rules, PRC domestic companies that seek overseas offering and listing shall strictly abide by applicable laws and regulations of the PRC and the Archives Rules, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. Such domestic companies shall not leak any state secret and working secret of government agencies, or harm national security and public interest. Furthermore, a PRC domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any document and materials that contain state secrets or working secrets of government agencies, shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level. Moreover, a PRC domestic company that plans to, either directly or through its overseas listed entity, publicly disclose or provide to relevant individuals and entities including securities companies, securities service providers and overseas regulators, any other documents and materials that, if leaked, will be detrimental to national security or public interest, shall strictly fulfill relevant procedures stipulated by applicable national regulations. The Archives Rules also stipulate that a PRC domestic company that provides accounting archives or copies of accounting archives to any entities including securities companies, securities service providers and overseas regulators and individuals shall fulfill due procedures in compliance with applicable national regulations.

Regulations Related to Anti-Monopoly

The Anti-Monopoly Law took effect on August 1, 2008. Before the institutional reform plan of the State Council approved by the National People's Congress on March 17, 2018, or the 2018 Institutional Reform Plan, the National Development and Reform Commission, or the NDRC, the SAIC, and the MOFCOM were the three PRC anti-monopoly enforcement authorities and the NDRC and the SAIC, had in recent years strengthened enforcement actions, including levying significant fines, with respect to cartel activity as well as abusive behavior of companies having market dominance. According to the 2018 Institutional Reform Plan, the anti-monopoly functions performed by the NDRC, the SAIC, and the MOFCOM were consolidated into the SAMR, which may place a profound impact on the PRC anti-monopoly law enforcement practice.

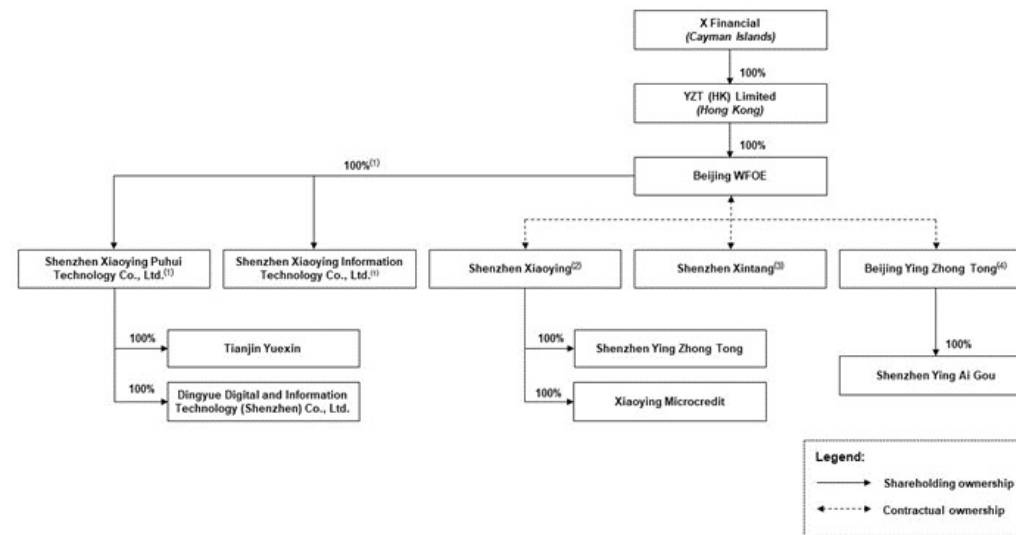
In addition, on February 3, 2011, the General Office of the State Council promulgated a *Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on August 25, 2011, MOFCOM promulgated the *Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors*, or the MOFCOM Security Review Regulations, which became effective on September 1, 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the MOFCOM Security Review Regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the NDRC, and MOFCOM under the leadership of the State Council, to carry out the security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

The Anti-Monopoly Law also provides a private right of action for competitors or users to bring anti-monopoly claims against companies. In recent years, an increased number of companies have been exercising their right to seek relief under the Anti-Monopoly Law. As public awareness of the rights under the Anti-Monopoly Law increases, more companies, including our competitors, business partners and customers, may resort to the remedies under the law to improve their competitive position, regardless of the merits of their claims. On June 24, 2022, the *Decision of the Standing Committee of the National People’s Congress to Amend the Anti-Monopoly Law of the People’s Republic of China*, or the Decision to Amend the Anti-Monopoly Law, was adopted and became effective on August 1, 2022. The Decision to Amend the Anti-Monopoly Law strengthens the regulation on the internet platforms, requiring that undertakings shall not use data and algorithms, technologies, capital advantages, platform rules, and other means to engage in monopolistic conduct; and also escalates in full scale the administrative penalties for monopolistic conducts, for the failure to notify the anti-monopoly agencies on the proposed concentration of undertakings, the State Council Anti-Monopoly Enforcement Agency may order to reinstate the original status prior to the concentration and impose a fine up to ten percent of the operator’s last year’s sales revenue, provided that the concentration of undertakings has or may have an effect on excluding or limiting competition; if the concentration does not have the effect on excluding or limiting competition, a fine up to RMB5,000,000 may be imposed on operators. Since such provisions are relatively new, uncertain still remains as to the interpretation and implementation of such laws and regulations.

On February 7, 2021, the Anti-Monopoly Committee of the State Council promulgated the Anti-monopoly Guidelines for the Platform Economy Sector, or the Anti-monopoly Guideline, aiming to improve anti-monopoly administration on online platforms. The Anti-monopoly Guideline, operating as the compliance guidance under the existing PRC anti-monopoly regulatory regime for platform economy operators, specifically prohibits certain acts of the platform economy operators that may have the effect of eliminating or limiting market competition, such as concentration of undertakings.

4.C. Organizational Structure

The following diagram illustrates our corporate structure as of the date of this annual report. It omits certain entities that are immaterial to our results of operations, business and financial condition and also omits certain trusts and limited partnership enterprises we consolidate (see “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Critical Accounting Policies, Judgments and Estimates, Consolidated Trusts, Consolidated Partnerships”). The relationships between, on the one hand, each of Beijing Ying Zhong Tong, Shenzhen Xintang, and Shenzhen Xiaoying, and on the other, Beijing WFOE as illustrated in this diagram are governed by contractual arrangements and do not constitute equity ownership. Shenzhen Beier Assets Management Co., Ltd., or Shenzhen Beier, one of Company’s variable interest entity was dissolved in March 2023 during our reorginaization and had no operation since its establishment in February 2016. The dissolvment has been approved by Beijing WFOE pursuant to the relevant variable interest entity agreements.



(1) In December 2017, Beijing WFOE acquired 100% of the equity interest held by Shenzhen Xiaoying in Shenzhen Xiaoying Puhui Technology Co., Ltd. and Shenzhen Xiaoying Information Technology Co., Ltd.

(2) Mr. Yue (Justin) Tang, Mr. Baoguo Zhu and entities controlled by Mr. Yue (Justin) Tang hold 42.9838%, 11.3381% and 45.6781% of equity interest in Shenzhen Xiaoying, respectively.

(3) Shenzhen Lelebu holds 100% equity interest in Shenzhen Xintang.

(4) Mr. Yue (Justin) Tang and Mrs. Jing Sun holds 51% and 49% of the equity interest in Beijing Ying Zhong Tong, respectively.

Contractual Arrangements with Consolidated VIEs and Their Shareholders (“VIE Agreements”)

Due to PRC legal restrictions on foreign ownership and investment in, among other areas, valued-added telecommunications, similar to all other entities with foreign incorporated holding company structures operating in our industry in China, currently conduct these activities mainly through our VIEs and its subsidiaries over which we exercise effective control through contractual arrangements among our VIEs and its shareholders.

The contractual arrangements allow us to:

- exercise effective control over our VIEs;

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- receive substantially all of the economic benefits of our VIEs; and
- have an exclusive call option to purchase all or part of the equity interest in and/or assets of our VIEs when and to the extent permitted by laws.

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

- the ownership structure of the VIEs currently are in compliance with PRC laws or regulations currently in effect; and
- the contractual arrangements among the VIEs and the shareholders of the VIEs, governed by PRC law currently are valid and binding under PRC law, and will not result in any violation of applicable PRC laws or regulations currently in effect, except that the pledge of equity in Shenzhen Xintang would not be deemed validly created until it is registered with the competent administration for market regulation, and we may not be able to register the pledge of equity in Shenzhen Xintang, in which case we must rely on the equity pledge agreement to enforce the pledge.

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiaries, the VIEs and the shareholder(s) of the VIEs and their spouses.

Agreements that provide us with effective control over the VIEs

Shareholders' Voting Rights Proxy Agreements. Pursuant to the Shareholders' Voting Right Proxy Agreements among Beijing WFOE, each of the VIEs and the shareholders of each of the VIEs. These shareholders irrevocably authorize Beijing WFOE or any person(s) designated by Beijing WFOE to act as his or her attorney-in-fact to exercise all of his or her rights as a shareholder of the VIEs, including, but not limited to, the right to convene shareholders' meetings, vote and sign any resolution as a shareholder, appoint directors and other senior executives to be appointed and removed by the shareholder, the right to sell, transfer, pledge and dispose of all or a portion of the shares held by such shareholder, and other shareholders voting rights permitted by the Articles of Association of each VIE. For the agreements among Beijing WFOE, each of the VIEs and their shareholders, the power of attorney will remain in force for ten years. Unless a thirty-day notice is given by Beijing WFOE, these agreements shall be automatically renewed for another one year upon the expiration.

Spousal Consent Letters. Spouse of each individual shareholder of each of the VIEs has each signed a spousal consent letter. Under the spousal consent letters, each signing spouse unconditionally and irrevocably gives up his or her rights to such shares and any associated economic rights or interests to which he or she may be entitled pursuant to applicable laws and undertakes not to make any assertion of rights to such shares and the underlying assets. Each signing spouse agrees and undertakes that he or she will take all necessary actions to ensure the proper perform of the contractual arrangements, and will be bound by the contractual arrangements in case he or she obtains any equity of the VIEs due to any reason.

Equity Pledge Agreements. Pursuant to the Equity Pledge Agreements among Beijing WFOE, each of the VIEs and the shareholders of each of the VIEs, those shareholders have pledged 100% equity interest in the VIEs to Beijing WFOE to guarantee the performance by the VIEs and its shareholders of their obligations under the Shareholders' Voting Rights Proxy Agreements, the Equity Pledge Agreements and the Exclusive Business Corporation Agreements. If the VIEs or those shareholders breach their contractual obligations under these agreements, Beijing WFOE, as pledgee, will have the right to dispose of the pledged equity interests in the VIEs and will have priority in receiving the proceeds from such disposal. Those shareholders also agree that, unless the contractual obligations as defined in the Equity Pledge Agreements are fully performed by them or the secured debts under the Equity Pledge Agreements are paid in full (whichever later), they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. We have completed the registration of the pledge of equity interests in Beijing Ying Zhong Tong and Shenzhen Xiaoying with the competent administration for market regulation. As of the date of this annual report, the pledge of equity interest in Shenzhen Xintang has not been registered with the competent administration for market regulation and we may not be able to register the pledge of equity in Shenzhen Xintang.

Agreements that allow us to receive economic benefits from the VIEs

Exclusive Business Cooperation Agreements. Pursuant to the Exclusive Business Cooperation Agreements among Beijing WFOE and each of the VIEs, Beijing WFOE or its designated person has the exclusive right to provide the VIEs with technical support, consulting and other services in return for fees based on 100% total consolidated profit of the VIEs after making up any cumulative loss (if any) of the VIEs and its affiliated companies and setting of the working capital, operational costs, taxes and other statutory contributions required. Without Beijing WFOE's prior written consent, the VIEs may not accept any services subject to these agreements from any third party. Beijing WFOE has the right to determine the service fee to be charged to the VIEs under these agreements by considering, among other things, the complexity of the services, the time that may be spent for providing such services, as well as the commercial value and specific content of the service provided. Beijing WFOE will have the exclusive ownership of all intellectual property rights created as a result of the performance of these agreements. For the agreements between Beijing WFOE and each of the VIEs, unless Beijing WFOE terminates these agreements in advance, these agreements will remain effective for ten years. Unless agreed by both parties in writing, these agreements shall be automatically renewed for another ten year upon its expiration.

Agreements that provide us with the option to purchase the equity interests in the VIEs

Exclusive Call Option Agreements. Pursuant to the Exclusive Call Option Agreements among Beijing WFOE, each of the VIEs and their shareholders, their shareholders irrevocably granted Beijing WFOE or any third party designated by Beijing WFOE an exclusive option to purchase all or part of their equity interests in the VIEs at the lowest price permitted by applicable PRC laws. Those shareholders further undertake that they will neither create any pledge or encumbrance on their equity interests in the VIEs, nor transfer, gift or otherwise dispose of their equity interests in the VIEs to any person other than Beijing WFOE or its designated third party. Without Beijing WFOE or its designated third party's prior written consent, those shareholders agree not to, among other things, amend its articles of association, increase or decrease the registered capital, permit the VIEs to enter into transactions which materially and adversely affect the VIEs' assets, liabilities, business operations, equity interests and other legal interests, or merge with any other entities or make any investments, or distribute dividends. For the agreements among Beijing WFOE, each of the VIEs and their shareholders, these agreements will remain effective for ten years. Unless notified by Beijing WFOE, the parties to these agreements shall extend the term of these agreements for another ten years.

4.D. Property, Plant and Equipment

Our corporate headquarters are located in Shenzhen, where we lease an area of approximately 5,074 square meters as of the date of this annual report. We also lease office space of approximately 2,800 square meters in Beijing and office space of approximately 807 square meters in Shanghai. We lease our premises from third parties under operating lease agreements. We believe that we will be able to obtain adequate facilities, principally through leasing, to accommodate our future expansion plans.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of many factors, including those we describe under "Item 3.D. Risk Factors" and elsewhere in this annual report on Form 20-F.

5.A. Operating Results

Impact of COVID-19

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization (the “WHO”) declared the COVID-19 coronavirus outbreak a public health emergency of international concern and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. Our borrowers may negatively impacted by COVID-19, including healthcare, travel, offline education, franchising, auto/transportation and real estate/home furnishing sectors, may reduce their liquidity to repay the loans, which may materially adversely impact our loan performance. The loan facilitation amount may also decreased as our institutional funding partners adjusted their strategies due to pessimistic expectations.

Our results of operations were adversely affected by the COVID-19 especially during the first half year of 2020. In the early onset of the third quarter of 2020, our business was already on track for a steady recovery and our business operation has returned to the pre-COVID-19 pandemic level. In 2021 and 2022, our operational and financial results continued to show progress against our strategic objectives. In 2020, 2021 and 2022, the total loans we facilitated amounted to RMB29,676 million, RMB51,859 million and RMB73,655 million, respectively. Our delinquency rate for all outstanding loans that were 31-60 days past due increased from 0.79% as of December 31, 2020 to 1.48% as of December 31, 2021, and then decreased to 1.02% as of December 31, 2022.

In January, 2023, China officially started to manage COVID-19 as a Class-B infectious disease. The implementation of Class-B management of COVID-19 emphasizes more scientific, precise and efficient epidemic prevention and minimizes its disruptions in the economy and society. As many of the COVID-19 prevention measures had been lifted, the economy continues its rebound from the pandemic. However, the potential impact brought by and the duration of the COVID-19 outbreak are difficult to assess or predict and the full impact of the virus on our operations will depend on many factors beyond our control. We have provided additional credit losses for accounts receivable and contract assets, other current assets and loans receivables in the year ended December 31, 2020, 2021 and 2022, due to the impact of COVID-19, other economic conditions and other factors. There are still uncertainties of COVID-19’s future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of another wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition, almost all of which are beyond the Company’s control. As a result, certain of our estimates and assumptions, including the allowance for credit losses, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to our current estimates in future periods.

As of December 31, 2021 and 2022, we had cash and cash equivalents of RMB584.8 million and RMB602.3 million (US\$87.3 million), respectively. We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

Key Factors Affecting Our Results of Operations

Economic Conditions and Regulatory Environment in China

The demand for personal finance services from prime borrowers depends on the overall economic conditions in China. General economic factors, including the interest rate environment and unemployment rates, may have impacts on borrowers’ willingness to seek loans. For example, significant increases in interest rates could lead to prospective borrowers to defer obtaining loans as they wait for interest rates to decrease. Additionally, a slowdown in the economy, resulting in a rise in unemployment rate and possibly a decrease in real income, may affect individuals’ level of disposable income. This may affect borrowers’ repayment capability and their willingness to seek loans, which may potentially affect the delinquency rates.

The regulatory environment for the online personal finance industry in China is developing and evolving, creating both challenges and opportunities that could affect our financial performance. Due to the relatively short history of online personal finance industry in China, a comprehensive regulatory framework governing our industry is under development by the PRC government. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry” for details. While new laws and regulations or changes to existing laws and regulations could make facilitating loans to borrowers more difficult or expensive, or making such loan products more difficult for institutional funding partners to accept or on terms favorable to us, these events could also provide new product and market opportunities. We will continue to diversify our funding sources, expand our loan product mix and enhance our risk management to support our business growth.

Size of Borrower Base and Engagement

Our revenues are dependent on our ability to acquire new borrowers and retain existing borrowers. The size of our borrower base directly affects the total amount of loans we facilitate and in turn the service fees that we collect. The number of active borrowers on our platform increased from 1,663,737 borrowers in 2020 to 2,371,537 borrowers in 2021, and then further increased to 3,326,774 borrowers in 2022, of which 1,000,714 or 60.1% , 1,543,794 or 65.1% , and 2,100,641 or 63.1% were new borrowers, respectively. In 2020, 2021 and 2022, we have facilitated RMB29,676 million, RMB51,859 million and RMB73,655 million of loans on our platform, respectively. We are a leading player in the online personal finance industry. To date, we rely on attractive fee rates, products and services to acquire new borrowers. We also utilize various marketing efforts to attract and retain borrowers. Our new borrower acquisition cost of each borrower for our loan products was RMB366 in 2020, RMB401 in 2021 and RMB368 in 2022. A change in our ability to attract or retain borrowers, or a change in the acquisition cost of such borrowers, may potentially affect our revenue and profitability.

Loan Pricing

Our revenue and profitability are subject to the terms of our loan products, including the rate of service fees or interest fees charged, loan durations and the size of loan products. To cater our loan products to each prime borrower segment, within each product category, we specify the amount of fees per transaction considering the type, size and duration of the loan product. Loan products of longer duration and larger size generally correspond to higher fees. We assign a credit assessment result to each prospective borrower leveraging on our proprietary credit scoring model, based on an applicant’s basic information, credit history and behavior data and assign a credit line. Going forward, we also expect to assign differentiated fee rates based on the credit assessment result of an applicant. The fee rate variation depends on various factors in the competitive market and our adjustment in pricing will impact our revenues and profitability, as our revenues are generated from the service fees or interest fees.

Ability to Maintain Effective Risk Management

Our ability to effectively assess the credit risk of borrowers and classify borrowers into appropriate risk profiles impacts our ability to attract and retain borrowers and institutional funding partners, both of which directly relate to users’ confidence in our platform. The delinquency rate for all outstanding loans on our platform that were 31-60 days past due increased from 0.79% as of December 31, 2020 to 1.48% as of December 31, 2021, and then decreased to 1.02% as of December 31, 2022. The primary reasons for the decrease include (i) the proactive adjustment of our risk policies in response to the evolving environment; and (ii) our improved ability to attract and retain more borrowers with better credit score. We intend to optimize our fraud detection capabilities, improve accuracy of our credit scoring model and enhance our collection effectiveness on a continuing basis through the combination of our big-data analytical capabilities and the increasing amount of data we accumulate through our operations. See “Item 4. Information on the Company—4.B. Business Overview—Risk Management” for details.

Ability to Maintain Stable Funding Sources and Diversify and Expand Our Funding Channels

Our revenue is dependent on our ability to maintain stable funding sources and diversify and continuously expand our funding sources. At the end of 2019, we ceased funding our loan products from our individual investors through Xiaoying Wealth Management platform. We actively expanded institutional funding, such as banks, consumer finance companies, trust companies and other institutions, and achieved 100% institutional funding for the new loans facilitated by the end of the second quarter of 2020. In May 2021, we obtained a network microcredit license from the Local Financial Regulatory Bureau of Shenzhen Municipality and started online microcredit business in July 2021. The availability of funds affects our liquidity and the amount of transactions that we will be able to facilitate. In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners. In 2021, 98.0% of the total funding for loans we facilitated were provided by institutional funding partners, 2.0% were provided by our own funds. In 2022, 97.3% of the total funding for loans we facilitated were provided by institutional funding partners, 2.7% were provided by our own funds.

Our collaboration with institutional funding partners affects our ability to secure sufficient and stable funding sources. The interest charged by the institutional funding partners that we collaborate impacts our pricing strategy and profitability. In light of the requirements under Circular 141 and Circular 57 promulgated in December 2017, we have reviewed and adjusted our cooperation with banking financial institution partners, such as suspending certain cooperation, to better comply with the applicable regulatory requirements. However, as we have strong funding capabilities to attract and retain various institutional funding partners, we believe adjustment in our cooperation with banking financial institution partners would not have any material and adverse impact on our business operations.

Relationship with Financial Institutional cooperators

Our collaboration with financial institutional cooperators is an important factor affecting our results of operations. We benefit from the protection of credit insurance or guarantee service which is provided by our financial institutional cooperators, including ZhongAn and external financing guarantee companies, to investors or institutional funding in the event of borrower's default. ZhongAn is a listed company on Hong Kong Stock Exchange since September 2017. Substantially all of our financing guarantee partners have at least AA+ credit rating issued by rating companies including China Lianhe Credit Rating Co., Ltd., China Chengxin Credit Management Co., Ltd., Shenzhen Lianhe Credit Information Service Co., Ltd and Fujian China Chengxin Credit Rating Consulting Co., Ltd. Our financing guarantee partners provide guarantee services covering both the North China and South China areas, most of which have a registered capital of more than RMB1 billion. Our financial institutional cooperators' strong brand recognition in China assists us in expanding our institutional funding base at reasonable expenses.

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We also collaborate with those financial institutional cooperators to strengthen our capabilities on risk management, given that we can get their insurance or guarantee decision opinion. Our financial institutional cooperators' credit assessment models are based on information from various databases, including PBOC CRC that is only available to licensed financial institutions. In addition to our financial institutional cooperators' decision and input, we also factor in many layers of other decision variables to create a more comprehensive and accurate profile of the borrowers' creditworthiness. See "Item 4. Information on the Company—4.B. Business Overview—Our Partnership with Financial Institutional Cooperators " for details. Changes to our arrangement with financial institutional cooperators in credit insurance or guarantee services, credit assessment and other aspects of our business could affect our investors' confidence, the growth of our business and our profitability.

We cooperated with Shenzhen Xintang, our consolidated VIE, to provide guarantees for certain loan products that we facilitate in the past. As of December 31, 2022, the outstanding amount of loan products guaranteed by Shenzhen Xintang was RMB556.3 million. Shenzhen Xintang did not renew its financing guarantee license in 2022. We expect to settle the current business of Shenzhen Xintang in 2023. For the outstanding loans guaranteed by Shenzhen Xintang, Shenzhen Xintang's compensation obligation is capped at a certain percentage of the principal at loan facilitation as pre-agreed with certain financial institutional cooperators , which will not be more than the contractual guarantee fee collectible from the borrower by us across the entire portfolio. Shenzhen Xintang will continue to guarantee the current outstanding loan products until their terms expire. We have expanded our cooperation with high-quality external financing guarantee companies that provide guarantee services to protect institutional funding partners from losses incurred from borrowers' defaults and charge guarantee fees from borrowers. A portion of guarantee fees will be subsequently paid to us by the external financing guarantee companies as the service fee. We may consider introducing other funding protection arrangements. We cannot assure you that new arrangements would be perceived by our financial institutional cooperators or institutional funding partners, which may have adverse impact on our business operations.

Loan Performance

Delinquency Rate by Balance

We define delinquency rate as the balance of the outstanding principal and accrued outstanding interest for loans that were 31 to 60 days past due as a percentage of the total balance of outstanding principal and accrued outstanding interest for the loans we facilitated as of a specific date. Loans that are delinquent for more than 60 days are charged-off and excluded in the calculation of delinquency rate by balance, except for Xiaoying Housing Loan. As Xiaoying Housing Loan is a secured loan product and we are entitled to payment by exercising our rights to the collaterals, we do not exclude Xiaoying Housing loan delinquent for more 60 days from the calculation of delinquency rate by balance. Xiaoying Housing Loan was launched in July 2015 and ceased in February 2019, and all the outstanding loan balance of housing loan as of December 31, 2021 and 2022 were overdue more than 60 days. To make the delinquency rate by balance comparable, we exclude Xiaoying Housing Loan in the calculation of delinquency rate as of December 31, 2021 and 2022. The following table provides the delinquency rates for all outstanding loans on our platform and by major products as of the respective dates indicated.

	December 31,		
	2020	2021	2022
Delinquent for 31-60 days			
All outstanding loans	0.79 %	1.48 %	1.02 %
Xiaoying Credit Loan	0.73 %	1.48 %	1.02 %
Xiaoying Revolving Loan(1)	2.54 %	100.00 %	N/A
Xiaoying Housing Loan	0.00 %	N/A	N/A
Loan facilitation services to other platforms	0.00 %	N/A	N/A
Others	N/A	N/A	1.61 %

Notes:

- (1) We have ceased the operation of Xiaoying Revolving Loan in 2020. The delinquency rate for Xiaoying Revolving Loan that were 31-60 days past due was 100% as of December 31, 2021, which is because the total balance of outstanding principal and accrued outstanding interest for loans that were 31 to 60 days past due equals the total balance of outstanding principal and accrued outstanding interest for the loans we facilitated.

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To make the delinquency rate by balance comparable to our peers, we also define the delinquency rate as the balance of the outstanding principal and accrued outstanding interest for loans that were 31 to 90 and 91 to 180 days past due as a percentage of the total balance of outstanding principal and accrued outstanding interest for the loans we facilitated as of a specific date. Loans that are delinquent for more than 180 days are excluded in the calculation of delinquency rate by balance, except for Xiaoying Housing Loan. Xiaoying Housing Loan was launched in July 2015 and ceased in February 2019, and all the outstanding loan balance of housing loan as of December 31, 2021 and 2022 were overdue more than 180 days. To make the delinquency rate by balance comparable, we exclude Xiaoying Housing Loan in the calculation of delinquency rate as of December 31, 2021 and 2022. The following table provides the delinquency rates for all outstanding loans on our platform and by major products as of the respective dates indicated.

	Delinquent for	
	31 - 90 days	91 - 180 days
December 31, 2020		
All outstanding loans	1.50 %	2.53 %
Xiaoying Credit Loan	1.38 %	2.10 %
Xiaoying Revolving Loan	4.93 %	14.34 %
Xiaoying Housing Loan	0.00 %	0.00 %
Loan facilitation services to other platforms	0.00 %	0.00 %
December 31, 2021		
All outstanding loans	2.65 %	2.62 %
Xiaoying Credit Loan	2.65 %	2.62 %
Xiaoying Revolving Loan(1)	4.52 %	95.48 %
December 31, 2022		
All outstanding loans	1.79 %	1.93 %
Xiaoying Credit Loan	1.79 %	1.94 %
Others	2.70 %	1.55 %

Notes:

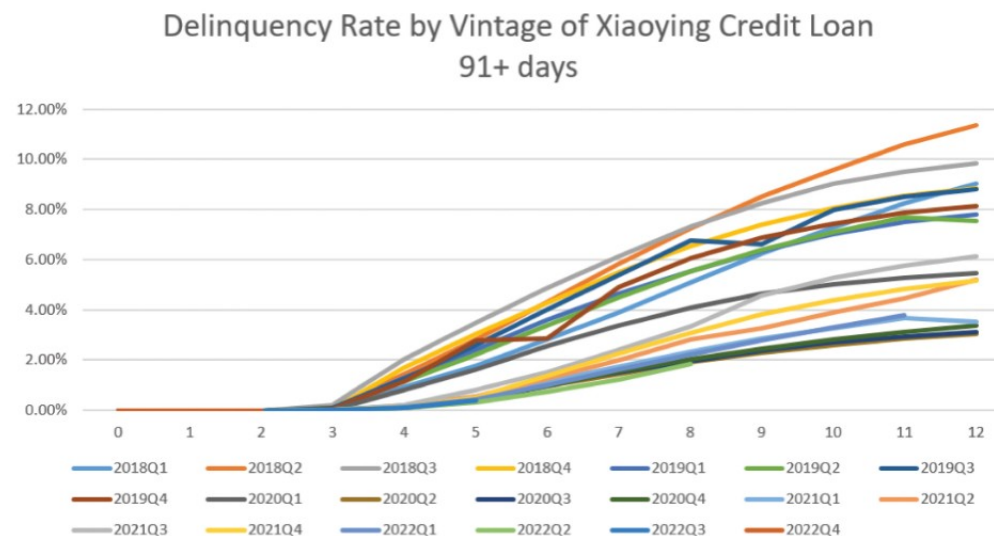
(1) We have ceased the operation of Xiaoying Revolving Loan in 2020. The delinquency rates for Xiaoying Revolving Loan that were 31-90 days past due plus the delinquency rates that were 91-180 days past due were equal to 100% as of December 31, 2021, which is because the total balance of outstanding principal and accrued outstanding interest for loans that were 31 to 180 days past due equals the total balance of outstanding principal and accrued outstanding interest for the loans we facilitated.

The delinquency rate for all outstanding loans on our platform that were 31-60 days past due increased from 0.79% as of December 31, 2020 to 1.48% as of December 31, 2021, and then decreased to 1.02% as of December 31, 2022. The delinquency rate for all outstanding loans on our platform that were 31-90 days past due increased from 1.50% as of December 31, 2020 to 2.65% as of December 31, 2021, and then decreased to 1.79% as of December 31, 2022. The delinquency rate for all outstanding loans on our platform that were 91-180 days past due increased from 2.53% as of December 31, 2020 to 2.62% as of December 31, 2021, and then decreased to 1.93% as of December 31, 2022. The primary reasons for the decrease include (i) the proactive adjustment of our risk policies in response to the evolving environment; and (ii) our improved ability to attract and retain more borrowers with better credit score.

Delinquency Rate by Vintage of Xiaoying Credit Loan

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

The following chart displays the historical cumulative 91-day plus past due delinquency rates by loan origination vintage for all continuing Xiaoying Credit Loan facilitated through our platform up to December 31, 2022, excluding the Xiaoying Professional Loan with a term of two to three years and the Xiaoying Preferred Loan with a term of three years.



The change in such delinquency rate of Xiaoying Credit Loan was primarily due to (i) the proactive adjustment of our risk policies in response to the evolving environment; and (ii) our improved ability to attract and retain more borrowers with better credit score.

Funding

We used to obtain funding directly from individual investors and corporate investors where they can invest in loans listed on our Xiaoying Wealth Management platform by choosing the loan products with their desired term and interest rate. Currently we obtain funding from institutional funding partners such as banks, consumer finance companies, trust companies and other institutions. In May 2021, we obtained a network microcredit license from the Local Financial Regulatory Bureau of Shenzhen Municipality and started online microcredit business in July 2021.

In 2020, 4.7% of the total funding for loans we facilitated were provided by individual investors, 95.3% were provided by institutional funding partners. In 2021, 98.0% of the total funding for loans we facilitated were provided by institutional funding partners and 2.0% were provided by our own capital. In 2022, 97.3 % were provided by corporate investors and institutional funding partners, and 2.7% were provided by our own capital.

Results of Operations

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

	For the Year Ended December 31,						
	2020		2021		2022		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Net revenues							
Loan facilitation service—Direct Model	1,266,533	57.8 %	2,545,432	70.2 %	2,044,344	296,402	57.4 %
Loan facilitation service- Intermediary Model	41,373	1.9 %	161	0.0 %	—	—	—
Post-origination service	203,842	9.3 %	315,590	8.7 %	372,451	54,000	10.5 %
Financing income	612,863	27.9 %	671,901	18.5 %	966,277	140,097	27.1 %
Other revenue	68,346	3.1 %	93,381	2.6 %	179,878	26,080	5.0 %
Total net revenue	2,192,957	100.0 %	3,626,465	100 %	3,562,950	516,579	100.0 %
Operating costs and expenses:							
Origination and servicing	2,071,506	94.4 %	1,963,006	54.1 %	2,126,742	308,349	59.7 %
General and administrative	179,226	8.2 %	187,858	5.2 %	171,524	24,869	4.8 %
Sales and marketing	35,629	1.6 %	20,830	0.6 %	15,448	2,240	0.4 %
(Reversal of) provision for contingent guarantee liabilities	881	0.0 %	(24)	(0.0)%	(14,000)	(2,030)	(0.4)%
Provision for accounts receivable and contract assets	121,485	5.5 %	77,248	2.1 %	21,836	3,166	0.6 %
(Reversal of) provision for loan receivable from Xiaoying Housing Loans	17,994	0.8 %	(378)	(0.0)%	(6,066)	(879)	(0.2)%
Provision for loans receivable from Xiaoying Credit Loans and other loans	227,210	10.4 %	76,395	2.1 %	164,642	23,871	4.6 %
Impairment losses on deposits to institutional cooperators:							
(Reversal of) provision for credit losses on deposits to institutional cooperators	10,318	0.5 %	(8,291)	(0.2)%	1,296	188	0.0 %
Impairment loss on deposits to institutional cooperators	960,000	43.8 %	—	—	—	—	—
Reversal of provision of credit losses for other financial assets	(975)	0.0 %	(1,223)	(0.0)%	(765)	(111)	(0.0)%
Total operating expenses	3,623,274	165.2 %	2,315,421	63.9 %	2,480,657	359,663	69.5 %
Income (loss) from operations	(1,430,317)	(65.2)%	1,311,044	36.1 %	1,082,293	156,916	30.5 %
Interest income (expense), net	21,724	1.0 %	19,709	0.5 %	3,756	545	0.1 %
Foreign exchange gain(loss)	15,399	0.7 %	5,147	0.1 %	(19,963)	(2,894)	(0.6)%
Income from financial investments	—	—	—	—	20,900	3,030	0.6 %
Impairment losses on financial investments	—	—	—	—	(8,875)	(1,287)	(0.2)%
Impairment losses on long-term investments	—	—	—	—	(26,866)	(3,895)	(0.8)%
Change in fair value of financial guarantee derivative	(163,670)	(7.5)%	(170,339)	(4.7)%	137,654	19,958	3.9 %
Fair value adjustments related to Consolidated Trusts	(57,380)	(2.6)%	(7,267)	(0.2)%	(6,168)	(894)	(0.2)%
Other income (loss), net	12,710	0.6 %	32,506	1.0 %	40,724	5,904	1.1 %
Income (Loss) before income taxes and gain (loss) from equity in affiliates	(1,601,534)	(73.0)%	1,190,800	32.8 %	1,223,455	177,383	34.4 %
Income tax benefit (expense)	299,879	13.7 %	(368,735)	(10.2)%	(389,358)	(56,452)	(10.9)%
Gain (loss) from equity in affiliates, net of tax	(6,806)	(0.3)%	3,342	0.1 %	(22,102)	(3,204)	(0.6)%

Net income (loss)	<u>(1,308,461)</u>	<u>(59.6)%</u>	<u>825,407</u>	<u>22.7 %</u>	<u>811,995</u>	<u>117,727</u>	<u>22.9 %</u>
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Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Net Revenues

The following table sets forth the breakdown of our net revenues, both in absolute amount and as a percentage of our total net revenues, for the periods presented:

	For the Year Ended December 31,				
	2021		2022		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
Net revenues					
Loan facilitation service—Direct Model	2,545,432	70.2 %	2,044,344	296,402	57.4 %
Loan facilitation service—Intermediary Model	161	0.0 %	—	—	— %
Post-origination service	315,590	8.7 %	372,451	54,000	10.5 %
Financing income	671,901	18.5 %	966,277	140,097	27.1 %
Other revenue	93,381	2.6 %	179,878	26,080	5.0 %
Total net revenue	3,626,465	100 %	3,562,950	516,579	100.0 %

Loan Facilitation Service-Direct Model and Loan Facilitation Service-Intermediary Model

Loan facilitation service fees under the direct model decreased from RMB2,545.4 million in 2021 to RMB2,044.3 million (US\$296.4 million) in 2022, primarily due to a decrease in average total borrowing cost of the borrowers; and also partially offset by an increase in the total loan amount facilitated this year compared with 2021.

Loan facilitation service fees under the intermediary model decreased from RMB0.2 million in 2021 to nil in 2022, due to the fact that all of the institutional funding partners invested their funds in the loans facilitated under the direct model and/or the trust model, depending on their investment strategies.

Post-origination Service

Post-origination service fees increased from RMB315.6 million in 2021 to RMB372.5 million (US\$54.0 million) in 2022, primarily due to the cumulative effect of increased volume of loans facilitated during the year. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are being provided.

Financing Income

Financing income increased from RMB671.9 million in 2021 to RMB966.3 million (US\$140.1 million) in 2022, primarily due to an increase in average loan balances compared with 2021.

Other Revenue

Other revenue increased from RMB93.4 million in 2021 to RMB179.9 million (US\$26.1 million) in 2022, primarily due to an increase in referral service fee for introducing borrowers to other platforms and an increase in technology service fees received for providing assistant technology development services.

Operating Expenses

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

	For the Year Ended December 31,				
	2021		2022		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
Operating costs and expenses:					
Origination and servicing	1,963,006	54.1 %	2,126,742	308,349	59.7 %
General and administrative	187,858	5.2 %	171,524	24,869	4.8 %
Sales and marketing	20,830	0.6 %	15,448	2,240	0.4 %
(Reversal of) provision for contingent guarantee liabilities	(24)	(0.0)%	(14,000)	(2,030)	(0.4)%
Provision for accounts receivable and contract assets	77,248	2.1 %	21,836	3,166	0.6 %
(Reversal of) provision for loan receivable from Xiaoying Housing Loans	(378)	(0.0)%	(6,066)	(879)	(0.2)%
Provision for loans receivable from Xiaoying Credit Loans and other loans	76,395	2.1 %	164,642	23,871	4.6 %
(Reversal of) provision for credit losses on deposits to institutional cooperators	(8,291)	(0.2)%	1,296	188	0.0 %
Reversal of provision for credit losses for other financial assets	(1,223)	(0.0)%	(765)	(111)	(0.0)%
Total operating expenses	2,315,421	63.9 %	2,480,657	359,663	69.5 %

Origination and servicing expenses

Origination and servicing expenses increased from RMB1,963.0 million in 2021 to RMB2,126.7 million (US\$308.3 million) in 2022, primarily due to the following factors: (i) an increase in commission fees resulting from the increase in total loan amount facilitated and originated this year, (ii) an increase in interest expenses as a result of an increase in payable to institutional funding partners and investors, and (iii) partially offset by a decrease in insurance fee paid to insurance company.

General and administrative expenses

General and administrative expenses decreased from RMB187.9 million in 2021 to RMB171.5 million (US\$24.9 million) in 2022, primarily due to the decrease in share-based compensation expenses.

Sales and marketing expenses

Sales and marketing expenses decreased from RMB20.8 million in 2021 to RMB15.4 million (US\$2.2 million) in 2022, primarily due to the decrease in share-based compensation expenses and labor costs.

Provision for Accounts Receivable and Contract Assets

Provision for accounts receivable and contract assets decreased from RMB77.2 million in 2021 to RMB21.8 million (US\$3.2 million) in 2022, primarily due to a decrease in the average estimated default rate which reflects an improvement in the credit quality of customers due to the our comprehensive risk management capabilities and stringent assessment criteria compared with 2021.

Provision for loans receivable from Xiaoying Credit Loans and other loans

Provision for loan receivables from Xiaoying Credit Loans and other loans increased from RMB76.4 million in 2021 to RMB164.6 million (US\$23.9 million) in 2022, primarily due to an increase in loans receivable held by us as a result of the increase in the total loan amount facilitated and originated this year compared with 2021.

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Change in Fair Value of Financial Guarantee Derivative

Change in fair value of financial guarantee derivative in 2022 was a fair value gain of RMB137.7 million (US\$20.0 million), compared with a fair value loss of RMB170.3 million in 2021, primarily due to the fair value gain realized as a result of the release of guarantee obligation in 2022.

Fair Value Adjustment Related to Consolidated Trusts

Fair value adjustment related to the Consolidated Trusts consists of the net change in the fair value of loans and payables to investors in the Consolidated Trusts. We recorded loss of fair value adjustments related to Consolidated Trusts of RMB7.3 million and RMB6.2 million (US\$0.9 million) for the year ended December 31, 2021 and 2022, respectively.

Income Tax Benefit (Expense)

Income tax expense increased from RMB368.7 million in 2021 to 389.4 million (US\$56.5 million) in 2022, primarily due to the increase in the taxable income.

Net Income (Loss)

As a result of the foregoing, our net income decreased from RMB825.4 million in 2021 to RMB812.0 million (US\$117.7 million) in 2022.

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

Net Revenues

The following table sets forth the breakdown of our net revenues, both in absolute amount and as a percentage of our total net revenues, for the periods presented:

	For the Year Ended December 31,				
	2020		2021		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
Net revenues					
Loan facilitation service—Direct Model	1,266,533	57.8 %	2,545,432	399,434	70.2 %
Loan facilitation service—Intermediary Model	41,373	1.9 %	161	25	0.0 %
Post-origination service	203,842	9.3 %	315,590	49,523	8.7 %
Financing income	612,863	27.9 %	671,901	105,436	18.5 %
Other revenue	68,346	3.1 %	93,381	14,654	2.6 %
Total net revenue	2,192,957	100.0 %	3,626,465	569,072	100 %

Loan Facilitation Service-Direct Model and Loan Facilitation Service-Intermediary Model

Loan facilitation service fees under the direct model increased from RMB1,266.5 million in 2020 to RMB2,545.4 million (US\$399.4 million) in 2021, primarily due to an increase in the amount of Xiaoying Card Loan facilitated through the direct model in 2021.

Loan facilitation service fees under the intermediary model decreased from RMB41.4 million in 2020 to RMB0.2 million (US\$0.03 million) in 2021, primarily due to the fact that substantially all of the institutional funding partners invested their funds in the loans facilitated under the direct model and/or the trust model, depending on their investment strategies.

Post-origination Service

Post-origination service fees increased from RMB203.8 million in 2020 to RMB315.6 million (US\$49.5 million) in 2021, primarily due to the cumulative effect of increased volume of loans facilitated during the year. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are being provided.

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Financing Income

Financing income increased from RMB612.9 million in 2020 to RMB671.9 million (US\$105.4 million) in 2021, primarily due to a change in the product mix resulting from an increase in revenue generated by Xiaoying Card Loan in 2021 compared with 2020, which carried a higher service fee rate; and also partially offset by a decrease in average loan balances held by the Company.

Other Revenue

Other revenue increased from RMB68.3 million in 2020 to RMB93.4 million (US\$14.7 million) in 2021, primarily due to an increase in technology service fees received for providing assistant technology development services and referral service fee for introducing borrowers to other platforms.

Operating Expenses

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

	For the Year Ended December 31,				
	2020		2021		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
Operating costs and expenses:					
Origination and servicing	2,071,506	94.4 %	1,963,006	308,038	54.1 %
General and administrative	179,226	8.2 %	187,858	29,479	5.2 %
Sales and marketing	35,629	1.6 %	20,830	3,269	0.6 %
Provision for contingent guarantee liabilities	881	0.0 %	(24)	(4)	(0.0)%
Provision for accounts receivable and contract assets	121,485	5.5 %	77,248	12,122	2.1 %
Provision for loan receivable from Xiaoying Housing Loans	17,994	0.8 %	(378)	(59)	(0.0)%
Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans	227,210	10.4 %	76,395	11,988	2.1 %
Impairment losses on deposits to institutional cooperators:					
Provision for deposits to institutional cooperators	10,318	0.5 %	(8,291)	(1,301)	(0.2)%
Impairment loss on deposits to institutional cooperators	960,000	43.8 %	—	—	—
Credit losses for other financial assets	(975)	(0.0)%	(1,223)	(192)	(0.0)%
Total operating expenses	3,623,274	165.2 %	2,315,421	363,340	63.9 %

Origination and Servicing Expenses

Origination and servicing expenses decreased from RMB2,071.5 million in 2020 to RMB1,963.0 million (US\$308.0 million) in 2021, primarily due to the decline in collection expenses resulting from the asset quality improvement and a decrease in interest expenses related to a decline in average loan balances held by the Company, and partially offset by the increase in commission fees resulting from the increased in total loan amount facilitated and provided in 2021.

General and Administrative Expenses

General and administrative expenses increased from RMB179.2 million in 2020 to RMB187.9 million (US\$29.5 million) in 2021, primarily due to the increase in share-based compensation expenses.

Sales and Marketing Expenses

Sales and marketing expenses decreased from RMB35.6 million in 2020 to RMB20.8 million (US\$3.3 million) in 2021, primarily due to a continuing cost reduction in

promotional and advertising activities in the first half of 2021.

Provision for Accounts Receivable and Contract Assets

Provision for accounts receivable and contract assets decreased from RMB121.5 million in 2020 to RMB77.2 million (US\$12.1 million) in 2021, primarily due to a decrease in the average estimated default rate compared with 2020.

Provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans

Provision for loan receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans decreased from RMB227.2 million in 2020 to RMB76.4 million (US\$12.0 million) in 2021, primarily due to a decrease in the average estimated default rate compared with 2020, and partially offset by an increase in loans facilitated under Intermediary Model – Partnership Model and an increase in loans provided by our own fund from our microcredit business.

Change in Fair Value of Financial Guarantee Derivative

Change in fair value of financial guarantee derivative increased from RMB163.7 million in 2020 to RMB170.3 million (US\$26.7 million) in 2021, primarily due to an increase of the estimated payment to financial institutional cooperators based on the pre-agreed cap from RMB1,796.4 million in 2020 to RMB2,139.7 million in 2021 and partially offset by the decline of the estimated net default rate.

Fair Value Adjustment Related to Consolidated Trusts

Fair value adjustment related to the Consolidated Trusts consists of the net change in the fair value of loans and payables to investors in the Consolidated Trusts. We recorded loss of fair value adjustments related to Consolidated Trusts of RMB57.4 million and RMB7.3 million (US\$1.1 million) for the year ended December 31, 2020 and 2021, respectively.

Income Tax Benefit (Expense)

Income tax expense in 2021 was 368.7 million (US\$57.9 million), compared with income tax benefit of RMB299.9 million in 2020, primarily due to (i) the taxable income generated in 2021 compared with an increase net operating losses that can be carried forward to future years in 2020; and (ii) an increase of valuation allowance for the portion of the deferred tax assets that is not more likely than not to be realized

Net Income (Loss)

As a result of the foregoing, our net income in 2021 was RMB825.4 million (US\$129.5 million) , compared with net loss of RMB1,308.5 million in 2020.

Discussion of Key Balance Sheet Items

The following table sets forth selected information from our consolidated balance sheet as of December 31, 2020, 2021 and 2022. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report.

	As of December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
Assets				
Cash and cash equivalents	746,388	584,762	602,271	87,321
Restricted cash	852,134	407,276	404,689	58,674
Accounts receivable and contract assets, net	413,307	747,480	1,161,912	168,461
Loans receivable from Xiaoying Credit Loans and other loans, net	1,236,026	2,484,073	3,810,393	552,455
Loan receivable from Xiaoying Housing Loans, net	47,490	12,083	10,061	1,459
Loans at fair value	1,585,732	389,679	120,280	17,439
Deposits to institutional cooperators, net	907,923	1,500,407	1,770,317	256,672
Prepaid expenses and other current assets, net	403,776	213,127	71,082	10,306
Financial guarantee derivative	297,928	11,817	—	—
Deferred tax assets, net	605,656	274,869	88,428	12,821
Long-term investments	295,615	560,038	495,995	71,913
Financial investments	6,000	82,844	192,620	27,927
Property and equipment, net	11,137	6,188	5,861	850
Intangible assets, net	37,440	36,817	36,550	5,299
Other non-current assets	51,458	31,279	67,204	9,744
Total Assets	7,498,010	7,342,739	8,837,663	1,281,341
Liabilities				
Payable to investors at fair value	1,914,184	462,714	141,289	20,485
Payable to investors and institutional funding partners at amortized cost	1,460,395	1,487,379	2,627,910	381,011
Guarantee liabilities	9,790	—	—	—
Financial guarantee derivative	130,442	565,953	107,890	15,643
Short-term borrowings	350,545	166,500	70,209	10,179
Accrued payroll and welfare	34,781	44,605	63,681	9,233
Other taxes payable	73,077	219,544	255,691	37,072
Income taxes payable	75,917	117,148	270,089	39,159
Deposit payable to channel cooperators	21,472	21,012	19,700	2,856
Accrued expenses and other current liabilities	323,748	268,967	476,035	69,019
Other non-current liabilities	27,615	12,022	51,193	7,422
Deferred tax liabilities	—	—	722	105
Total Liabilities	4,421,966	3,365,844	4,084,409	592,184

Accounts receivable and contract assets, net. Accounts receivable and contract assets consist primarily of the service fees earned from our customers. Our accounts receivable and contract assets increased from RMB747.5 million as of December 31, 2021 to RMB1,161.9 million (US\$168.5 million) as of December 31, 2022, primarily due to an increase in the total loan amount facilitated of Xiaoying Card Loan in 2022 compared with 2021. Our accounts receivable and contract assets increased from RMB413.3 million as of December 31, 2020 to RMB747.5 million as of December 31, 2021.

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Loans receivable from Xiaoying Credit Loans and other loans, net. Loans receivable from Xiaoying Credit Loans and other loans consist primarily of loans facilitated through the Consolidated Trusts and Partnerships and loans provided by Xiaoying Microcredit. Our loans receivable from Xiaoying Credit Loans and other loans increased from RMB2,484.1 million as of December 31, 2021 to RMB3,810.4 million (US\$552.5 million) as of December 31, 2022, primarily due to an increase in loans facilitated through Consolidated Trusts and Partnerships and an increase in loans provided by our own fund from our microcredit business. Our loans receivable from Xiaoying Credit Loans and other loans increased from RMB1,236.0 million as of December 31, 2020 to RMB2,484.1 million as of December 31, 2021.

Loans at fair value. Loans at fair value consist primarily of the loans underlying our Consolidated Trusts. Our loans at fair value decreased from RMB389.7 million as of December 31, 2021 to RMB120.3 million (US\$17.4 million) as of December 31, 2022, primarily due to the termination of a portion of the Consolidated Trusts administered by unrelated third party trust companies that were offered to investors through our Consolidated Trust business. Our loans at fair value decreased from RMB1,585.7 million as of December 31, 2020 to RMB389.7 million as of December 31, 2021.

Deposits to institutional cooperator, net. Deposits to cooperators relate to the pledged cash to our financial institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. The deposits paid to our financial institutional cooperators increased from RMB1,500.4 million as of December 31, 2021 to RMB1,700.3 million (US\$256.7 million) as of December 31, 2022, primarily due to an increase in the total loan amount facilitated in 2022. The deposits paid to our financial institutional cooperators increased from RMB907.9 million as of December 31, 2020 to RMB1,500.4 million as of December 31, 2021.

Financial investment. Financial investment mainly consists of investments in Venture capital funds whose strategies are research driven and long-term investment preference. Our financial investments increased from RMB82.8 million in 2021 to RMB192.6 million (US\$27.9 million) in 2022 primarily due to the new investments in three Venture capital funds in 2022 and partially offset by the impairment and loss of certain investments which had been negatively impacted by the market volatility in 2022. Most of the investments in Venture capital funds have at least 5 years of investment period when redemption or transfer is generally not allowed, but we believe that those investments can bring us an opportunity of exploring innovative technologies and the potential for improved profitability in long term, which is in line with our business strategies.

Prepaid expenses and other current assets, net. Prepaid expenses and other current assets decreased from RMB213.1 million as of December 31, 2021 to RMB71.1 million (US\$10.3 million) as of December 31, 2022, primarily due to the repayment of earnings rights associated with loan assets, amounting to RMB99.2 million and the decrease of prepaid expenses to various service providers in 2022. Prepaid expenses and other current assets decreased from RMB403.8 million as of December 31, 2020 to RMB213.1 million as of December 31, 2021.

Payable to investors at fair value. Our payable to investors at fair value were RMB462.7 million and RMB141.3 million (US\$20.5 million) as of December 31, 2021 and 2022 respectively, primarily due to the termination of a portion of the Consolidated Trusts administered by unrelated third party trust companies that were offered to investors and institutional funding partners through our Consolidated Trust business. Our payable to investors at fair value were RMB1,914.2 million and RMB462.7 million as of December 31, 2020 and 2021 respectively.

Payable to investors and institutional funding partners at amortized cost. Payable to investors and institutional funding partners at amortized cost consist primarily of the proceeds received from the trust partners and investors through consolidated trust and partnerships. Our payable to investors and institutional funding partners at amortized cost was RMB1,487.4 million and RMB2,627.9 million (US\$381.0 million) as of December 31, 2021 and 2022 respectively, primarily due to an increase in the transaction volume in 2022. Our payable to investors and institutional funding partners at amortized cost were RMB1,460.4 million and RMB1,487.4 million as of December 31, 2020 and 2021 respectively.

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Financial Guarantee Derivative. For most of newly facilitated Xiaoying Card Loans and other loans, our exposure is limited to the contractual guarantee fee that we cannot collect under the agreement from the borrower as a result of default or prepayment but are still obligated to compensate our financial institutional cooperators based on the contractual guarantee fee up to the pre-agreed cap. The derivative liability is increased by the guarantee fees collected from the borrowers upon receipt as we expect all the fees to be ultimately paid to our financial institutional cooperators. When we settle the guarantee liability through performance of the guarantee by making payments to our financial institutional cooperators, we record a corresponding deduction to the derivative liability. As of December 31, 2020, 2021 and 2022, financial guarantee derivatives has an asset position of RMB297.9 million, RMB11.8 million and nil, respectively, primarily due to the time lag between the payments to certain financial institutional cooperators and the collection of monthly guarantee service fees from borrowers. The cumulative amount paid to those financial institutional cooperators was greater than the cumulative monthly guarantee service fees collected from borrowers. However, the total amount paid to those financial institutional cooperators was still within the pre-agreed Cap. The pre-agreed Cap was determined based on the market price and negotiated after a certain period of observation of the industry environment and economic risk to Company. The excess is expected to be fully collected from the borrowers during the remaining term of the underlying loans. As of December 31, 2020, 2021 and 2022, financial guarantee derivatives has a liability position of RMB130.4 million, RMB566.0 million and RMB107.9 million (US\$0.16 million) respectively.

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 2020, 2021 and 2022 were increases of 0.2%, 1.5% and 1.8%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

Taxation

Cayman Islands

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

Hong Kong

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

China

Our subsidiaries, VIEs and subsidiaries of the VIEs established in the PRC are subject to an income tax rate of 25% in the years presented. As stipulated by the Taxation Law of PRC, (i) one VIE in Shenzhen was a qualified enterprise eligible to enjoy the preferential income tax rate of 15% from 2020 to 2022; and (ii) one of our major consolidated subsidiaries was recognized as a software enterprise and thereby entitled to a full exemption from EIT in 2017 and 2018, and a 50% reduction from 2019 to 2021. In 2022, the software enterprise qualified as “high and new technology enterprise” (“HNTE”) under the EIT Law and was entitled to a preferential income tax rate of 15% from 2022 to 2025.

We are subject to value added tax, or VAT, at a rate of 6% on the services we provide to borrowers, investors and institutional funding partners, and at a rate of 13% on the commodities we sold on our online shopping mall, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law. VAT has been phased in since May 2012 to replace the business tax that was previously applicable to the services we provide. During the periods presented, we were not subject to business tax on the services we provide.

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Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%.

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—3.D. Risk Factors—Risks Relating to Doing Business in China—We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.”

Critical Accounting Policies, Judgments and Estimates

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

Revenue recognition

We provide services as an online marketplace connecting borrowers and investors or institutional funding partners. Revenue is the transaction price we expect to be entitled to in exchange for the promised services in a contract in the ordinary course of our activities and is recorded net of value-added tax (“VAT”). The services to be accounted for include loan facilitation service, post-origination service (e.g. cash processing and collection services) and financial guarantee service.

The major product offered by us is Xiaoying Credit Loan, which mainly consists of Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that we introduce from time to time. The major products offered by us before 2021 also include Xiaoying Revolving Loan which mainly consists of Yaoqianhua (previously named as Xiaoying Wallet). We ceased facilitation of Xiaoying Preferred Loan in 2019, and ceased facilitation of Xiaoying Revolving Loan in 2020.

We provide services primarily through the use of two business models. The first business model (“Direct Model”) involves matching borrowers with investors or institutional funding partners who directly funds the credit drawdowns to the borrowers. We have determined that it is not the legal lender or borrower in the loan origination and repayment process, but acting as an intermediary to bring the lender and the borrower together. Therefore, we do not record the loans receivable or payable arising from the loans facilitated between the investors or institutional funding partners and borrowers on its platform.

The second business model (“Intermediary Model”) involves we initially providing credit to borrowers using our own funds through an intermediary and subsequently selling the loans including all of the creditor rights in the loans to external investors or institutional funding partners on its platform within a short period of time.

Loans facilitated by us typically have a term of less than 1 year. For each loan facilitated either through the Direct Model or Intermediary Model, we charge a service fee (i) from the borrower indirectly through one of the our VIEs, Shenzhen Xintang, or (ii) from the borrower indirectly through external financing guarantee company, or (iii) from institutional funding partner directly. No application fee is charged to borrowers or investors or institutional funding partners.

For the loans we are entitled to the full service fee regardless of whether the borrowers choose to early repay or not, we have the unconditional right to the consideration.

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For the loans facilitated that we collected service fees indirectly through Shenzhen Xintang, when borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees, our right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. At contract inception, we determine the consideration based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination.

For the loans facilitated that we collected service fee indirectly through external financing guarantee company or directly from institutional funding partner, our transaction price includes variable consideration in the form of default risk of the borrowers and prepayment risk of the borrowers. We determine the consideration based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination.

In order to be more competitive by providing a certain level of assurance to the investors or institutional funding partners, for certain loans facilitated by our platform, either borrowers or institutional funding partners are required to directly sign a credit insurance agreement with ZhongAn Online P&C Insurance Co., Ltd (“ZhongAn”) to protect investors or institutional funding partners against the risk of borrower default. Prior to September 2017, substantially all of the loans facilitated by our platform are insured by ZhongAn. ZhongAn initially reimbursed the loan principal and interest to the investor upon borrower’s default. In order to maintain stable business relationship with ZhongAn, we at our sole discretion paid ZhongAn for substantially all the defaulted loan principal and interest but have not been subsequently collected. From September 2017, we revised the arrangement with ZhongAn. Starting from 2020, we enter into a series of arrangements with various external financing guarantee companies, which is similar to the revised arrangement with ZhongAn.

We provide guarantee to investors and institutional funding partners on certain loan products via its consolidated entities. We are compensated for this reimbursement from the contractual service fees collected from the borrowers. If a borrower defaults, we make our best efforts to collect the default loan. We directly make payment to the defaulted principal and interest to each investor, and deemed the guarantee as a guarantee service to the investors and recognizes a stand ready obligation for its guarantee exposure in accordance with ASC Topic 460, Guarantees which requires the guarantee to be measured initially at fair value based on the stand-ready obligation. Starting from 2020, we ceased to provide guarantee service on the loan facilitated.

For certain Xiaoying Card Loans and certain Xiaoying Revolving Loans that are repaid in installments by borrowers, borrowers are required to enter into a guarantee agreement with us and an insurance/guarantee agreement with ZhongAn/financing guarantee companies, to pay the guarantee fee and insurance fee to the respective party at a pre-agreed rate. For certain loans that facilitated since 2020, borrowers are required to enter into a guarantee agreement with us to pay the guarantee fee at a pre-agreed rate while at the same time, it is the institutional investors who enter into an insurance agreement with ZhongAn and we voluntarily pay the insurance fee to ZhongAn. The obligation/ credit risk/ exposure of us and ZhongAn to compensate the defaulted loans has no change.

Upon borrower’s default, ZhongAn/financing guarantee companies reimburse the full loan principal and interest to the investors or institutional funding partner first, and has the right to recourse to both the borrower and us, and our contractual obligation is at any time it limited to a cap (the “Cap”) which is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in an annualized manner, as pre-agreed with ZhongAn/financing guarantee companies (the “Rate”). The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. We have no obligation or intention to compensate ZhongAn/financing guarantee companies for any losses in excess of the contractual obligation. The Rate will be negotiated prospectively at each quarter between the two parties based on the expected default rate. The actual loss in excess of the Cap is absorbed by ZhongAn/financing guarantee companies. ZhongAn/financing guarantee companies ultimately bear substantially all of the credit risk. Our exposure in this arrangement is limited to the default and prepayment risk in relation to the guarantee fee when we cannot collect the guarantee fee under the agreement with the borrower on an individual basis but is still obligated to compensate ZhongAn/financing guarantee companies up to the Cap on a pool basis. We evaluated the guarantee arrangement pursuant to ASC Topic 815, and concluded that the arrangement meets the definition of a derivative and that it is not eligible for the guarantee scope exception. Therefore, the guarantee is recognized as a derivative liability/asset at fair value and is not accounted for pursuant to ASC Topic 460 or 450. See accounting policy for financial guarantee derivative.

Direct Model

We have adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified ASC 606.

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

We determine the total transaction price to be the service fees chargeable from the borrowers indirectly through one of the VIEs, Shenzhen Xintang, or external financing guarantee companies or from certain institutional funding partners directly, including the guarantee fees charged by us under the separate guarantee agreement with the borrowers for certain type of Xiaoying Card Loans that are newly facilitated since September 2017. Our transaction price includes variable consideration in the form of default risk of the borrowers for the service fees collected from certain institutional funding partners or through external financing guarantee companies and prepayment risk of the borrowers. We reflect, in the transaction price, the default risk and the prepayment risk. We estimate variable consideration for these contracts using the expected value approach on the basis of historical information and current trends of the default and prepayment percentage of the borrowers. The transaction price is allocated amongst the financial guarantee service, if any, and two performance obligations.

We first allocate the transaction price to the financial guarantee, if any, that is recognized in accordance with ASC Topic 815, which requires the guarantee to be measured initially and subsequently at fair value. Then the remaining considerations are allocated to the loan facilitation services and post-origination services using their relative standalone selling prices consistent with the guidance in ASC 606. We do not have observable standalone selling price information for the loan facilitation services or post-origination services because we do not provide loan facilitation services or post-origination services on a standalone basis. There is no direct observable standalone selling price for similar services in the market that is reasonably available to us. As a result, the estimation of standalone selling price involves significant judgment. We use an expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post origination services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation services and post-origination services, we consider the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on our services, and other market factors.

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For each type of service, we recognize revenue when (or as) the entity satisfies the service/performance obligation by transferring a promised good or service (that is, an asset) to a customer. Revenues from loan facilitation are recognized at the time a loan is originated between the borrower and the investor or institutional funding partner and the principal loan balance is transferred to the borrower, at which time the facilitation service is considered completed. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are provided. The collection of service fees is not conditional on the provision of subsequent post-origination services.

Intermediary Model

We cooperate with several microcredit companies who use their own funds to provide credit to borrowers first; we provide facilitation and post-origination services for these loans and receive service fee from borrowers. These microcredit companies transfer their rights as creditors shortly to SPVs controlled by us at the price of the carrying amount of the outstanding loan principal balance and accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to SPVs. The SPVs usually further transfer their creditor's rights to third party investors or institutional funding partners in a short period at the price of the carrying amount of the outstanding loan principal balance and the accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to investors or institutional funding partners. We account the relevant interest and service fees received from the borrowers as the financing income and the fee charged by the microcredit companies which is proportionate to the loans facilitated as the origination and servicing cost in its consolidated financial statements.

Under the Intermediary business model, we provide the funds that are loaned to borrowers and agree to take predominantly all the risk arising from potential breaches of agreement by the borrowers receiving financing.

We provide financing to borrowers on their platform and the loans are initially recorded on the consolidated balance sheet as loans held for sale or loans receivable from Xiaoying Credit Loans and other loans. These loans carry the same insurance/ guarantee agreement with external financial institutional co-operators as loans facilitated under the Direct Model, which is attached to the loan and transfers along with the loan. We also charge service fees in the same manner as loans facilitated under the Direct Model.

Intermediary Model—Non-Trust Model

The transfer of loans (including the creditor rights) to external investors or institutional funding partners not involving trust structure is accounted for as a true sale under ASC 860 (see accounting policy under "Sales and Transfers of Financial Instruments"). We continue to provide post-origination services to the loans subsequent to their sale in the same manner as we service the loans facilitated under the Direct Model. No additional service fee is charged. Similar to the loans facilitated under the Direct Model, we charge and collect service fees from the borrowers or institutional funding partners in relation to the transferred loans on a monthly basis. The difference between (1) the proceeds received from the investors or institutional funding partners and accounts receivable and contract assets (see accounting policy on "Accounts receivable and contract assets and allowance for uncollectible accounts receivable and contract assets") and (2) the sum of the carrying value of the loans and the fair value of the financial guarantee, if any, is recognized as a gain of sale, which effectively represents the service fees earned from facilitation of the loans under Intermediary Model, as the "Loan facilitation service—Intermediary Model" in the consolidated statements of comprehensive income (loss). The subsequent accounting for post-origination service and guarantee services is consistent with that for loans facilitated under the Direct Model.

Intermediary Model—Trust Model

The transfer of loans to institutional funding partners under the Intermediary Model often involves transferring the loans to a trust formed and operated by unrelated third party trust companies. We consolidate such trusts under the VIE model (see accounting policy on "Consolidated Trusts"). Loans transferred to Consolidated Trusts do not qualify for sales accounting as the transfer is to a consolidated subsidiary.

Before December 31, 2021, we elected to apply fair value option to these loans at the date of origination. The loans are recorded as "Loans at fair value" in the consolidated balance sheets.

From January 1, 2022, we elected to apply amortized cost method to the loans of newly formed Consolidated Trusts at the date of origination. For loan assets measured at amortized cost, they are recorded as "Loans receivable from Xiaoying Credit Loans and other loans, net".

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Under both method, we recognize as revenue under “Financing income” the service fees and interests charged to the borrowers over the lifetime of the loans using effective interest method.

Intermediary Model—Partnership Model

The transfer of loans to institutional funding partners under the Intermediary Model involves transferring the loans to a limited partnership enterprise, or LP, formed and operated by unrelated third-party trust companies and us. We consolidate such partnerships under the VIE model (see accounting policy on “Consolidated Partnerships”). We elect to measure these loans at amortized cost at the time of origination. Loans transferred to Consolidated Partnerships do not qualify for sales accounting as the transfer is to a consolidated subsidiary. The loans are recorded as “Loans receivable from Xiaoying Credit Loans and other loans, net ” in the consolidated balance sheets. We recognizes as revenue under “Financing income” the service fees and interests charged to the borrowers over the lifetime of the loans using effective interest method.

The online Intermediary Model ceased in April 2017 and the offline Intermediary Model with funding from banking financial institution partners ceased in February 2018 to comply with the promulgated regulatory requirements. We continue the operations through the offline Intermediary Model with funding from other partners to the extent permitted under applicable laws and regulations.

Contract balance

We did not enter into contracts with customers that were greater than one year for substantially all products for the years ended December 31, 2020, 2021 and 2022. We did not record any contract liabilities for both 2021 and 2022. For the loans we are entitled to the full service fee regardless of whether the borrowers choose to early repay or not, we have the unconditional right to the consideration and an accounts receivable is recorded. For the loans facilitated with borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees, our right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. In these instances, we record a corresponding contract asset when recognizing revenue from loan facilitation service. The contract asset will not be reclassified to a receivable given that the right to invoice and the payment due date is the same date. Revenue for these loan products are recognized when the collection of consideration becomes probable.

Incentives to investors

To expand its market presence, we provide incentives to investors in a variety of forms that either reduces the amount of investment required to purchase financial products or entitles them to receive higher interest rates in the products they purchase. During the relevant incentive program period, we set certain thresholds for the investor to qualify to enjoy the incentive. Such incentives are accounted for as a reduction of revenue in accordance with ASC 606.

Financing Income

Financing income consists primarily the financing fees we charge for the loans facilitated through the Consolidated Trusts and Consolidated Partnerships, including interest income and service fees generated from providing loan facilitation and post-origination services to the investors and institutional funding partners of the Consolidated Trusts and Consolidated Partnerships, and are recorded as revenue over the life of the underlying financing using the effective interest method.

Financing income also includes financing fees, including interest income and service fee, from loans held for sale and loans receivables from Xiaoying Credit Loans and other loans that have not yet been transferred to external investors or institutional funding partners or have been transferred but such transaction does not qualify for sale accounting under the Intermediary Model.

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Starting from 2021, financing income also includes interest income generated from providing loans by our own fund from microcredit business, and are recorded as revenue over the life of the underlying financing using the effective interest method. We maintain the right to terminate the contract in advance based on the credit due diligence performed on each borrower. The remaining installments of interest would be recognized on non-accrual status after the contract terminated.

Other revenue

Other revenue primarily includes referral service fees for introducing borrowers to other platforms, technology service fees received for providing assistant technology development services and penalty fees for loan prepayment and late payment. The referral service fees for introducing borrowers to other platforms are recognized when the obligation is fulfilled and is confirmed by the other platforms. The technology service fees are recognized when the assistant technology development services to third parties provided. The penalty fees, which are fees paid to us, will be received as a certain percentage of past due amounts in the case of late payments or a certain percentage of interest over the prepaid principal loan amount in the case of prepayment. Penalty fees are contingency-based variable considerations and constrained by the occurrence of delinquency or prepayment. They are recognized when the uncertainty associated with the variability is resolved, that is, when the underlying event occurs.

Sales and Transfers of Financial Instruments

Sales and transfers of financial instruments are accounted under authoritative guidance for the transfers and servicing of financial assets and extinguishment of liabilities. Specifically, a transfer of a financial asset, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale only if all the following conditions are met:

1. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
2. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
3. The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control of the transferred asset. A transferor's effective control over the transferred financial assets includes, but is not limited to, any of the following:
 - a. An agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity.
 - b. An agreement, other than through a cleanup call that provides the transferor with both of the following: (i) The unilateral ability to cause the holder to return specific financial assets. (ii) A more-than-trivial benefit attributable to that ability; and
 - c. An agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Under the Intermediary Model, we, through our Intermediary, facilitates credits to borrowers and subsequently transfers the loans (including the creditor rights) to third party investors or institutional funding partners at face value within a short period of time.

When the loan (including the creditor rights) is transferred, the transferee becomes the direct counterparty to the borrower and the legal record holder of the loan upon transfer. The transfer is accounted for as a sale, when (1) the transferred loans are considered legally isolated from the assets of us and its creditors even in the bankruptcies under the PRC laws and regulations, (2) the investors or institutional funding partners (transferees) can freely pledge or exchange the transferred loans, and (3) we do not maintain effective control over the transferred loans. When a transfer does not qualify for sale accounting, e.g. when we sell loans with recourse to us, the transferred financial asset remains in the statement of financial position and a financial liability is recognized for any consideration received.

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For Xiaoying Housing Loans facilitated through the Intermediary Model, borrowers are required to pledge properties to one of our consolidated VIE entities (other than the Intermediary or the SPV conducting the facilitation and transfer of the loan) as collateral for the guarantee that we are providing to ZhongAn against borrower's default. It is a separate arrangement with different counterparties from the loan provided by us. While the loan (including creditor's rights) is transferred to third party investors or institutional funding partners, the lien remains under our name and in security for our agreeing to provide the guarantee to ZhongAn. The holding of the lien does not affect the creditor's right in the loan being fully transferred. Provided all aforementioned conditions under sales accounting are met, the transfer of such loans with collateral are accounted for as a sale. We ceased facilitation of Xiaoying Housing Loan in 2019.

Financial guarantee derivatives

Starting from September 2017, for newly facilitated Xiaoying Credit Loans and Xiaoying Revolving Loans, we entered into a series of arrangements with various financial institutional cooperators in which it has agreed that our exposure is limited to the contractual guarantee fee that we cannot collect under the agreement from the borrower as a result of default or prepayment but are still obligated to compensate those financial institutional cooperators based on the contractual guarantee fee up to the pre-agreed cap. The Cap is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in annualized manner, as pre-agreed with financial institutional cooperators (the "Rate"). The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. We will be notified by email for any subsequent adjustments to the Rate from financial institutional cooperators at every quarter and no separate written agreement is needed for execution for such adjustments. The Rate will also be negotiated prospectively between financial institutional cooperators and us based on the expected default rate. See accounting policy in Revenue Recognition. The financial guarantee is accounted for as a derivative under ASC 815 because the financial guarantee scope exemption in ASC 815-10-15-58 is not met. The derivative is remeasured at each reporting period. The change in fair value of the derivative is recorded as a change in fair value of financial guarantee derivatives in the consolidated statements of comprehensive income (loss). The derivative is increased by the guarantee fees collected from the borrowers upon receipt as we expect all the fees to be ultimately paid to those financial institutional cooperators. When we settle the guarantee through performance of the guarantee by making payments to those financial institutional cooperators, we record a corresponding deduction to the derivative.

We use discounted cash flow model to value these financial guarantee derivatives at inception and subsequent valuation dates. This discounted cash flow model incorporates assumptions such as the expected delinquency rates, prepayment rate and discount rate. The expected delinquency rate and prepayment rate is estimated by taking into consideration of historical loss experiences. The discount rate is determined based on the market rates. We consider that the impact of discount rate to the fair value of financial guarantee derivatives is immaterial.

Consolidation of Variable Interest Entity

The consolidated financial statements include the financial statements of us, our wholly-owned subsidiaries, and consolidated VIEs. All intercompany transactions and balances have been eliminated.

We, through our wholly-owned foreign invested subsidiary, Beijing WFOE in the PRC, entered into a series of contractual arrangements ("VIE agreements") with Shenzhen Xiaoying, Beijing Ying Zhong Tong, and Shenzhen Xintang (collectively known as "the VIEs") and their respective shareholders that enable us to (1) have power to direct the activities that most significantly affects the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs.

Since we do not have any equity interests in the VIEs in order to exercise effective control over their operations, through Beijing WFOE, we have entered into a series of contractual arrangements with the VIEs and their shareholders, pursuant to which we are entitled to receive effectively all economic benefits generated from the VIEs. The call option agreements and voting rights proxy agreement provide us effective control over the VIEs, while the equity interest pledge agreement secure the equity owners' obligations under the relevant agreements. Because we have both the power to direct the activities of the VIEs that most significantly affect their economic performance and the right to receive substantially all of the benefits from the VIEs, we are deemed the primary beneficiary of the VIEs. Accordingly, we have consolidated the financial statements of the VIEs. The aforementioned contractual agreements are effective agreements between a parent and a consolidated subsidiary, neither of which is accounted for in the consolidated financial statements (i.e., a call option on subsidiary shares under the call option agreement or a guarantee of subsidiary performance under the equity pledge agreement) or are ultimately eliminated upon consolidation (i.e., service fees under the exclusive business cooperation).

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Uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. The interests of the shareholders of the VIEs may diverge from that of our company, which may potentially increase the risk that they would seek to act contrary to the contractual terms.

Consolidated Trusts

As part of our efforts to develop new product offerings for investors and institutional funding partners, we established a business relationship with certain trusts which were administered by third-party trust companies. The trusts were set up to invest solely in the loans facilitated by us on our platform to provide returns to the beneficiaries of the trusts through interest payments made by the borrowers. Both direct model and intermediary model are adopted for these trusts. Under direct model, loans are originated from trusts to borrowers while under intermediary model, we typically provide credit to the borrowers through an intermediary first and then transfer the loans to the trusts, which issue beneficial interests to the investors and institutional funding partners. We determine to consolidate these trusts as we are the primary beneficiary, due to the following reasons: 1) we have the power to direct the operating activities of the trusts; 2) we absorb or enjoy the potential residual losses or returns of these trusts. Under intermediary model, the transfer of loans to the Consolidated Trusts are not eligible for sale accounting because the trust is consolidated and the loan transfer is considered an intercompany transaction.

For Consolidated Trusts founded before December 31, 2021, we elected to apply fair value option to the loans (at the date of origination) and liabilities due to investors. That is, the loans are continued to be recorded on our consolidated balance sheets as loans held for investment under “Loans at fair value” and the proceeds received from the investors are recorded as trust liabilities under “Payable to investors at fair value”.

For Consolidated Trusts founded from January 1, 2022, we elected not to apply fair value option but instead apply amortized cost method to the loans (at the date of origination) and liabilities due to investors or institutional funding partners. Because we believe that financial information under amortization method is both understandable and relevant. That is, the loans are continued to be recorded on our consolidated balance sheets as loans held for investment under “Loans receivable from Xiaoying Credit Loans and other loans, net”, which is net of provision of credit loss, and the proceeds received from the investors or institutional funding partners are recorded as trust liabilities under “Payable to investors and institutional funding partners at amortized cost”.

Consolidated Partnerships

We continued developing the partnership business model, where we and certain trusts jointly established several limited partnership enterprises, or LPs, to invest solely in the loans facilitated by us on our platform to provide returns to partners of the LPs through interest payments made by the borrowers. Intermediary model is adopted for the Consolidated Partnerships, we typically provides credit to the borrowers through an intermediary first and then transfers the loans to the LPs. We determine to consolidate these LPs as we are the primary beneficiary, due to the following reasons: 1) we have the power to direct the operating activities of the LPs; 2) we absorb or enjoy the potential residual losses or returns of these LPs. The transfer of loans to the Consolidated Partnerships are not eligible for sale accounting because the LP is consolidated and the loan transfer is considered an intercompany transaction. We further apply amortized cost to the loans and liabilities to trust partners in its consolidated financial statements. That is, the loans are recorded on our consolidated balance sheets under “Loans receivable from Xiaoying Credit Loans and other loans, net” and the proceeds received from the trust partners are recorded as LP liabilities under “Payable to investors and institutional funding partners at amortized cost”.

Allowance for credit losses

We have the following financial assets or liabilities that are subject to credit losses assessment: accounts receivable and contract assets, loans receivable from Xiaoying Credit Loans and other loans, loans receivable from Housing Loans, deposits to institutional cooperators, prepaid expenses and other current assets, and guarantee liabilities.

Under the CECL methodology, the Allowance for credit losses consists of quantitative and qualitative components. Our quantitative component of the Allowance for credit losses is model based and utilizes a forward-looking macroeconomic forecast in estimating expected credit losses. Our qualitative component of the Allowance for credit losses considers (i) the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession as another possible scenario; (ii) certain portfolio characteristics, such as portfolio concentration and collateral coverage; and (iii) model limitations as well as idiosyncratic events.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities.

Deferred taxes are provided using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax return. Under this method, deferred tax assets and liabilities are recognized for the differences between financial statement carrying amount and the 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 then evaluated to determine the extent to which they are more likely than not to be realized. In making such a determination, we consider all positive and negative evidence, including future reversals of existing taxable temporary differences and projected future taxable income exclusive of reversing temporary differences and carryforwards. Deferred tax assets are then reduced by a valuation allowance to the amount, in our opinion, that is more like than not to be realized.

We account for uncertainty in income taxes recognized in the consolidated financial statements by applying a two-step process to determine the amount of the benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained (defined as a likelihood of more than fifty percent of being sustained upon an audit, based on the technical merits of the tax position), the tax position is then assessed to determine the amount of benefits to recognize in the consolidated financial statements. The amount of the benefits that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties on income taxes will be classified as a component of income taxes.

Share-Based Compensation

Share-based payment transactions with employees, such as stock options and restricted stock units, are measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight line basis in the consolidated statements of income over the period during which the employee is required to perform service in exchange for the award.

A summary of options and restricted stock units we granted as of December 31, 2022 are as below:

- On January 25, 2015, our then sole director approved a share incentive plan for the purpose of providing incentives and rewards to employees and executives who contribute to the success of our operations and granted 13,843,645 stock options. On June 29, 2015, our then sole director granted 630,000 stock options to certain employees, directors and officers. On May 3, 2016, our then sole director granted 7,425,000 stock options to certain employees, directors and officers. The stock options expire 10 years from the date of grant and vest over a period from three to four years.
- On October 11, 2017, we granted 16,616,000 stock options to certain employees and senior management. The options granted have exercise prices from US\$0.04 to US\$4.01 per share. A portion of the stock options can only vest in the year 2021 whereas the remaining portion is vested ratably each on the first, second, third and fourth anniversary from the vesting commencement date. Share-based compensation of RMB437.3 million relating to the grant will be recognized on a straight-line basis over the vesting periods from two to four years.
- On April 30, 2018, we granted 841,054 stock options to certain employees and senior management. The exercise price of the options granted was US\$4.01 per share. The stock option is vested ratably each on the first, second, third and fourth anniversary from the vesting commencement date. Share based compensation relating to this grant will be recognized on a straight-line basis over the vesting period from 3.6 to 4 years.
- On May 9, 2018, we granted 40,000,000 stock options to certain senior management. The exercise price is the offering price per share of our initial public offering which is US\$4.75. Such stock options are eligible to vest, in whole or in part, when the market capitalization milestone as well as the targeted adjusted net earnings are achieved subsequent to our initial public offering. We determine the service inception date to be May 9, 2018 and the grant date to be the date of our listing on NYSE. The offering price per share of our initial public offering was used to determine the fair value of ordinary shares at grant date to estimate the share-based compensation expense. The total share-based compensation expense of RMB16,210,135 (US\$2,357,666) was recognized over a five-year period from the service inception date on a straight line basis. The share-based compensation expense recognized upon our initial public offering was RMB9,163,461 (US\$1,332,770).

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- On October 31, 2018, we granted 475,000 stock options to certain employees, directors and officers. The stock options shall expire 10 years from the date of grant and vest over a period from three to four years.
- On April 15, 2019, the Board of Directors of X Financial granted 150,000 of restricted stock units to certain directors. The restricted stock units shall vest over a period from two to three years. The restricted stock units have no expiration period.
- On April 30, 2019, we granted 155,000 stock options to certain employees. The stock options shall expire 10 years from the date of grant and vest over a period from three to four years.
- On November 20, 2019, the Board of Directors of X Financial granted 1,789,400 of restricted stock units to certain employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On August 13, 2019 and November 20, 2019, the Board of Directors decided to cancel 1,500,000 and 250,000 of unvested options of certain senior managements and concurrently granted 1,500,000 and 250,000 of restricted stock units as replacement awards to the senior managements.
- On January 21, 2020, the Board of Directors of X Financial granted 4,600,000 of restricted stock units to certain employees and officers. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On April 30, 2020, the Board of Directors of X Financial granted 673,300 of restricted stock units to certain employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On October 31, 2020, the Board of Directors of X Financial granted 550,000 of restricted stock units to certain employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On November 10, 2021, the board of directors of X Financial granted 26,657,998 of restricted stock units to certain senior managements and employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years.
- On November 10, 2021, the board of directors of X Financial decided to cancel 9,429,984 of unvested share options granted to certain senior management.
- On March 3, 2022, the Board of Directors of X Financial granted 810,000 restricted stock units to certain directors. The restricted stock units shall vest over a period of three years.

A summary of option activity during the years ended December 31, 2020, 2021 and 2022 are presented below:

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Outstanding, as of January 1, 2020	60,161,227	0.27-31.96	5.07-9.33	74,834,115
Granted	—	—	—	—
Exercised	2,009,564	0.27	—	—
Forfeited/Cancelled	5,953,060	0.27-31.96	—	—
Outstanding, as of December 31, 2020	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Vested and expected to vest as of December 31, 2020	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Exercisable as of December 31, 2020	8,301,673	0.27-31.96	4.07-8.33	13,364,215

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	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Outstanding, as of January 1, 2021	52,198,603	0.27-31.96	4.07-8.33	19,538,815
Granted	—	—	—	—
Exercised	3,490,378	0.27	—	—
Forfeited/Cancelled	9,959,692	0.27-30.27	—	—
Outstanding, as of December 31, 2021	38,748,533	0.27-31.96	3.07-7.33	20,378,161
Vested and expected to vest as of December 31, 2021	38,748,533	0.27-31.96	3.07-7.33	20,378,161
Exercisable as of December 31, 2021	6,154,008	0.27-31.96	3.07-7.33	14,821,392

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options
Outstanding, as of January 1, 2022	38,748,533	0.27-31.96	3.07-7.33	20,378,161
Granted	—	—	—	—
Exercised	123,602	0.27	—	—
Forfeited/Cancelled	2,846,600	10.71-30.27	—	—
Outstanding, as of December 31, 2022	35,778,331	0.27-31.96	2.07-6.33	20,744,096
Vested and expected to vest as of December 31, 2022	35,778,331	0.27-31.96	2.07-6.33	20,744,096
Exercisable as of December 31, 2022	10,218,315	0.27-31.96	2.07-6.33	20,744,096

A summary of restricted share units activity during the year ended December 31, 2020, 2021 and 2022 is presented below:

	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2020	3,639,402	8.21
Granted	5,823,300	5.65
Vested	631,680	8.61
Forfeited	1,295,728	6.16
Outstanding, as of December 31, 2020	7,535,294	6.49

	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2021	7,535,294	6.49
Granted	26,657,998	4.97
Vested	1,469,751	6.19
Forfeited	307,926	5.65
Outstanding, as of December 31, 2021	32,415,615	5.18

	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2022	32,415,615	5.18
Granted	810,000	3.17
Vested	9,620,748	5.49
Forfeited	1,698,414	5.25
Outstanding, as of December 31, 2022	21,906,453	4.96

We used the Binomial model to estimate the fair value of the options granted on the respective grant dates with assistance from independent valuation firms. The fair value per option was estimated at the date of grant. We determined the fair value of RSUs based on its stock price on the date of grant.

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For the years ended December 31, 2020, 2021 and 2022, we recorded compensation expenses of RMB80.1 million, RMB88.4 million and RMB53.5 million (US\$7.8 million), respectively, for the stock options and restricted stocks granted to our employees. As of December 31, 2020, 2021 and 2022, we had 52,198,603, 38,748,533 and 35,778,331 stock options outstanding, respectively. As of December 31, 2020, 2021 and 2022, there was RMB85.8 million, RMB11.1 million and RMB0.6 million (US\$0.09 million) of total unrecognized compensation expense related to unvested stock options granted, respectively. As of December 31, 2022, such cost was expected to be recognized over a weighted average period of 0.35 years.

As of December 31, 2020, 2021, 2022, there was RMB33.5 million, RMB141.1 million and RMB102.7 million (US\$14.9 million) of total unrecognized compensation expense related to unvested restricted shares granted. As of December 31, 2022 that cost is expected to be recognized over a weighted-average period of 2.73 years.

Recent Accounting Pronouncements

The recent accounting pronouncements that are relevant to us are included in note 2 to our audited consolidated financial statements, which are included in this annual report.

5.B. Liquidity and Capital Resources

To date, we have financed our operations primarily through cash generated by operating activities and proceeds from issuance and sales of our shares. As of December 31, 2020, 2021 and 2022, we had RMB746.4 million, RMB584.8 million and RMB602.3 million (US\$87.3 million), respectively, in cash and cash equivalents. In September 2018, we completed an initial public offering of 11,763,478 ADSs (including the ADSs sold upon the exercise of the over-allotment option granted to the underwriters), representing 23,526,956 Class A ordinary shares, resulting in net proceeds to us of approximately US\$103.9 million. Our cash and cash equivalents solely consist of cash on hand. 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 next 12 months. We may, however, need additional capital in the future to fund our continued operations. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that might restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Cash Flows and Working Capital

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

	For the Year Ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flows Data:				
Cash provided by (used in) operating activities	(679,235)	449,171	322,702	46,787
Cash used in investing activities	(3,704,848)	(2,347,594)	(913,388)	(132,429)
Cash provided by (used in) financing activities	4,490,712	(1,301,312)	576,351	83,563
Net increase (decrease) in cash and cash equivalents, and restricted cash	78,220	(606,484)	14,921	2,163
Cash and cash equivalents, and restricted cash at beginning of year	1,520,303	1,598,523	992,039	143,832
Cash and cash equivalents, and restricted cash at year end	1,598,523	992,039	1,006,960	145,995

Operating Activities

Cash provided by operating activities was RMB322.7 million (US\$46.8 million) in 2022. In 2022, the difference between our cash provided by operating activities and our net income of RMB812.0 million (US\$117.7 million) in 2022 resulted mainly from (i) the increase of accounts receivable and contract assets of RMB436.3 million (US\$63.3 million), and (ii) the change of financial guarantee derivatives due to the lag between payments to the financing guarantee companies and the collection of monthly guarantee derivative of RMB223.9 million (US\$32.5 million), which were partially offsets by (i) the deferred tax benefits of RMB195.6 million (US\$28.4 million), (ii) provisions for loans receivable from Xiaoying Credit Loans and other loans of RMB164.6 million (US\$23.9 million), and (iii) the decrease in prepaid expenses and other current assets of RMB121.8 million (US\$17.7 million) due to the decrease of prepaid expenses to various service providers in 2022.

Cash provided by operating activities was RMB449.2 million (US\$70.5 million) in 2021. In 2021, the difference between our cash provided by operating activities and our net income of RMB825.4 million (US\$129.5 million) in 2021 resulted mainly from (i) the increase in loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans of RMB890.4 million (US\$139.7 million) provided by our own fund from our microcredit business, (ii) the increase of deposits to institutional cooperators of RMB584.2 million (US\$91.7 million), and (iii) the increase of accounts receivable and contract assets of RMB411.4 million (US\$64.6 million), which were partially offsets by (i) the change of financial guarantee derivatives due to the lag between payments to the financing guarantee companies and the collection of monthly guarantee derivative of RMB551.3 million (US\$86.5 million), (ii) the deferred tax benefits of RMB333.4 million (US\$52.3 million), and (iii) the change in fair value of financial guarantee derivative of RMB170.3 million (US\$26.7 million).

Cash used in operating activities was RMB679.2 million (US\$104.1 million) in 2020. In 2020, the difference between our cash used in operating activities and our net loss of RMB1,308.5 million (US\$200.5 million) in 2020 resulted mainly from the impairment loss of deposits of institutional cooperators of RMB960 million (US\$147.1 million), the change of financial guarantee derivatives due to the lag between payments to the financing guarantee companies and the collection of monthly guarantee derivative of RMB388.8 million (US\$59.6 million), the decrease of accounts receivable and contract assets of RMB220.8 million (US\$33.8 million), the provision for loans receivable from Xiaoying Credit Loans and Xiaoying Revolving Loans of RMB227.2 million (US\$34.8 million), which were partially offsets by (i) the increase of deposits to institutional cooperators of RMB1,369.5 million (US\$209.9 million), and (ii) the decrease of income tax payables of RMB265.1 million (US\$40.6 million).

Investing Activities

Cash used in investing activities was RMB913.4 million (US\$132.4 million) in 2022, which was primarily attributable to (i) an aggregate amount of RMB8,281.1 million (US\$1,200.7 million) for the principal payment of loans at fair value and loans receivables under Consolidated trust and partnership model, and (ii) purchase of financial investments of RMB90.5 million (US\$13.1 million), which partially offset by (i) an aggregate amount of RMB7,352.7 million (US\$1,066.0 million) for principal collection of loans at fair value and loans receivables under Consolidated trust and partnership model, and (ii) the collection of loans' earnings rights from a related party of RMB100.0 million (US\$14.5 million).

Cash used in investing activities was RMB2,347.6 million (US\$368.4 million) in 2021, which was primarily attributable to (i) an aggregate amount of RMB6,531.7 million (US\$1,025.0 million) for the principal payment of loans at fair value and loans receivables under Consolidated partnership model, and origination of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans which have been transferred but such transaction does not qualify for sale accounting, (ii) purchase of long-term investment of RMB315.0 million (US\$49.4 million), (iii) purchase of financial investments of RMB112.8 million (US\$17.7 million), and (iv) loan to a related party of RMB150.0 million (US\$23.5 million), which partially offset by (i) an aggregate amount of RMB4,378.3 million (US\$687.1 million) for principal collection of loans at fair value and loans receivables under Consolidated partnership model, sale and collection of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans of which have been transferred but such transaction does not qualify for sale accounting, (ii) the collection of loans' earnings rights from a related party of RMB160.0 million (US\$25.1 million), and (iii) loan repayment from a related party of RMB150.0 million (US\$23.5 million).

Cash used in investing activities was RMB3,704.8 million (US\$567.8 million) in 2020, which was primarily attributable to sale and collection of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans and principal collection of loans at fair value of RMB9,762.5 million (US\$1,496.2 million) and the collection of loans' earnings rights from a related party, partially offset by principal payment of loans at fair value and origination of loans receivables from Xiaoying Credit Loans and Xiaoying Revolving Loans of RMB5,952.5 million (US\$912.3 million).

Financing Activities

Cash provided by financing activities was RMB576.4 million (US\$83.6 million) in 2022, which was attributable to by cash receipt from investors and institutional funding partners of RMB2,595.8 million (US\$376.4 million) and proceeds from short-term borrowings of RMB70.2 million (US\$10.2 million) , which was partially offset by (i) cash paid to repurchase common stocks of RMB146.7 million (US\$21.3 million), (ii) cash paid to investors and institutional funding partners of RMB1,776.7 million (US\$257.6 million) and (iii) repayment of short-term borrowings of RMB166.5 million (US\$24.1 million).

Cash provided by financing activities was RMB1,301.3 million (US\$204.2 million) in 2021, which was attributable to by cash receipt from investors related to loans at fair value and institutional funding partners of RMB3,972.7 million (US\$623.4 million) and proceeds from short-term bank borrowings of RMB266.5 million (US\$41.9 million) , which was partially offset by cash paid to investors related to loans at fair value and to institutional funding partners of RMB2,489.1 million (US\$390.6 million) and repayment of short-term bank borrowings of RMB450.5 million (US\$70.7 million).

Cash provided by financing activities was RMB4,490.7 million (US\$688.2 million) in 2020, which was attributable to cash receipt from investors related to loans at fair value and institutional funding partners of RMB7,244.9 million (US\$1,110.3 million) and proceeds from short-term bank borrowings of RMB511.5 million (US\$78.4 million), which was partially offset by cash paid to investors related to loans at fair value and to institutional funding partners of RMB3,105.3 million (US\$475.9 million) and repayment of short-term bank borrowings of RMB161 million (US\$24.7 million).

Holding Company Structure

X Financial is a holding company with no material operations of its own. We conduct our operations primarily through our Beijing WFOE and its subsidiaries, variable interest entities and its subsidiaries in China. As a result, X Financial's ability to pay dividends depends upon dividends paid by Beijing WFOE. If Beijing WFOE or any newly formed subsidiaries 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 subsidiaries and variable interest entities is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at its discretion, and our variable interest entity may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our Beijing WFOE has not paid dividends and will not be able to pay dividends until it generates accumulated profits and meet the requirements for statutory reserve funds.

5.C. Research and Development

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

5.D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2022 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial condition.

5.E. Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2022.

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5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, including interest payments, as of December 31, 2022:

	Payment Due by Period				
	Total	Less than 1 year	1-2 years (RMB in thousands)	2-3 years	More than 3 years
Contractual Obligations:					
Operating lease obligations (1)	74,284,767	16,425,020	16,829,056	15,561,821	25,468,870
Short-term borrowings	71,938,127	71,938,127	—	—	—

Note:

(1) Operating lease obligations represent our obligations for office premises, which include all future cash outflows under ASC Topic 842, Leases. Please see “Leases” under Note 2 to our audited consolidated financial statements

In 2022, we committed to invest US\$10,000,000 in a VC fund and US\$5,000,000 had been made during 2022, the remaining capital contribution would be made depending on the fund’s investment plans.

Payables to investors and institutional funding partners have been excluded from the table above. We will make such payments to the investors and institutional funding partners if and when we receive the related loan payments from borrowers.

Other than those shown above, we did not have any significant capital and other commitments, long-term obligations, or guarantees other than the financial guarantee derivatives related to certain financial institutional cooperators as of December 31, 2022.

5.G. Safe harbor

See “Forward-Looking Information.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

The following table sets forth the name, age and position of each of our directors and executive officers as of the date of this annual report.

Name	Age	Position/Title
Yue (Justin) Tang	52	Chief Executive Officer, Chairman
Shaoyong (Simon) Cheng	53	Vice Chairman, Director
Kan (Kent) Li	49	President, Director, Chief Risk Officer
Ding (Gardon) Gao	36	Chief Technology Officer
Frank Fuya Zheng	56	Chief Financial Officer
Shengwen Rong	54	Independent Director
Zheng Xue	52	Independent Director
Longgen Zhang	58	Independent Director

Mr. Yue (Justin) Tang is our founder, Chief Executive Officer and Chairman of our board of directors. Mr. Tang is responsible for our overall business strategies and operation. Before starting our company, Mr. Tang co-founded eLong.com, an online travel service company in China in 1999. From 2006 to 2014, Mr. Tang was the founder and managing partner of Blue Ridge China, an investment and consulting company. Mr. Tang received a bachelor’s degree in business administration from Concordia

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Mr. Shaoyong (Simon) Cheng has served as our Vice Chairman since May, 2021 and our Director since December 2017. Mr. Cheng joined us in 2015. Prior to serving as our Vice Chairman, Mr. Cheng served as our President from 2017 to 2021 and Chief Risk Officer from 2015 to 2017. Prior to that, Mr. Cheng served as deputy General Manager in charge of retail lending management at Bank of Communications, senior credit risk manager at HSBC North America and HSBC Asia Pacific. Mr. Cheng also served as head of CEO office and head of business banking at Hang Seng Bank China Limited, and manager at Capital One. Mr. Cheng received a bachelor's degree and a master's degree in engineering and a bachelor's degree in economics from Tsinghua University, a master's degree in industrial engineering and an MBA degree from University of Southern California.

Mr. Kan (Kent) Li has served as our President since May, 2021, our Chief Risk Officer since November 2017 and Director since December, 2021. Mr. Li joined us in 2015. Prior to that, Mr. Li served as a division director in charge of unsecured loan risk from 2015 to 2017. From September 2008 to November 2015, he served as a manager at Capital One from September 2008 to November 2015. Mr. Li received his bachelor's degree and master's degree in economics from Southwestern University of Economics and Finance.

Mr. Ding (Gardon) Gao is a co-founder of the Company. He has served as our Chief Technology Officer since April 2014 and was our Director from December 2017 to December 2021. Mr. Gao joined us in 2014. Prior to that, Mr. Gao served as software architect from 2010 to 2014 at Tencent Holdings Limited. Mr. Gao received a bachelor's degree in management of information system from Dalian Maritime University.

Mr. Frank Fuya Zheng has served as our Chief Financial Officer since August 24, 2020. From 2008 to 2012, Mr. Zheng was the Chief Financial Officer of Cogo Group, Inc., a company previously listed on NASDAQ that provided customized module design solutions and manufactured electronic products in China. Mr. Zheng was also a director of the same company from 2005 to 2012. Since April 2020, Mr. Zheng was an independent director of Lianluo Smart Limited (NASDAQ: LLIT), as well as chairman of the audit committee and a member of the compensation and nomination committee. From 2018 to 2019, Mr. Zheng was an independent director of ChinaCache International Holdings Ltd. Mr. Zheng also served as an independent director of Yingde Gases Group Company (02168.HK) from 2009 to 2017. Mr. Zheng received a bachelor's degree in Business Administration majoring in accounting from the City University of New York in 1994.

Mr. Shengwen Rong has served as our independent director since September 2018. From February 2017 to September 2018, Mr. Rong served as the Senior Vice President and then the Chief Financial Officer at Yixia Technology Co., Ltd. Prior to that, Mr. Rong served as the Chief Financial Officer at Quixey, Inc. from 2015 to 2016, the Chief Financial Officer at UCWeb from 2012 to 2014, and the Chief Financial Officer at Country Style Cooking Restaurant Chain Co., Ltd, an NYSE-listed company, from 2010 to 2012. Currently, Mr. Rong serves as an independent director of Qudian Inc. (NYSE: QD). Mr Rong is a Certified Public Accountant in the United States. Mr. Rong received a bachelor's degree in international finance from Renmin University, a master's degree in accounting from West Virginia University and an MBA degree from University of Chicago Booth School of Business.

Mr. Zheng Xue has served as our independent director since September 2018. Since August 2011, Mr. Xue has served as an independent director at Yingli Solar (YGE). Mr. Xue served as the Chief Financial Officer of China Music Corporation from 2015 to 2017, the Chief Financial Officer of Lightinthebox Inc. from 2011 to 2014, partner at Softbank China & India Fund from 2008 to 2010, the Chief Financial Officer of Target Media from 2005 to 2007, and the Chief Financial Officer of eLong Inc. from 2003 to 2005. Mr. Xue received a bachelor's degree in physics from University of Illinois and an MBA degree from University of Chicago.

Mr. Longgen Zhang has served as our independent director since September 2018. Since January 2018, Mr. Zhang has served as the Chief Executive Officer at Daqo New Energy Corp., an NYSE-listed company, and an independent non-executive director at ZZ Capital International Limited, a company listed on the HKEx's Main Board. Since May 2014, Mr. Zhang has served as a director at JinkoSolar Holding Co., Ltd., an NYSE-listed company. Mr. Zhang served as the Chief Financial Officer at JinkoSolar Holding Co., Ltd. from 2008 to 2014, and the Chief Financial Officer and director at Xinyuan Real Estate Co., Ltd., an NYSE-listed company, from 2006 to 2008. Mr. Zhang received a master's degree in professional accounting from New Texas A&M University and a master's degree in business administration from New Texas A&M University.

6.B. Compensation

Compensation

For the fiscal year ended December 31, 2022, the aggregate cash compensation and benefits that we paid to our directors and executive officers was approximately RMB6.0 million (US\$0.8 million). No pension, retirement or similar benefits have been set aside or accrued for our executive officers or directors. We have no service contracts with any of our directors providing for benefits upon termination of employment.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with our executive officers. Each of our executive officers is employed for a specified time period, which will be automatically extended unless either we or the executive officer gives prior notice to terminate such employment. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to the commitments of any serious or persistent breach or non-observance of the terms and conditions of the employment, conviction of a criminal offense other than one which in the opinion of the board does not affect the executive's position, willful, disobedience of a lawful and reasonable order, misconducts being inconsistent with the due and faithful discharge of the executive officer's material duties, fraud or dishonesty, or habitual neglect of his or her duties. An executive officer may terminate his or her employment at any time with not less than one-month prior written notice.

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information. Each executive officer has also agreed to assign to our company all his or her inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works, concepts and trade secrets which the executive officer may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of the executive officer's employment with us that are either related to the scope of the employment or make use of the resources of the company. In addition, all executive officers have agreed to be bound by non-competition and non-solicitation restrictions set forth in their agreements. Specifically, each executive officer has agreed to devote all his or her working time and attention to our business and use best efforts to develop our business and interests. Moreover, each executive officer has agreed not to, for a certain period following termination of his or her employment or expiration of the employment agreement: (i) carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, employee, partner, agent or otherwise carry on any business in direct competition with us, (ii) solicit or entice away any of our user, client, representative or agent, or (iii) employ, solicit or entice away or attempt to employ, solicit or entice away any of our officer, manager, consultant or employee.

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 two years following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, users 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 our directors and executive officers, pursuant to which we will 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 such a director or officer.

Share Incentive Plan

The 2015 Global Share Option Plan (the "Share Incentive Plan") was adopted by our then sole director on January 25, 2015, and amended and restated as the Amended and Restated 2015 Global Share Incentive Plan by our board of directors on May 9, 2018.

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The purpose of the Share Incentive Plan is to enhance our ability to attract and retain the best available personnel for positions of substantial responsibility and to promote the value of our company, by providing such persons an opportunity to acquire or increase a direct interest in our operations and future success. The maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the Share Incentive Plan is 95,849,500 ordinary shares. The ordinary shares subject to the Share Incentive Plan may be authorized but unissued or reacquired ordinary shares.

The following paragraph summarize the terms of the Share Incentive Plan.

Share reserve. The maximum aggregate number of ordinary shares that will be subject to award and sold under the Share Incentive Plan is 95,849,500 shares. During the term of this Plan, we will at all times reserve and keep available such number of ordinary shares as will be sufficient to satisfy the requirements of the Share Incentive Plan. If an award expires or becomes unexercisable without having been exercised in full, the ordinary shares unvested which were subject thereto will become available for future grant or sale under the Share Incentive Plan. Ordinary shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award will become available for future grant or sale under the Share Incentive Plan.

Administration. The Share Incentive Plan will be administered by (A) our board of directors; or (B) where a committee has been established in our company, the committee (in either event, the “Administrator”). These administrative powers include, but are not limited to, approving forms of award documents, determining the terms and conditions of any award granted, determining the fair market value of an ordinary share, prescribing, amending and rescinding rules and regulations relating to the Share Incentive Plan and modifying and amending each award.

Types of Awards. The Share Incentive Plan permits the grants of stock options, SARs, restricted stock, RSUs, performance awards, deferred awards and other share-based awards.

- *Stock Options.* A stock option is a right to purchase ordinary shares at a future date at a specified exercise price. Stock options that are intended to qualify as incentive stock options must meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended. The per share exercise price of a stock option (except in the case of substitute awards) will be determined by the Administrator at the time of grant but will be no less than one hundred percent of the fair market value per ordinary share on the date of grant, subject to certain exceptions. No stock option will be exercisable more than ten years from the grant date, except that the Administrator may generally provide for an extension of such ten-year term in the event the exercise of the stock option would be prohibited by law on the expiration date. In the case of an incentive stock option granted to an employee who has owned ordinary shares representing more than ten percent of the voting power of all classes of ordinary shares of the company or any parent or subsidiary, the per share exercise price will be no less than one hundred ten percent of the fair market value per ordinary share on the date of grant, and the term of the incentive stock option will be five years from the date of grant or such shorter term as may be provided in the award document.
- *SARs.* A SAR represents a right to receive, in cash or ordinary shares, upon exercise by a participant or settlement, the excess of (i) the fair market value of one ordinary share on the date of exercise or settlement over (ii) the exercise price of the right on the date of grant, or if granted in connection with an option, on the date of grant of the option. The per share exercise price for the ordinary shares to be issued pursuant to the exercise of a SAR (except in the case of substitute awards) will be determined by the Administrator, but will be no less than one hundred percent of the fair market value per ordinary share on the date of grant. The Administrator will determine the date on which each SAR may be exercised or settled and the expiration date of each SAR. However, no SAR will be exercisable more than ten years from the grant date.
- *Restricted Stock.* Restricted stock is an award of ordinary shares of our common stock that are subject to restrictions on transfer and a substantial risk of forfeiture.
- *RSU.* An RSU represents a right to receive the value of one ordinary share, subject to specified vesting and other restrictions.
- *Performance Awards.* Performance awards, which may be denominated in cash or ordinary shares, will be earned upon the satisfaction of performance conditions specified by the Administrator. These performance criteria may be measured on an absolute (e.g., plan or budget) or relative basis, may be established on a corporate-wide basis or with respect to one or more business units, divisions, subsidiaries or business segments, and may be made relative to an index or other acceptable objective and quantifiable indices. The Administrator may specify that any other award shall constitute a performance award by conditioning the right of a participant to exercise the award or have it settled, and the timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Administrator.

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- *Deferred Awards.* The Administrator is authorized to grant awards denominated in a right to receive ordinary shares on a deferred basis.
- *Other Share-Based Awards.* The Administrator is authorized to grant other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, ordinary shares or factors that may influence the value of ordinary shares.

Eligibility. Equity incentive awards may be granted to employees, directors, consultants or any other person providing services to the company, or any parent, subsidiary or affiliate of the company.

Term of Plan. The Share Incentive Plan became effective upon its initial adoption by our then sole director on January 15, 2015. Unless sooner terminated by the board of directors, the Share Incentive Plan will continue in effect for a term of ten years from the later of (a) the effective date of the Share Incentive Plan, or (b) the earlier of the most recent board of directors or shareholder approval of an increase in the number of ordinary shares reserved for issuance under the Share Incentive Plan, which occurred on May 9, 2018 in connection with the approval of the resolutions effecting the amendment and restatement of the Share Incentive Plan.

Termination of Service. The Administrator will determine the effect of a termination of service on outstanding awards, including whether the awards will vest, become exercisable, settle or be forfeited.

Adjustment upon Merger or Change in Control. In the event of a merger or a change of control, except as otherwise provided in the applicable award agreement, the Administrator may provide for the treatment of each outstanding award without a Plan participant's consent, including without limitation, that

- Awards will be assumed, or substantially equivalent awards be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices;
- Upon written notice to a participant, the participant's awards will terminate upon or immediately prior to the consummation of such merger or change in control;
- Outstanding awards will vest and become exercisable, realizable or payable, or restrictions applicable to an award will lapse, in whole or in part prior to or upon consummation of such merger or change in control;
- The awards will terminate in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such awards or realization of the participant's rights as of the date of the occurrence of the transaction (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Administrator determines in good faith that no amount would have been attained upon the exercise of such awards or realization of the participant's rights, then such award may be terminated by the company without payment), or such awards will be replaced with other rights or property selected by the Administrator in its sole discretion; or
- Any combination of the foregoing.

Amendment and Termination. Our board of directors may amend, alter, suspend, discontinue or terminate the Share Incentive Plan. The Administrator may also amend, alter, suspend, discontinue or terminate, or waive any conditions or rights under, any outstanding award. However, subject to the adjustment provision and change in control provision, any such action by the Administrator that would materially adversely affect the rights of a holder of an outstanding award may not be taken without the holder's consent, except to the extent that such action is taken to cause the Share Incentive Plan to comply with applicable laws, stock market or exchange rules and regulations, or accounting or tax rules and regulations, or to impose any "clawback" or recoupment provisions on any awards in accordance with the Share Incentive Plan.

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On January 25, 2015, we granted 13,843,645 stock options to employees and executives. On June 29, 2015, we granted 630,000 stock options to certain employees, directors and officers. On May 3, 2016, we granted 7,425,000 stock options to certain employees, directors and officers. On October 11, 2017, we granted 16,616,000 stock options to certain employees and senior management. On April 30, 2018, we granted 841,054 stock options to certain employees and senior management. On May 9, 2018, we granted 40,000,000 stock options to certain senior management. The exercise price of such 40,000,000 stock options is US\$4.75, the offering price per share of our initial public offering, and such options have become exercisable upon the completion of our initial public offering and in accordance with the vesting schedule, which is specified in the relevant award agreement. On October 31, 2018, we granted 475,000 stock options to certain employees. On April 15, 2019, we granted 150,000 restricted stock units to certain directors, which are subject to the vesting schedule specified in the relevant award agreement. On April 30, 2019, we granted 155,000 stock options to certain employees. On November 20, 2019, we granted 1,789,400 restricted stock units to certain employees. On August 13, 2019 and November 20, 2019, the Board of Directors decided to cancel 1,500,000 and 250,000 of unvested options of certain senior managements and concurrently granted 1,500,000 and 250,000 of restricted stock units as replacement awards to the senior managements. On January 21, 2020, we granted 4,600,000 restricted stock units to certain employees and officers. On April 30, 2020, we granted 673,300 restricted stock units to certain employees. On October 31, 2020, we granted 550,000 restricted stock units to certain employees. On November 10, 2021, we granted 26,657,998 restricted stock units to certain senior managements and employees. On November 10, 2021, the Board of Directors decided to cancel 9,429,984 of unvested share options granted to certain senior management. On March 3, 2022, the Board of Directors of granted 810,000 restricted stock units to certain directors.

The table below summarizes, as of the date of this annual report, the awards we have granted (excluding those cancelled, forfeited or expired) to our directors and executive officers.

Name	Position	Ordinary Shares Underlying Options Awarded	Option Exercise Price	Grant Date	Option Expiration Date
Yue (Justin) Tang	Chief Executive Officer and Director	3,803,645	US\$ 0.04	January 25, 2015	January 24, 2025
		24,000,000	US\$ 4.75	May 9, 2018	May 8, 2023
		6,000,000	US\$ 0	November 10, 2021	November 10, 2031
Shaoyong (Simon) Cheng	Vice Chairman and Director	*	US\$ 0.04	May 3, 2016	May 2, 2026
		*	US\$ 0.04	October 11, 2017	October 10, 2027
		*	US\$ 4.75	May 9, 2018	May 8, 2023
		*	US\$ 0	January 21, 2020	January 19, 2030
Ding (Gardon) Gao	Chief Technology Officer	*	US\$ 0.04	January 25, 2015	January 24, 2025
		*	US\$ 0.04	October 11, 2017	October 10, 2027
		*	US\$ 4.75	May 9, 2018	May 8, 2023
Frank Fuya Zheng	Chief Financial Officer	*	US\$ 0	October 31, 2020	October 30, 2030
		*	US\$ 0	November 10, 2021	November 10, 2031
Kan (Kent) Li	President, Chief Risk Officer and Director	*	US\$ 0.04	May 3, 2016	May 2, 2026
		*	US\$ 1.575	October 11, 2017	October 10, 2027
		*	US\$ 4.75	May 9, 2018	May 8, 2023
		*	US\$ 0	January 21, 2020	January 19, 2030
		*	US\$ 0	November 10, 2021	November 10, 2031
Shengwen Rong	Independent Director	*	US\$ 0	April 15, 2019	—
		*	US\$ 0	March 3, 2022	—
Zheng Xue	Independent Director	*	US\$ 0	April 15, 2019	—
		*	US\$ 0	March 3, 2022	—
Longgen Zhang	Independent Director	*	US\$ 0	April 15, 2019	—
		*	US\$ 0	March 3, 2022	—

* Less than 1% of our total outstanding shares.

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For discussions of our accounting policies and estimates for awards granted pursuant to the Share Incentive Plan, see “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Critical Accounting Policies, Judgments and Estimates—Share-based compensation.”

6.C. Board Practices

Board of Directors

Our board of directors consists of six directors. A director is not required to hold any shares in our company to qualify to serve as a director. The Corporate Governance Rules of the NYSE generally require that a majority of an issuer’s board of directors must consist of independent directors. However, the Corporate Governance Rules of the NYSE permit foreign private issuers like us to follow “home country practice” in certain corporate governance matters. We rely on this “home country practice” exception and do not have a majority of independent directors serving on our board of directors.

Our board of directors may exercise all the powers of our company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and to issue debentures, bonds and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract 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, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered.

We have no service contracts with any of our directors providing for benefits upon termination of employment. See “Item 6.B. Directors, Senior Management and Employees—Compensation.”

Board Committees

We have established an audit committee, a compensation committee and a nominating and corporate governance committee under our board of directors. 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 three directors, namely Shengwen Rong, Longgen Zhang and Zheng Xue, and is chaired by Shengwen Rong. Our board of directors has determined that each of the three directors satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE. 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: selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

- setting clear hiring policies for employees or former employees of the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;

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- reviewing with management and the independent auditors related-party transactions and off-balance sheet transactions and structures;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives;
- reviewing policies with respect to risk assessment and risk management;
- reviewing our disclosure controls and procedures and internal control over financial reporting;
- reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company;
- establishing procedures for the receipt, retention and treatment of complaints we received regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- periodically reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and
- meeting separately, periodically, with management, the internal auditors and the independent auditors.

Compensation Committee

Our compensation committee consists of three directors, namely Longgen Zhang, Shengwen Rong and Zheng Xue, and is chaired by Longgen Zhang. Our board of Directors has determined that each of the three directors satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE. Our compensation committee assists the board in reviewing and approving the compensation structure of our executive officers, including all forms of compensation to be provided to our executive officers. The compensation committee is responsible for, among other things:

- reviewing and approving the compensation for our senior executives;
- reviewing and evaluating our executive compensation and benefits policies generally;
- reporting to our board of directors periodically;
- evaluating its own performance and reporting to our board of directors on such evaluation;
- periodically reviewing and assessing the adequacy of the compensation committee charter and recommending any proposed changes to our board of directors; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of three directors, namely Zheng Xue, Shengwen Rong and Longgen Zhang, and is chaired by Zheng Xue. Our board of Directors has determined that each of the three directors satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE. The nominating and corporate governance committee assists the board in identifying 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:

- identifying and recommending to the board of directors qualified individuals for membership on the board of directors and its committees;

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- evaluating, at least annually, its own performance and reporting to the board of directors on such evaluation;
- overseeing compliance with the corporate governance guidelines and code of business conduct and ethics and reporting on such compliance to the board of directors; and
- reviewing and assessing periodically the adequacy of its charter and recommending any proposed changes to the board of directors for approval.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to our company to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our second amended and restated memorandum and articles of association, as amended and re-stated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached. You should refer to “Description of Share Capital—Differences in Corporate Law” for additional information on our standard of corporate governance under Cayman Islands law.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract 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, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered. Our directors may exercise all the powers of our company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

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

- convening shareholders’ annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of our board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders or until the expiration of his term or his successor has been elected and qualified. If a Management Director (as defined in our second amended and restated memorandum and articles of association), Mr Yue (Justin) Tang shall have the right to appoint another person as a director (such director shall be a Managing Director) by delivering a written notice to our company and such replacement shall become effective automatically upon the delivery of such notice without any further action or resolution of the board or the shareholders, provided that Mr. Tang shall not be entitled to exercise such right if he and his affiliates do not hold any shares. Subject to the foregoing sentence with respect to the appointment of a Managing Director, a vacancy on the board created by the removal of a director may be filled by an ordinary resolution or by the affirmative vote of a simple majority of the remaining directors present and voting at a board meeting. A director will be removed from office automatically if, among other thing, the director (i) dies; (ii) becomes bankrupt or makes any arrangement or composition with his creditors generally; (iii) is found to be or becomes of unsound mind; (iv) resigns his office by notice in writing to our company; (v) is prohibited by law from being a

director; and (vi) is removed from the office pursuant to any other provisions of our second amended and restated memorandum and articles of association.

6.D. Employees

As of December 31, 2022, we had a total of 461 employees based in China. The following table sets forth the breakdown of our employees as of December 31, 2022 by function:

	As of December 31, 2022	
	Number of Employee	% of Total Employees
Technology Development	206	45 %
Financial Products	140	30 %
Risk Management	38	8 %
General Management	72	16 %
Marketing	5	1 %
Total	461	100 %

We have entered into individual employment contracts with our employees to cover matters such as salaries, benefits, and grounds for termination. As required by regulations in China, we participate in various government statutory social security plans, including a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan and a housing provident fund. We are required under PRC law to contribute to social security 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 maintain a good working relationship with our employees, and as of the date of this annual report, we have not experienced any material labor disputes in the past. None of our employees are represented by labor unions.

6.E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares, as of March 31, 2023, by:

- each of our directors and executive officers;
- all of our directors and executive officers as a group; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the table below are based on 288,900,553 ordinary shares issued and outstanding as of March 31, 2023 comprised of 191,300,553 Class A ordinary shares and 97,600,000 Class B ordinary shares.

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Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to the ordinary shares. 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, except with respect to the percentage ownership of all executive officers and directors as a group.

	Ordinary Shares Beneficially Owned as of March 31, 2022					
					Percentage of total ordinary shares on an as converted basis	Percentage of aggregate voting power**
	Class A ordinary share		Class B ordinary share			
	Number	%	Number	%		
Directors and Executive Officers:						
Yue (Justin) Tang(1)	9,385,196	4.91 %	97,600,000	100.00 %	37.03 %	91.51 %
Shaoyong (Simon) Cheng	*	*	—	—	*	*
Ding (Gardon) Gao	*	*	—	—	*	*
Frank Fuya Zheng	*	*	—	—	*	*
Kan (Kent) Li	*	*	—	—	*	*
Shengwen Rong	*	*	—	—	*	*
Zheng Xue	*	*	—	—	*	*
Longgen Zhang	*	*	—	—	*	*
All directors and executive officers as a group	9,385,196	4.91 %	97,600,000	100.00 %	37.03 %	91.51 %
Principal Shareholders:						
Mangrove Coast Investment Limited(1)	9,385,196	4.91 %	97,600,000	100.00 %	37.03 %	91.51 %
Dragon Destiny Limited(2)	27,113,806	14.17 %	—	—	9.39 %	1.27 %
Pine Cove Global Limited(3)	20,000,000	10.45 %	—	—	6.92 %	0.93 %

* Less than 1% of our total outstanding shares.

** For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. In respect of all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 20 votes, voting together as one class. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

- Represents (i) 97,600,000 Class B ordinary shares held by Mangrove Coast Investment Limited, a British Virgin Islands company controlled by Mangrove Coast Trust, (ii) 5,303,645 Class A ordinary shares held by Mr. Yue (Justin) Tang, and (iii) 1,562,024 Class A ordinary shares in the form of 260,337 ADSs and 2,519,527 Class A ordinary shares held by Purple Mountain Holding Ltd., which is ultimately controlled by Mr. Yue (Justin) Tang. The registered address of Mangrove Coast Investment Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. Mangrove Coast Trust is a trust established under the laws of Bahamas and managed by RHONE TRUSTEES (BAHAMAS) LTD. as the trustee. Mr. Yue (Justin) Tang is the settlor of the trust and Mr. Tang and his family members are the trust's beneficiaries. The registered address of Purple Mountain Holding Ltd. is at Ellen Skelton Building, 3076 Sir Francis Darke Highway, Road Reef, P.O. Box 765, Road Town, Tortola VG 1110, British Virgin Islands.
- Represents 27,113,806 Class A ordinary shares held by Dragon Destiny Limited, a British Virgin Islands company wholly owned by Chung Kiu Cheung. The registered address of Dragon Destiny Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- Represents 20,000,000 Class A ordinary shares held by Pine Cove Global Limited, a British Virgin Islands company wholly owned by Nexus Asia Growth Fund SPC and ultimately controlled by David Fung. The registered address of Pine Cove Global Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

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

7.B. Related Party Transactions

Transactions with Jiangxi Ruijing

In 2019, we purchased earnings rights of two loans from Jiangxi Ruijing. The considerations paid amounted to RMB100.0 million and RMB280.0 million, respectively, which equal to the principal amounts of the underlying loans. The former loan had been fully repaid by the end of 2020, and the interest rate applied is 15.6%. The latter loan had been fully repaid in January 2022, and the interest rate applied is 8%. The associated interest income amounted to RMB28.8 million, RMB17.3 million and RMB0.4 million (US\$0.06 million) in 2020, 2021 and 2022, respectively.

Transactions with a financing guarantee company

In 2021, we entered into agreements with a financing guarantee company, which is a wholly-owned subsidiary of our equity investee obtained in 2020 and disposed in 2022. The equity investee is controlled by our senior management’s family member.

This financing guarantee company provides guarantee service for an identified portfolio of loans we facilitated and charges borrowers a guarantee fee, a portion of which will be subsequently paid to us as the service fee for the intermediary service we provide. During the year of 2021 and 2022, this financing guarantee company provided guarantee service for 5.9% and 29.6% of the total loans we facilitated and provided. We recognized total net revenue of RMB78.8 million and RMB542.7 million (US\$78.7 million) during the year of 2021 and 2022 in connection with the service fees of facilitation service for loans that covered by this financing guarantee company. As of December 31, 2021 and 2022, contract assets balance amounted to RMB66.8 million and RMB314.0 million (US\$45.5 million), respectively.

Transactions with a controlled entity of Mr. Yue (Justin)Tang

As of December 31, 2021 and 2022, dividend receivable of RMB15.0 million and RMB15.0 million (US\$2.2 million) will be subsequently collected from the nominal shareholder of Jiangxi Ruijing, the nominal shareholder is controlled by Mr. Yue (Justin) Tang.

Transactions with Shenyang Tianxinhao Technology Limited

In 2021, we provided a loan of RMB150.0 million to an associate of us, Shenyang Tianxinhao Technology Limited. The loan had been fully repaid in 2021, and the monthly interest rate applied is 0.5%. The associated interest income amounted to RMB0.75 million in 2022.

Transactions with Newup Bank of Liaoning

In 2022, we entered into agreements with Newup Bank of Liaoning (“Newup Bank”), according to which we charge service fees directly from Newup Bank for the intermediary service we provide.

We recognized total net revenue of RMB13.1 million (US\$1.9 million) during the year of 2022 in connection with the service fees of facilitation service for loans. As of December 31, 2022, contract assets balance amounted to RMB13.9 million (US\$2.0 million).

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Contractual Arrangement with our VIEs and their Shareholders

PRC laws and regulations currently restrict foreign ownership and foreign investment in VIE in China. As a result, we operate our relevant business through contractual arrangements among Xiaoying Beijing, our wholly-owned PRC subsidiary, VIEs, our consolidated VIE, and their shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Consolidated VIEs and their Shareholders”

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—6.B. Compensation— Employment Agreements and Indemnification Agreements” for a description of the employment agreements we have entered into with our senior executive officers.

Share Incentives

See “Item 6. Directors, Senior Management and Employees—6.B. Compensation—Share Incentive Plan” for a description of share awards we have granted to our directors, officers and other individuals as a group.

7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Litigation

From time to time, we become subject to legal proceedings and claims in the ordinary course of our business. We are currently involved in several lawsuits in PRC courts primarily including lawsuits initiated by us to recover defaulted loan repayment, including our claim against one corporate borrower for the repayment of loan principal, interest, penalty fees and service fees for our services.

On November 26, 2019, a putative class action complaint captioned Shivakumar Ningappa v. X Financial, et al., No. 657033/2019, was filed in the Supreme Court of the State of New York, New York County against the Company, certain of our officers and directors, and the underwriters of our initial public offering, asserting violations of the Securities Act of 1933 based on our September 2018 initial public offering. Two additional lawsuits were subsequently filed in the same court, containing substantially identical allegations. On February 5, 2020, all three lawsuits were consolidated under the caption “In re X Financial Securities Litigation,” No. 657033/2019, and a consolidated amended complaint (the “CAC”) was filed on February 14, 2020. On May 11, 2020, we filed a motion to dismiss the CAC in its entirety. On February 8, 2022, the matter was reassigned to a new judge. Following such reassignment, oral argument on Defendants’ motion to dismiss was scheduled for July 12, 2022. On November 1, 2022, the Supreme Court of the State of New York ordered that the motions to dismiss were granted.

On December 9, 2019 a putative class action complaint captioned Xiangdong Chen v. X Financial, et al., No. 1:19-cv-06908-KAM-SJB, was filed in the Eastern District of New York against the Company and certain of our officers and directors, asserting violations of the Securities Act of 1933 based on our September 2018 initial public offering. The lead plaintiff filed an amended complaint (the “AC”) on July 13, 2020. We filed a motion to dismiss the AC on December 7, 2020. The court has referred the motion to the magistrate judge for a report and recommendation. On December 9, 2021, the magistrate judge issued a report and recommendation (the “R&R”) concluding that Defendants’ motion to dismiss the Federal Action should be granted in full. The magistrate judge determined that all claims under the Securities Act of 1933 were time-barred by the applicable one-year statute of limitations and should be dismissed with prejudice, while the claims under the Securities Exchange Act of 1934 failed for deficient allegations of fraudulent scienter and should be dismissed with leave to replead. The lead plaintiff in the Federal Action timely filed objections to the R&R on December 23, 2021, and Defendants submitted a response to plaintiff’s objections on January 6, 2022. On March 13, 2022, presiding District Judge issued a memorandum and order overruling plaintiffs’ objections, adopting the R&R in full, dismissing the Securities Act claims without leave to replead, and dismissing the Exchange Act claims

with leave to file a further amended complaint within 30 days. On April 12, 2022, plaintiffs voluntarily dismiss the above-captioned action, with prejudice, as to all defendants.

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Dividend Policy

We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Although we have declared dividend historically, we do not expect to pay cash dividends periodically in the foreseeable future.

Our board of directors has complete discretion, subject to certain requirements of Cayman Islands law, in deciding whether to distribute dividends. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

We are a holding company with no material operations of our own. PRC regulations may restrict the ability of Beijing WFOE to pay dividends to us. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by Beijing WFOE. If Beijing WFOE or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the underlying Class A ordinary shares represented by our ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the underlying Class A ordinary shares represented by the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description Of Securities Other Than Equity Securities—12.D. American Depositary Shares.”

Cash dividends on our Class A ordinary shares and Class B ordinary shares, if any, will be paid in U.S. dollars.

8.B. Significant Changes

Except as otherwise disclosed in this annual report on Form 20-F, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

9.A. Offering and Listing Details

Our ADSs have been listed on the NYSE since September 19, 2018 under the symbol “XYF.” Each ADS represents two ordinary shares, par value US\$0.0001 per share. Effective from November 19, 2020, we adjusted the ratio of our ADSs to the Class A ordinary shares from one (1) ADS representing two (2) Class A ordinary shares to one (1) ADS representing six (6) Class A ordinary shares.

9.B. Plan of Distribution

Not applicable.

9.C. Markets

Our ADSs have been listed on the NYSE since September 19, 2018 under the symbol “XYF.”

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

Not applicable.

10.B. Memorandum and Articles of Association

We are a Cayman Islands company and our affairs are governed by our Second Amended and Restated Memorandum and Articles of Association and the Companies Law (as amended) of the Cayman Islands, or Companies Law, and the common law of the Cayman Islands.

We incorporate by reference into this annual report our Second Amended and Restated Memorandum and Articles of Association, the form of which was filed as [Exhibit 3.2](#) to our registration statement on [Form F-1 \(File Number 333-227065\) filed with the Securities and Exchange Commission on August 28, 2018](#). Our board of directors adopted our Second Amended and Restated Memorandum and Articles of Association by a special resolution on August 24, 2018, which became effective immediately prior to completion of our initial public offering of ADSs representing our ordinary shares.

The following are summaries of material provisions of our Second Amended and Restated Memorandum and Articles of Association and the Companies Law as they relate to the material terms of our ordinary shares.

Registered Office and Objects

Our registered office in the Cayman Islands is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

According to Clause 3 of our Amended and Restated Memorandum of Association, the objects for which we are established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

Board of Directors

See “Item 6. Directors, Senior Management and Employees.”

Ordinary Shares

General. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members (shareholders). We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their ordinary shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors or declared by our shareholders by ordinary resolution (provided that no dividend may be declared by our shareholders which exceeds the amount recommended by our directors). Our second amended and restated memorandum and articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided 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. Holders of Class A ordinary shares and Class B ordinary shares will be entitled to the same amount of dividends, if declared.

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Voting Rights. In respect of all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 20 votes, voting together as one class. A resolution put to the vote of the general meeting shall be decided on the vote of the requisite majority pursuant to a poll of the shareholders. An ordinary resolution to be passed at the general meeting of shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our second amended and restated memorandum and articles of association.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, or upon a change of beneficial ownership of any Class B ordinary share as a result of which any person who is not an affiliate of the registered holders of such Class B ordinary shares becomes the beneficial owner of such Class B ordinary shares, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

Transfer of Ordinary Shares. Subject to the restrictions contained in our second amended and restated memorandum and articles of association, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of 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 ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the NYSE may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within two calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the NYSE, be suspended and the register of members closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register of members closed for more than 30 days in any year as our board may determine.

Liquidation. On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportion to the par value of the shares held by them. Any distribution of assets or capital to a holder of a Class A ordinary share and a holder of a Class B ordinary share will be the same in any liquidation event.

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Calls on Ordinary Shares and Forfeiture of Ordinary 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 clear days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors, or are otherwise authorized by the articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time, our share capital is divided into different classes or series of shares, all or any of the rights attached to any class or series of shares (unless otherwise provided by the terms of issue of the shares of that class or series) may, whether or not our Company is being wound up, be varied with the consent in writing of the holders of a majority of the issued shares of that class, or the sanction of an ordinary resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

General Meetings of Shareholders

Shareholders' meetings may be convened by a majority of our board of directors or our chairman. Advance notice of at least fifteen 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 and throughout a meeting of shareholders consists of at least one shareholder entitled to vote and present in person or by proxy or (in the case of a shareholder being a corporation) by its duly authorized representative representing a majority of all votes attaching to all of our shares in issue and entitled to vote.

As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our second 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 in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

The Companies 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 second memorandum and articles of association provide that upon the requisition of any one or more of our shareholders who together hold shares which carry in aggregate not less than ten percent (10%) of the total number of votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our second memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Inspection of Books and Records

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association and the register of mortgages and charges, and any special resolutions passed by our shareholders). However, we will provide our shareholders with the right to receive annual audited financial statements.

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Changes in Capital

We may from time to time by ordinary resolution:

- increase the 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; 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.

However, no alteration contemplated above, or otherwise, may be made to the par value of the Class A ordinary shares or Class B ordinary shares unless an identical alteration is made to the par value of the Class B ordinary shares and Class A ordinary shares, as the case may be.

We may by special resolution, subject to any confirmation or consent required by the Companies Law, 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 Law. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. The NYSE rules require that every company listed on the NYSE hold an annual general meeting of shareholders. In addition, our second amended and restated memorandum and articles of association allow directors to call special meeting of shareholders pursuant to the procedures set forth in our articles.

10.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” and in “Item 7. Major shareholders and Related Party Transactions” or elsewhere in this annual report.

10.D. Exchange Controls

The Cayman Islands currently has no exchange control regulations or currency restrictions. See “Item 4. Information of the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange.”

10.E. Taxation

The following sets forth material Cayman Islands, PRC and U.S. federal income tax consequences of the ownership of our Class A ordinary shares or ADSs. It is based upon laws and relevant interpretations thereof as of the date hereof, all of which are subject to change. This discussion does not address all possible tax consequences relating to an investment in our Class A ordinary shares or ADSs, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and Class A ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by the Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the ADSs or 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 ADSs or ordinary shares, nor will gains derived from the disposal of the ADSs or ordinary shares be subject to Cayman Islands income or corporation tax.

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PRC Taxation

In March 2007, the National People's Congress of China enacted the Enterprise Income Tax Law, which became effective on January 1, 2008 and was amended on February 24, 2017. The Enterprise Income Tax Law provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules of the Enterprise Income Tax Law further defines the term "de facto management body" as the management body that exercises substantial and overall management and control over the business, personnel, accounts and properties of an enterprise. While we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company or any of our overseas subsidiaries as a PRC resident enterprise since a substantial majority of the members of our management team as well as the management team of our overseas subsidiaries are located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our Cayman Islands holding company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. In addition, any gain realized on the transfer of shares by such investors is also subject to PRC tax at a rate of 10%, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares or ADSs, and any gain realized from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and may as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or ordinary shares by such investors may be subject to PRC tax at a current rate of 20% (which in the case of dividends may be withheld at source). Any PRC tax liability may be reduced under applicable tax treaties or tax arrangements between China and other jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our ADSs or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

U.S. Federal Income Taxation

The following are material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of the ADSs or Class A ordinary shares ("ordinary shares"), but this discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold ADSs or ordinary shares.

This discussion applies only to a U.S. Holder that holds the ADSs or ordinary shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including the alternative minimum tax, the Medicare contribution tax on net investment income and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding ADSs or ordinary shares as part of a hedging transaction, straddle, conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes and their partners;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons that own or are deemed to own ADSs or ordinary shares representing 10% or more of our voting power or value;

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- persons who acquired our ADSs or ordinary shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding ADSs or ordinary shares in connection with a trade or business conducted outside the United States.

If a partnership (or other entity that is classified as a partnership for U.S. federal income tax purposes) owns ADSs or ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ADSs or ordinary shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of ADSs or ordinary shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and the PRC (the “Treaty”), all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

As used herein, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

This discussion does not address the effects of any state, local or non-U.S. tax laws, or any U.S. federal taxes other than income taxes (such as U.S. federal estate or gift tax consequences). U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or ordinary shares in their particular circumstances.

THIS DISCUSSION IS ONLY A SUMMARY OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR ADS OR ORDINARY SHARES. IT IS NOT TAX ADVICE. EACH HOLDER OF OUR ADS OR ORDINARY SHARES IS URGED TO CONSULT ITS OWN TAX ADVISOR IN RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR ADS OR ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS AND ANY APPLICABLE TAX TREATIES.

Passive Foreign Investment Company

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the quarterly value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes interest (and income equivalent to interest), dividends, rents, royalties and gains from financial investments. Cash is generally a passive asset for these purposes. Goodwill (which may be determined by reference to the excess of the sum of the corporation’s market capitalization and liabilities over the value of its assets) is an active asset to the extent attributable to business activities that produce active income.

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Due to the decrease in our market capitalization and uncertainties as to the proper classification of certain items of our income and assets for purposes of the PFIC rules, there is a significant risk that we were a PFIC for our 2020 taxable year. The proper application of the PFIC rules to us is not clear. For example, it is uncertain whether for purposes of the PFIC rules we should be treated as the owner of the Consolidated Trusts' assets. Although such trusts are consolidated on our financial statements for accounting purposes, based on the manner in which we and the trusts currently operate and the nature of our rights and obligations with respect to the trusts, we believe it is reasonable to treat the trusts' assets (to the extent not attributable to any investment by us in the trusts) as not owned by us for purposes of the PFIC rules, but there can be no assurance in this regard. If the trusts' assets were treated as owned by us for PFIC purposes, we would be a PFIC for our 2020 taxable year. Moreover, the value of our goodwill for 2020 was not a positive amount and it is not entirely clear how the percentage of our active assets should be calculated in such circumstances, and to what extent certain assets shown on our balance sheet should be treated as active for purposes of determining our PFIC status. In addition, it is not entirely clear how the contractual arrangements between us and our VIEs will be treated for purposes of the PFIC rules. Because we exercise effective control over the operation of our VIEs and are entitled to substantially all of their income, we believe it is appropriate to treat the VIEs as owned by us for purposes of the PFIC rules. However, there can be no assurance in this regard and we may be a PFIC for any taxable year if our VIEs are not treated as owned by us for such purposes. For these reasons, there is a significant risk that we were a PFIC for our taxable 2020 year and that we will be a PFIC for our current and future taxable years.

If we are a PFIC for any taxable year and any of our subsidiaries, VIEs or other companies in which we own or are treated as owning equity interests is also a PFIC (any such entity, a "Lower-tier PFIC"), U.S. Holders will be deemed to own a proportionate amount (by value) of the shares of each Lower-tier PFIC and will be subject to U.S. federal income tax according to the rules described in the subsequent paragraph on (i) certain distributions by a Lower-tier PFIC and (ii) dispositions of shares of Lower-tier PFICs, in each case as if the U.S. Holders held such shares directly, even though the U.S. Holders will not receive the proceeds of those distributions or dispositions.

In general, if we are a PFIC for any taxable year during which a U.S. Holder holds ADSs or ordinary shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of its ADSs or ordinary shares will be allocated ratably over that U.S. Holder's holding period. The amounts allocated to the taxable year of the sale or disposition and to any year before we became a PFIC will be taxed as ordinary income. The amount allocated to each other taxable year will be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge will be imposed on the resulting tax liability for each such year. Furthermore, to the extent that distributions received by a U.S. Holder in any year on its ADSs or ordinary shares exceed 125% of the average of the annual distributions on the ADSs or ordinary shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, such distributions will be subject to taxation in the same manner. In addition, if we are a PFIC (or with respect to a particular U.S. Holder are treated as a PFIC) for a taxable year in which we pay a dividend or for the prior taxable year, the favorable tax rate described below with respect to dividends paid to certain non-corporate U.S. Holders will not apply. If we are a PFIC for any taxable year during which a U.S. Holder owns ADSs or ordinary shares, we will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns ADSs or ordinary shares, even if we cease to meet the threshold requirements for PFIC status, unless the U.S. Holder makes a "deemed sale" election, which will allow the U.S. Holder to eliminate the continuing PFIC status under certain circumstances but will require the U.S. Holder to recognize gain taxed under the general PFIC rules described above.

Alternatively, if we are a PFIC and if the ADSs are "regularly traded" on a "qualified exchange," a U.S. Holder of ADSs could make a mark-to-market election that will result in tax treatment different from the general tax treatment for PFICs described in the preceding paragraph. The ADSs will be treated as "regularly traded" for any calendar year in which more than a de minimis quantity of the ADSs are traded on a qualified exchange on at least 15 days during each calendar quarter. The NYSE, where our ADSs are listed, is a qualified exchange for this purpose. If a U.S. Holder makes the mark-to-market election, the U.S. Holder generally will recognize as ordinary income any excess of the fair market value of the ADSs at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder's tax basis in the ADSs will be adjusted to reflect the income or loss amounts recognized. Any gain recognized on the sale or other disposition of ADSs in a year in which the Company is a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election, with any excess treated as capital loss). If a U.S. Holder makes the mark-to-market election, distributions paid on ADSs will be treated as discussed under "*Taxation of Distributions*" below. U.S. Holders will not be able to make a mark-to-market election with respect to our ordinary shares, or with respect to any shares of a Lower-tier PFIC, because such shares will not trade on any stock exchange.

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The rules dealing with PFICs and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of our ADS or ordinary shares should consult their own tax advisors concerning the application of the PFIC rules to our ADS or ordinary shares under their particular circumstances.

We do not intend to provide the information necessary for U.S. Holders to make qualified electing fund elections, which if available could materially affect the tax consequences of the ownership and disposition of our ADSs or ordinary shares if we are a PFIC for any taxable year. Therefore, U.S. Holders will not be able to make such elections.

If we are a PFIC for any taxable year during which a U.S. Holder owns any ADSs or ordinary shares, the U.S. Holder will generally be required to file annual reports with the Internal Revenue Service. U.S. Holders should consult their tax advisers regarding the determination of whether we are a PFIC for any taxable year and the potential application of the PFIC rules to their ownership of ADSs or ordinary shares.

Taxation of Distributions

The following discussion is subject to the discussion under “—*Passive Foreign Investment Company*” above.

Distributions paid on our ADSs or ordinary shares, other than certain pro rata distributions of ADSs or ordinary shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be taxable at a favorable rate provided that we are not a PFIC for the taxable year of the distribution or the preceding year. Due to the significant risk that we were or will be a PFIC, non-corporate U.S. Holders should not assume that any distribution will be eligible for this favorable rate.

Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's, or in the case of ADSs, the depositary's, receipt. The amount of any dividend income paid in foreign currency will be the U.S. dollar amount calculated by reference to the spot rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars on such date. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the amount received. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Dividends will be treated as foreign-source income for foreign tax credit purposes. As described in “—PRC Taxation”, dividends paid by the Company may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of the dividend income will include any amounts withheld in respect of PRC withholding tax (if any). Subject to applicable limitations, which vary depending upon the U.S. Holder's circumstances, PRC taxes withheld from dividend payments (at a rate not exceeding the applicable rate provided in the Treaty in the case of a U.S. Holder that is eligible for the benefits of the Treaty) generally will be creditable against a U.S. Holder's U.S. federal income tax liability. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign tax credits in their particular circumstances. In lieu of claiming a credit, a U.S. Holder may elect to deduct any such PRC taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Sale or Other Taxable Disposition of ADSs or Ordinary Shares

The following discussion is subject to the discussion under “—*Passive Foreign Investment Company*” above.

A U.S. Holder will generally recognize capital gain or loss on a sale or other taxable disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's tax basis in such ADSs or ordinary shares disposed of, in each case as determined in U.S. dollars. The gain or loss will be long-term capital gain or loss if, at the time of the sale or disposition, the U.S. Holder has owned the ADSs or ordinary shares for more than one year. Long-term capital gains recognized by non-corporate U.S. Holders may be subject to tax rates that are lower than those applicable to ordinary income. The deductibility of capital losses is subject to limitations.

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As described in “—PRC Taxation” gains on the sale of ADSs or ordinary shares may be subject to PRC taxes. A U.S. Holder is entitled to use foreign tax credits to offset only the portion of its U.S. federal income tax liability that is attributable to foreign-source income. Because under the Code capital gains of U.S. persons are generally treated as U.S.-source income, this limitation may preclude a U.S. Holder from claiming a credit for all or a portion of any PRC taxes imposed on any such gains. However, U.S. Holders that are eligible for the benefits of the Treaty may be able to elect to treat the gain as PRC-source and therefore claim foreign tax credits in respect of PRC taxes on such disposition gains. Proposed Treasury regulations, if finalized in their current form, may impose additional restrictions on the creditability of any PRC taxes on disposition gains. U.S. Holders should consult their tax advisers regarding the creditability or deductibility of any PRC tax on disposition gains in general and in their particular circumstances.

Additional Taxes

Under current law, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, without limitation, dividends on, and gains from the sale or other taxable disposition of, our ordinary shares, subject to certain limitations and exceptions. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our ordinary shares.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other “exempt recipient” and (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (or certain specified entities) may be required to report information relating to their ownership of ADSs or ordinary shares, unless the ADSs or ordinary shares are held in accounts at financial institutions (in which case the accounts may be reportable if maintained by non-U.S. financial institutions). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the ADSs or ordinary shares.

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

10.H. Documents on Display

We previously filed with the SEC registration statement on Form F-1 (File Number 333-227065), as amended, including annual report contained therein, to register additional securities that become effective immediately upon filing, to register our ordinary shares in relation to our initial public offering. We also filed with the SEC related registration statement on Form F-6 (File Number 333-227070) to register the ADSs and registration statement on Form S-8 (File Number 333-227938) to register our securities to be issued under our Amended and Restated 2015 Global Share Incentive Plan.

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We are subject to the periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed with the SEC, can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will furnish The Bank of New York Mellon, the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary 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 depositary from us.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars and financial investment in VC funds which would be settled in US dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not used 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 People's Bank of China. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. 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. Between June 2010 and August 2015, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again. Since August 2015, the RMB has significantly depreciated against the U.S. dollar. It is difficult to predict how market forces or PRC or U.S. 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.

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.

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The fluctuation of interest rates may affect the demand for loan services on our platform. For example, a decrease in interest rates may cause potential borrowers to seek lower-priced loans from other channels. A high interest rate environment may lead to an increase in competing investment options and dampen institutional funding partners' desire to invest on our products. 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 on the Company—3.D. Risk Factors—Risks Relating to Our Business and Industry—Increase in market interest rates could negatively affect the amount of loans facilitated by us and cost of funds provided to borrowers."

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 2020, December 2021 and 2022 were increases of 0.2%, 1.5% and 1.8%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Persons depositing or withdrawing 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 shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$.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 shares and the shares 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 holders
\$.05 (or less) per ADS per calendar year	Depository services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw 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 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

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The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

PART II

ITEM 13. ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

14.A. — 14.D. Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information” for a description of the rights of shareholders, which remain unchanged.

14.E. Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-227065), as amended, including the annual report contained therein, which registered 11,000,000 ordinary shares representing by ADSs and was declared effective by the SEC on September 18, 2018, for our initial public offering, which closed in September 21, 2018, and the underwriters’ exercise of their option to purchase from us an additional 763,478 ADSs representing 1,526,956 ordinary shares, or the optional offering, which closed in September 21, 2018, at an initial offering price of US\$9.50 per ADS. Deutsche Bank Securities Inc. and Morgan Stanley & Co. International plc were the representatives of the underwriters.

The F-1 Registration was declared effective by the SEC on September 18, 2018. Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our initial public offering and the optional offering totaled US\$12.3 million, which included US\$7.8 million for underwriting discounts and commissions and US\$4.5 million for other expenses. We received an aggregated net proceeds of approximately US\$103.9 million from our initial public offering and the option offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates or others.

None of the net proceeds from the initial public offering and the optional offering was paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from the date that the F-1 Registration Statement was declared effective by the SEC to December 31, 2022, we used the net proceeds from our initial public offering for as follows:

- Approximately US\$14.8 million for dividend distribution;
- Approximately US\$30.0 million for capital contributions to our PRC subsidiary; and
- Approximately US\$6.5 million for general corporate purposes.
- Approximately US\$18.2 million for repurchasing ADSs and Class A ordinary shares from market, including open market transactions and privately negotiated transactions.

ITEM 15. CONTROLS AND PROCEDURES

(a) 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 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2022, our disclosure controls and procedures were ineffective, due to the material weaknesses in internal control over financial reporting identified below, in ensuring that the information required to be disclosed by us in the reports that we file or submit

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.

(b) Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP, and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with 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 (iii) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of 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.

Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-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 ineffective as of December 31, 2022, due to the material weaknesses in internal control over financial reporting identified below.

(c) Internal Control over Financial Reporting

In the course of auditing our consolidated financial statements as of and for the years ended December 31, 2020 and 2021, we and our successor independent registered public accounting firm identified three material weaknesses in our internal control over financial reporting. We implemented a number of measures to address those three material weaknesses that were identified. The details of those three material weaknesses and measures to address the material weaknesses are shown below. Since we have partially completed our remedial measures, we and our independent registered public accounting firm evaluated that one material weakness in our internal control over financial reporting remained as of December 31, 2022, which related to insufficient financial reporting and accounting technical resources with sound US GAAP knowledge related certain technical areas.

Regarding the material weakness that still remained as of December 31, 2022, we have implemented a number of measures to address it in connection with the audits of our financial statements for the period from the inception date to December 31, 2022. As of the date of this annual report, progress has been made to remediate our material weakness and remediation measures are to be further implemented and executed.

(d) Attestation Report of the Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of the company's registered public accounting firm yet because the Company is an emerging growth company.

(e) Changes in Internal Control over Financial Reporting

In the course of auditing our consolidated financial statements as of and for the years ended December 31, 2020 and 2021, we and our successor independent registered public accounting firm identified three material weaknesses in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

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The material weaknesses that had been identified as of December 31, 2020 and 2021 related to (1) our lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge for the purpose of financial reporting as well as the lack in formal accounting policies and procedures manual to ensure proper financial reporting in accordance with U.S. GAAP and SEC reporting requirements; (2) our internal audit function is still in the process of establishing formal risk assessment process and internal control framework; and (3) there was not adequate management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP.

In 2022, we implemented a number of measures to address above material weakness that were identified including:

Lack of sufficient skilled staff with U.S. GAAP knowledge and SEC reporting knowledge

- (1) We have engaged two staff with AICPA certificates and US GAAP working experience to be in charge of US GAAP financial statement preparation and SEC reporting.
- (2) We have formalized and updated a set of comprehensive US GAAP accounting and reporting manual, and maintained a set of templates for streamlining US GAAP financial reporting process.
- (3) We keep updated on the SEC / FASB / PCAOB developments, and provide related technical trainings periodically to our accounting personnel for enhancing accounting skills.

Our internal audit function is still in the process of establishing formal risk assessment process and internal control framework

- (1) We formed an internal control management team, and separated the responsibilities between internal control function and internal audit function.
- (2) We established internal control management policies, implemented internal control framework, and streamlined the annual internal control assessment process.
- (3) We also planned and performed the year 2022 internal control assessment applying the new risk assessment and internal control framework.

Management oversight of accounting activities in relating to certain tax practices to conform to the U.S. GAAP.

The accounting activities in relating to certain tax practices to conform to the U.S. GAAP has been prepared and oversighted by our AICPA certified staff and management with U.S. GAAP reporting experience. We also involved professional accounting consulting firms to support our tax review.

Based on an assessment performed by our management on the performance of the above mentioned remediation measures, we determined that all material weaknesses as stated above have been remedied, except for the material weakness that insufficient financial reporting and accounting technical resources with sound US GAAP knowledge related certain technical areas still remained as of December 31, 2022.

Other than those described above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this annual report on Form 20-F that have materially affected, or that 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. Shengwen Rong, an independent director and the chairperson of our audit committee, the qualifies as an “audit committee financial expert” within the meaning of the SEC rules and possesses financial sophistication within the meaning of Listing Rules of the New York Stock Exchange. Mr. Shengwen Rong satisfy the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Section 303A of the Corporate Governance Rules of the NYSE.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics that applies to all of our directors, officers, employees, including certain provisions that specifically apply to our principal executive officer, principal financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as Exhibit 99.1 of our registration statement on Form F-1 (file No. 333-227065) filed with the SEC on August 28, 2018 and posted a copy of our code of business conduct and ethics on our website at ir.xiaoyinggroup.com. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Auditor Fees**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by rendered by KPMG Huazhen LLP, our principal external auditor, and other firms in the KPMG Network for the periods indicated.

Services	Year Ended December 31,	
	2021	2022
	RMB	RMB
	(in thousands)	
Audit Fees(1)	9,569	11,048
Total	9,569	11,048

(1) *Audit Fees.* Audit fees mean the aggregate fees for each of the fiscal periods listed for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements and assistance with and review of documents filed with the SEC.

The policy of our audit committee is to pre-approve all professional services provided by KPMG Huazhen LLP, including audit and non-audit services. All of the services of KPMG Huazhen LLP for 2021 and 2022 described above were in accordance with the audit committee pre-approval policy.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In March 2022, our board of directors has approved a share repurchase plan under which we may repurchase up to US\$15 million worth of its Class A ordinary shares in the form of ADSs over the next eighteen months, effective until September 2023. The size of the Share Repurchase Program was increased to US\$20 million and US\$30 million on September 26, 2022, and November 16, 2022, and was authorized to repurchase Class A ordinary shares. As of the date of December 31, 2021, the Company had repurchased an aggregate of 266,882 ADSs and 46,487,276 Class A ordinary shares for a total consideration of US\$21.1 million.

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The table below sets forth the details of our purchases of our own equity securities during the year ended December 31, 2022.

	(a) Total Number of ADS Purchased	(b) Average Price Paid per ADS ⁽¹⁾ (\$)	(c) Total Number of ADS Purchased as Part of Publicly Announced Plan	(d) Maximum Approximate U.S. dollar Value of ADS that May Yet Be Purchased Under the Plan (\$)
Period				
May 1 — May 31, 2022	10,800	2.81	10,800	14,969,316
June 1 — June 30, 2022	163,289	2.80	163,289	14,507,828
August 1 — August 31, 2022	4,718,026	2.75	4,718,026	1,532,401
September 1 — September 30, 2022	26,358	2.37	26,358	6,469,221
October 1 — October 31, 2022	1,647,847	2.75	1,647,847	1,937,603
November 1 — November 30, 2022	19,120	2.13	19,120	11,896,395
December 1 — December 31, 2022	1,429,321	2.09	1,429,321	8,915,034

(1) Average price paid per ADS repurchased is the execution price, excluding commissions paid to brokers.

(2) Represented the repurchase of Class A ordinary shares and ADSs.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

The disclosure called for by paragraph (a) of this Item 16F was previously reported, as that term is defined in Rule 12b-2 under the Exchange Act, in “Item 16.F. Change in Registrant’s Certifying Accountant” of our annual report on Form 20-F for the fiscal year ended December 31, 2019 filed with the SEC on June 4, 2020.

ITEM 16G. CORPORATE GOVERNANCE

We are a “foreign private issuer” (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, each representing six Class A ordinary shares, are listed on the New York Stock Exchange. Under Section 303A of the New York Stock Exchange Listed Company Manual, New York Stock Exchange listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the New York Stock Exchange with limited exceptions. We opt to follow home country practice with respect to the frequency of holding annual general meeting of shareholders. We opt to follow home country practice specified by the New York Stock Exchange. The following summarizes some significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the New York Stock Exchange.

Under the New York Stock Exchange Listed Company Manual, or the NYSE Manual, U.S. domestic listed companies are required to have a majority of the board consisting of independent directors and have a compensation committee and a nominating/corporate governance committee, each composed entirely of independent directors, which are not required under the Companies Act (Revised) of the Cayman Islands, our home country. Currently, our board of directors is composed of six members, only three of whom satisfy the requirements for an “independent director” under Section 303A of the NYSE Manual. In addition, the NYSE Manual requires shareholder approval for issuance of securities in certain situations, which is not required under the Cayman Islands law. We intend to follow the home country practice and the applicable laws in determining whether shareholder approval is required.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

(a) Please see the Supplemental Submission pursuant to Item 16I(a) of Form 20-F, which has been furnished as Exhibit 99.2 to this annual report.

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(b) For the fiscal year ended December 31, 2021, KPMG Huazhen LLP, which was a registered public accounting firm that the PCAOB determined in December 2021 that it was unable to inspect or investigate completely because of the positions taken by the PRC authorities, issued an audit report for us, and such audit report was included in our annual report on Form 20-F for the fiscal year ended December 31, 2021. On May 26, 2022, we were conclusively identified by the SEC as an SEC-identified issuer pursuant to Section 104(i)(2)(A) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7214(i)(2)(A)). The PCAOB vacated its 2021 determinations in December 2022, and as a result, KPMG Huazhen LLP, which issued an audit report included in this annual report, is no longer a registered public accounting firm that the PCAOB determines it is unable to inspect or investigate completely because of the positions taken by an authority in any foreign jurisdiction.

Our company is incorporated in the Cayman Islands. The VIEs and other operating entities being consolidated in our financial statements, or the consolidated foreign operating entities, are incorporated or otherwise organized in the PRC.

To the best of our knowledge, no governmental entity in the PRC or the Cayman Islands owns any shares of our company or any of the consolidated foreign operating entities.

To the best of our knowledge, no governmental entity in the PRC (i.e. the applicable foreign jurisdiction with respect to KPMG Huazhen LLP) has a controlling financial interest with respect to our company or any of the consolidated foreign operating entities.

No member of the board of directors of our company or any of the consolidated foreign operating entities is any official of the Chinese Communist Party.

Neither our memorandum nor our memorandum and articles of association nor the articles of incorporation (or equivalent organizing document) of the consolidated foreign operating entities contains any charter of the Chinese Communist Party.

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 X Financial are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Second Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
2.1	Form of Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
2.3	Form of Deposit Agreement (incorporated by reference to Exhibit 4.3 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
2.4	Description of Securities registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 2.4 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
4.1	Amended and Restated 2015 Global Share Incentive Plan (incorporated by reference to Exhibit 10.1 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.2	Form of Indemnification Agreement between the Registrant and the directors and executive officers of the Registrant (incorporated by reference to Exhibit 10.2 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.3	Form of Employment Agreement between the Registrant and the executive officers of the Registrant (incorporated by reference to Exhibit 10.3 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.4	Strategic Framework Agreement between ZhongAn Online P&C Insurance Co., Ltd. and Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd., dated March 31, 2016 (incorporated by reference to Exhibit 10.4 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.5	Tripartite Cooperation Agreement among ZhongAn Online P&C Insurance Co., Ltd., Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated September 15, 2017 (incorporated by reference to Exhibit 10.5 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.6	Supplementary Agreement among ZhongAn Online P&C Insurance Co., Ltd., Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated January 5, 2018 (incorporated by reference to Exhibit 10.6 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.7	Supplementary Agreement among ZhongAn Online P&C Insurance Co., Ltd., Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated April 2, 2018 (incorporated by reference to Exhibit 10.7 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.8	Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.8 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)

[Shareholders' Voting Rights Proxy Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., among Yue Tang, Baoguo Zhu and Xiaoying \(Beijing\) Information Technology Co., Ltd., dated December 22, 2017 \(English Translation\) \(incorporated by reference to Exhibit 10.9 from our registration statement on Form F-1 \(File No. 333-227065\) filed publicly with the SEC on August 28, 2018\)](#)

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Exhibit Number	Description of Document
4.10	Equity Pledge Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., between Yue Tang and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.10 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.11	Equity Pledge Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., between Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.11 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.12	Exclusive Call Option Agreement concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., among Yue Tang, Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.12 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.13	Spousal Consent Letter of Yue Tang concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.13 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.14	Spousal Consent Letter of Baoguo Zhu concerning Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.14 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.15	Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Shenzhen Xiaoying Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.15 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.16	Shareholders' Voting Rights Proxy Agreement concerning Shenzhen Xiaoying Technology Co., Ltd., among Yue Tang, Baoguo Zhu, Zijinzhonghao (Zhejiang) Investment Co., Ltd., Shenzhen Ao Li Hua Investment Management Partnership, Shenzhen Gu Fo Investment Management Partnership (Limited Partnership), Shenzhen Man Ni Ou Investment Management Partnership (Limited Partnership), Shenzhen Bo Li Fu Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.16 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.17	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Yue Tang and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.17 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.18	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Baoguo Zhu and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.18 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.19	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Zijinzhonghao (Zhejiang) Investment Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.19 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.20	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Ao Li Hua Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.20 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.21	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Man Ni Ou Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.21 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.22	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Gu Fo Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.22 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)

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Exhibit Number	Description of Document
4.23	Equity Pledge Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., between Shenzhen Bo Li Fu Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.23 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.24	Exclusive Call Option Agreement concerning Shenzhen Xiaoying Technology Co. Ltd., among Yue Tang, Baoguo Zhu, Zijinzhonghao (Zhejiang) Investment Co., Ltd., Shenzhen Ao Li Hua Investment Management Partnership, Shenzhen Gu Fo Investment Management Partnership (Limited Partnership), Shenzhen Man Ni Ou Investment Management Partnership (Limited Partnership), Shenzhen Bo Li Fu Investment Management Partnership (Limited Partnership) and Xiaoying (Beijing) Information Technology Co., Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.24 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.25	Spousal Consent Letter of Yue Tang concerning Shenzhen Xiaoying Technology Co. Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.25 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.26	Spousal Consent Letter of Baoguo Zhu concerning Shenzhen Xiaoying Technology Co. Ltd., dated December 22, 2017 (English Translation) (incorporated by reference to Exhibit 10.26 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
4.27*	Exclusive Business Cooperation Agreement between Xiaoying (Beijing) Information Technology Co., Ltd. and Shenzhen Xintang Information Consulting Co., Ltd., (English Translation) dated December 9, 2022
4.28*	Shareholders' Voting Rights Proxy Agreement concerning Shenzhen Xintang Information Consulting Co., Ltd., between Shenzhen Lelebu Information Consulting Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., (English Translation) dated December 9, 2022
4.29*	Equity Pledge Agreement concerning Shenzhen Xintang Information Consulting Co., Ltd., between Shenzhen Lelebu Information Consulting Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., (English Translation) dated December 9, 2022
4.30*	Exclusive Call Option Agreement concerning Shenzhen Xintang Information Consulting Co., Ltd., between Shenzhen Lelebu Information Consulting Co., Ltd. and Xiaoying (Beijing) Information Technology Co., Ltd., (English Translation) dated December 9, 2022
4.34	Shenzhen Gamma Capital Management Co., Ltd.'s Power of Attorney authorizing Xiaoying (Beijing) Information Technology Co., Ltd. to exercise certain rights dated July 2018 (English Translation) (incorporated by reference to Exhibit 4.34 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
4.35	Tripartite Cooperation Agreement among ZhongAn Online P&C Insurance Co., Ltd., Shenzhen Xiaoying Puhui Technology Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated November 8, 2019 (English Translation) (incorporated by reference to Exhibit 4.35 of our Annual Report on Form 20 F (File No. 001 38652) filed with the Securities and Exchange Commission on May 14, 2021)
4.36	Security Deposit Pledge Agreement between ZhongAn Online P&C Insurance Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated December 23, 2019 (English Translation) (incorporated by reference to Exhibit 4.36 of our Annual Report on Form 20 F (File No. 001 38652) filed with the Securities and Exchange Commission on May 14, 2021)
4.37	Supplemental Agreement to Security Deposit Pledge Agreement between ZhongAn Online P&C Insurance Co., Ltd. and Shenzhen Tangren Financing Guarantee Co., Ltd. dated July 8, 2020 (English Translation) (incorporated by reference to Exhibit 4.37 of our Annual Report on Form 20 F (File No. 001 38652) filed with the Securities and Exchange Commission on May 14, 2021)
4.38	Security Deposit Pledge Agreement between ZhongAn Online P&C Insurance Co., Ltd. and Shenzhen Xiaoying Puhui Technology Co., Ltd. dated June 19, 2020 (English Translation) (incorporated by reference to Exhibit 4.38 of our Annual Report on Form 20 F (File No. 001 38652) filed with the Securities and Exchange Commission on May 14, 2021)
4.39	Supplemental Agreement to Security Deposit Pledge Agreement between ZhongAn Online P&C Insurance Co., Ltd. and Shenzhen Xiaoying Puhui Technology Co., Ltd. dated June 19, 2020 (English Translation) (incorporated by reference to Exhibit 4.39 of our Annual Report on Form 20 F (File No. 001 38652) filed with the Securities and Exchange Commission on May 14, 2021)
8.1*	List of subsidiaries, VIEs and subsidiaries of the VIEs of the Registrant

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Exhibit Number	Description of Document
10.1	Share Purchase Agreement dated November 1, 2021 (English Translation) (incorporated by reference to Exhibit 10.1 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities Exchange Commission on April 28, 2022)
10.2	Shareholder Agreement dated November 1, 2021 (English Translation) (incorporated by reference to Exhibit 10.2 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities Exchange Commission on April 28, 2022)
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 from our registration statement on Form F-1 (File No. 333-227065) filed publicly with the SEC on August 28, 2018)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of KPMG Huazhen LLP
15.2	Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP (incorporated by reference to Exhibit 15.3 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on June 4, 2020)
99.1	Consolidated Financial Statements of Shenyang Tianxinhao Technology Limited as of December 31, 2021 (incorporated by reference to Exhibit 99.1 of our Annual Report on Form 20-F (File No. 001-38652) filed with the Securities and Exchange Commission on April 28, 2022)
99.2*	Supplemental Submission Pursuant to Item 16I(a) of Form 20-F
99.3*	Consent of Han Kun Law Offices
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104**	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

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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.

X Financial

By: /s/ Yue (Justin) Tang

Name: Yue (Justin) Tang

Title: Chief Executive Officer and Chairman

Date: April 27, 2023

X FINANCIAL

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
X Financial:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of X Financial and its subsidiaries and variable interest entities (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes and financial statement Schedule I (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2020.

/s/ KPMG Huazhen LLP

Shenzhen, China
April 27, 2023

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X FINANCIAL
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2022

	Notes	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
ASSETS				
Cash and cash equivalents		584,762,494	602,270,607	87,321,030
Restricted cash (including RMB212,812,257 and RMB398,439,250 from Consolidated Trusts and Partnerships as of December 31, 2021 and 2022, respectively)		407,276,342	404,689,250	58,674,426
Accounts receivable and contract assets, net of allowance of RMB 25,867,957 and RMB21,875,166 as of December 31, 2021 and 2022, respectively (including RMB8,335,518 and RMB37,262,868 from Consolidated Trusts and Partnerships as of December 31, 2021 and 2022, respectively)	2(i)	747,480,118	1,161,911,740	168,461,367
Loans receivable from Xiaoying Credit Loans and other loans, net (including RMB 1,622,699,799 and RMB2,771,927,123 from Consolidated Trusts and Partnerships as of December 31, 2021 and 2022, respectively)	2(m)	2,484,072,931	3,810,393,225	552,455,087
Loan receivable from Xiaoying Housing Loans, net	2(o)	12,083,317	10,061,258	1,458,745
Loans at fair value (including RMB389,679,352 and RMB120,279,612 from Consolidated Trusts and Partnerships as of December 31, 2021 and 2022, respectively)	3	389,679,352	120,279,612	17,438,904
Deposits to institutional cooperators, net	5	1,500,406,750	1,770,317,425	256,671,899
Prepaid expenses and other current assets, net (including RMB 7,889,836 and RMB5,073,797 from Consolidated Trusts and Partnerships as of December 31, 2021 and 2022, respectively)	4	213,127,478	71,082,341	10,305,971
Financial guarantee derivative	3	11,816,799	—	—
Deferred tax assets, net	14	274,868,534	88,428,436	12,820,918
Long-term investments	10	560,038,353	495,994,880	71,912,498
Financial investments	9	82,843,800	192,619,850	27,927,253
Property and equipment, net	6	6,188,262	5,861,360	849,817
Intangible assets, net	7	36,816,984	36,549,922	5,299,241
Other non-current assets		31,277,378	67,203,542	9,743,598
TOTAL ASSETS		7,342,738,892	8,837,663,448	1,281,340,754
LIABILITIES				
Payable to investors and institutional funding partners at amortized cost (including RMB 1,466,068,260 and RMB2,627,910,203 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the company as of December 31, 2021 and 2022, respectively)		1,487,378,613	2,627,910,203	381,011,164
Payable to investors at fair value (including RMB 462,714,400 and RMB141,288,810 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)	3	462,714,400	141,288,810	20,484,952
Financial guarantee derivative (including RMB 565,953,269 and RMB107,890,394 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)	3	565,953,269	107,890,394	15,642,637
Short-term borrowings (including nil and RMB20,000,000 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)	8	166,500,000	70,208,800	10,179,319
Accrued payroll and welfare (including RMB 8,959,248 and RMB12,047,490 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)		44,605,137	63,681,358	9,232,929
Other taxes payable (including RMB100,333,129 and RMB123,105,603 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)		219,545,929	255,690,734	37,071,671
Income taxes payable (including RMB8,189,833 and income taxes receivable of RMB 1,870,729 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)	14	117,148,450	270,088,963	39,159,219
Deposit payable to channel cooperators	2(v)	21,012,235	19,700,235	2,856,266
Accrued expenses and other current liabilities (including RMB 85,485,440 and RMB102,148,275 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)	11	268,966,550	476,034,533	69,018,520
Other non-current liabilities (including nil and RMB1,937,009 from the Consolidated VIEs, Trusts and Partnerships, without recourse to the Company as of December 31, 2021 and 2022, respectively)		12,019,348	51,193,049	7,422,294
Deferred tax liabilities	14	—	721,677	104,633
TOTAL LIABILITIES		3,365,843,931	4,084,408,756	592,183,604
Commitments and Contingencies (Note 18)				
Equity:				
Common shares (US\$0.0001 par value; 1,000,000,000 shares authorized as of December 31, 2021 and 2022; 329,117,943 and 329,117,943 shares issued as of December 31, 2021 and 2022; 329,117,943 and 287,918,569 shares outstanding as of December 31, 2021 and 2022)		206,793	206,793	29,982
Treasury stock (nil and 41,199,374 shares as of December 31, 2021 and 2022)		—	(124,596,781)	(18,064,835)
Additional paid-in capital		3,159,522,737	3,191,193,773	462,679,606
Retained earnings		810,855,877	1,622,852,316	235,291,468
Other comprehensive income		6,309,554	63,598,591	9,220,929
Total X Financial shareholders' equity		3,976,894,961	4,753,254,692	689,157,150
Non-controlling interests		—	—	—
TOTAL EQUITY		3,976,894,961	4,753,254,692	689,157,150

TOTAL LIABILITIES AND EQUITY	7,342,738,892	8,837,663,448	1,281,340,754
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The accompanying notes are an integral part of these consolidated financial statements.

X FINANCIAL
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022

	Notes	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB	2022 US\$
Net revenues					
Loan facilitation service—Direct Model		1,266,532,773	2,545,431,636	2,044,343,554	296,401,954
Loan facilitation service—Intermediary Model		41,372,812	161,313	-	-
Post-origination service		203,841,829	315,590,118	372,450,606	54,000,262
Financing income		612,863,477	671,901,495	966,277,466	140,097,063
Other revenue		68,346,567	93,380,543	179,878,489	26,079,929
Total net revenue	2(d)	2,192,957,458	3,626,465,105	3,562,950,115	516,579,208
Operating costs and expenses					
Origination and servicing		2,071,506,464	1,963,006,006	2,126,741,766	308,348,571
General and administrative		179,225,336	187,859,411	171,523,720	24,868,602
Sales and marketing		35,629,022	20,829,534	15,448,209	2,239,780
(Reversal of) provision for contingent guarantee liabilities	12	880,948	(24,284)	(14,000,000)	(2,029,809)
Provision for accounts receivable and contract assets	2(l)	121,485,215	77,247,810	21,835,625	3,165,868
(Reversal of) provision for loan receivable from Xiaoying Housing Loans	2(o)	17,993,570	(377,559)	(6,066,176)	(879,513)
Provision for loans receivable from Xiaoying Credit Loans and other loans	2(m)	227,210,026	76,395,168	164,641,879	23,870,829
Impairment losses on deposits to institutional cooperators:	5				
(Reversal of) provision for credit losses on deposits to institutional cooperators		10,318,117	(8,291,421)	1,295,879	187,885
Impairment loss on deposits to institutional cooperators		960,000,000	—	—	—
Reversal of provision of credit losses for other financial assets		(975,040)	(1,223,360)	(764,600)	(110,857)
Total operating expenses		3,623,273,658	2,315,421,305	2,480,656,302	359,661,356
Income (Loss) from operations		(1,430,316,200)	1,311,043,800	1,082,293,813	156,917,852
Interest income (expenses), net		21,724,308	19,709,140	3,756,232	544,602
Foreign exchange gain (loss)		15,398,932	5,147,137	(19,962,949)	(2,894,356)
Income (loss) from financial investments	9	—	—	20,900,025	3,030,219
Impairment losses on financial investments	9	—	—	(8,874,750)	(1,286,718)
Impairment losses on long-term investments	10	—	—	(26,865,733)	(3,895,165)
Change in fair value of financial guarantee derivative	3	(163,670,115)	(170,338,993)	137,654,096	19,957,968
Fair value adjustments related to Consolidated Trusts	3	(57,380,274)	(7,266,784)	(6,168,307)	(894,320)
Other income (loss), net		12,709,213	32,506,084	40,723,863	5,904,406
Income (Loss) before income taxes and gain (loss) from equity in affiliates		(1,601,534,136)	1,190,800,384	1,223,456,290	177,384,488
Income tax benefit (expense)	14	299,878,635	(368,735,701)	(389,357,613)	(56,451,548)
Gain (loss) from equity in affiliates, net of tax	10	(6,805,940)	3,341,862	(22,102,238)	(3,204,523)
Net income (loss)		(1,308,461,441)	825,406,545	811,996,439	117,728,417
Less: net gain (loss) attributable to non-controlling interests		41,134	(478)	—	—
Net income (loss) attributable to X Financial		(1,308,502,575)	825,407,023	811,996,439	117,728,417
Net income (loss)		(1,308,461,441)	825,406,545	811,996,439	117,728,417
Other comprehensive income (loss), net of tax of nil:					
Gain from equity in affiliates		—	—	204,444	29,642
Foreign currency translation adjustments		(46,041,729)	(14,749,519)	57,084,593	8,276,488
Comprehensive income (loss)		(1,354,503,170)	810,657,026	869,285,476	126,034,547
Less: comprehensive income (loss) attributable to non-controlling interests		41,134	(478)	—	—
Comprehensive income (loss) attributable to X Financial		(1,354,544,304)	810,657,504	869,285,476	126,034,547
Net income (loss) per share—basic	15	(4.07)	2.51	2.57	0.37
Weighted average number of ordinary shares outstanding—basic		321,236,089	329,230,273	316,444,826	316,444,826
Net income (loss) per share—diluted	15	(4.07)	2.45	2.52	0.37
Weighted average number of ordinary shares outstanding—diluted		321,236,089	336,881,082	322,403,387	322,403,387

The accompanying notes are an integral part of these consolidated financial statements.

X FINANCIAL
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022

	Common share number	Common share amount (RMB)	Treasury stock amount (RMB)	Additional paid-in capital (RMB)	Retained earnings (Accumulated deficit) (RMB)	Accumulated other comprehensive income (RMB)	Equity attributable to X Financial (RMB)	Non- controlling Interests (RMB)	Total equity (RMB)
Balance at December 31, 2019	320,667,943	201,240	—	2,987,363,137	1,311,194,007	67,100,802	4,365,859,186	1,246,482	4,367,105,668
Cumulative effect of accounting change (1)	—	—	—	—	(17,242,578)	—	(17,242,578)	—	(17,242,578)
Balance at January 1, 2020	320,667,943	201,240	—	2,987,363,137	1,293,951,429	67,100,802	4,348,616,608	1,246,482	4,349,863,090
Issuance of new shares	2,700,000	1,806	—	(1,806)	—	—	—	—	—
Exercise of share option	—	—	—	612,530	—	—	612,530	—	612,530
Cancellation of shares	(250,000)	(176)	—	(68,760)	—	—	(68,936)	—	(68,936)
Share-based compensation (Note 16)	—	—	—	80,140,138	—	—	80,140,138	—	80,140,138
Net income (loss)	—	—	—	—	(1,308,502,575)	—	(1,308,502,575)	41,134	(1,308,461,441)
Foreign currency translation adjustments	—	—	—	—	—	(46,041,729)	(46,041,729)	—	(46,041,729)
Balance at December 31, 2020	323,117,943	202,870	—	3,068,045,239	(14,551,146)	21,059,073	3,074,756,036	1,287,616	3,076,043,652
Issuance of new shares	6,000,000	3,923	—	(3,923)	—	—	—	—	—
Exercise of share option	—	—	—	2,959,511	—	—	2,959,511	—	2,959,511
Share-based compensation (Note 16)	—	—	—	88,434,772	—	—	88,434,772	—	88,434,772
Acquisition of non-controlling interest	—	—	—	87,138	—	—	87,138	(1,287,138)	(1,200,000)
Net income (loss)	—	—	—	—	825,407,023	—	825,407,023	(478)	825,406,545
Foreign currency translation adjustments	—	—	—	—	—	(14,749,519)	(14,749,519)	—	(14,749,519)
Balance at December 31, 2021	329,117,943	206,793	—	3,159,522,737	810,855,877	6,309,554	3,976,894,961	—	3,976,894,961
Repurchase of common shares	(48,088,568)	—	(146,740,902)	—	—	—	(146,740,902)	—	(146,740,902)
Transfer to employee stock ownership plans	6,889,194	—	22,144,121	(22,144,121)	—	—	—	—	—
Exercise of share option	—	—	—	277,342	—	—	277,342	—	277,342
Share-based compensation (Note 16)	—	—	—	53,537,815	—	—	53,537,815	—	53,537,815
Net income	—	—	—	—	811,996,439	—	811,996,439	—	811,996,439
Gain from equity in affiliates	—	—	—	—	—	204,444	204,444	—	204,444
Foreign currency translation adjustments	—	—	—	—	—	57,084,593	57,084,593	—	57,084,593
Balance at December 31, 2022	287,918,569	206,793	(124,596,781)	3,191,193,773	1,622,852,316	63,598,591	4,753,254,692	—	4,753,254,692

	Common share number	Common share amount (US\$)	Treasury stock amount (US\$)	Additional paid-in capital (US\$)	Retained earnings (Accumulated deficit) (US\$)	Accumulated other comprehensive income (US\$)	Equity attributable to X Financial (US\$)	Non- controlling interests (US\$)	Total equity (US\$)
Balance at December 31, 2021	329,117,943	29,982	—	458,087,737	117,563,051	914,799	576,595,569	—	576,595,569
Repurchase of common shares	(48,088,568)	—	(21,275,431)	—	—	—	(21,275,431)	—	(21,275,431)
Transfer to employee stock ownership plans	6,889,194	—	3,210,596	—	—	—	—	—	—
Exercise of share option	—	—	—	40,211	—	—	40,211	—	40,211
Share-based compensation (Note 16)	—	—	—	7,762,254	—	—	7,762,254	—	7,762,254
Net income	—	—	—	—	117,728,417	—	117,728,417	—	117,728,417
Gain from equity in affiliates	—	—	—	—	—	29,642	29,642	—	29,642
Foreign currency translation adjustments	—	—	—	—	—	8,276,488	8,276,488	—	8,276,488
Balance at December 31, 2022	287,918,569	29,982	(18,064,835)	462,679,606	235,291,468	9,220,929	689,157,150	—	689,157,150

(1) The Group adopted ASU 2016-13 on January 1, 2020. See Note 2 (Summary of Significant Accounting Policies) for more information.

The accompanying notes are an integral part of these consolidated financial statements.

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X FINANCIAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	2022
	RMB	RMB	RMB	US\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	(1,308,461,441)	825,406,545	811,996,439	117,728,417
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	11,915,528	8,135,552	6,646,312	963,625
Share-based compensation	80,140,138	88,434,772	53,537,815	7,762,254
Impairment losses on financial investments	—	—	8,874,750	1,286,718
Impairment losses on long-term investments	—	—	26,865,733	3,895,165
Loss (gain) from equity in affiliates	6,805,940	(3,341,862)	22,102,238	3,204,523
Loss (gain) from disposal of property and equipment	59,213	(180,537)	(2,678)	(388)
Loss (income) from financial investments	—	—	(20,900,025)	(3,030,219)
Provision for accounts receivable and contract assets	121,485,215	77,247,810	21,835,625	3,165,868
Provisions for loans receivable from Xiaoying Credit Loans and other loans	227,210,026	76,395,168	164,641,879	23,870,829
(Reversal of) provision for loan receivable from Xiaoying Housing Loans	17,993,570	(377,559)	(6,066,176)	(879,513)
Impairment losses on deposits to institutional cooperators:				
(Reversal of) provision for credit losses on deposits to institutional cooperators	10,318,117	(8,291,421)	1,295,879	187,885
Impairment loss on deposits to institutional cooperators	960,000,000	—	—	—
Reversal of provision of credit losses for other financial assets	(975,040)	(1,223,360)	(764,600)	(110,857)
Fair value adjustments related to Consolidated Trusts	57,380,274	7,266,784	6,168,307	894,320
Change in fair value of financial guarantee derivative	163,670,115	170,338,993	(137,654,096)	(19,957,968)
Deferred tax expenses (benefits)	(142,551,916)	333,420,104	195,589,376	28,357,794
Other non-cash expenses (income)	(978,897)	(117,889)	658,327	95,448
Changes in operating assets and liabilities:				
Accounts receivable and contract assets	220,837,490	(411,420,820)	(436,267,247)	(63,252,805)
Deposits to institutional cooperators	(1,369,521,281)	(584,191,949)	(271,206,554)	(39,321,254)
Prepaid expenses and other current assets	123,901,899	21,232,196	121,759,157	17,653,418
Loan receivable from Xiaoying Housing Loans	24,051,658	35,784,679	8,088,235	1,172,684
Loan receivable from Xiaoying Credit Loans and other loans	—	(890,372,164)	(304,079,859)	(44,087,435)
Other non-current assets	265,846	162,653	1,562,738	226,576
Guarantee liabilities	(7,983,299)	(9,789,626)	—	—
Financial guarantee derivative	388,806,171	551,283,453	(223,943,839)	(32,468,805)
Accrued payroll and welfare	(28,867,642)	9,824,303	19,076,221	2,765,792
Other taxes payable	14,991,468	146,468,684	36,144,805	5,240,504
Income taxes payable	(265,078,543)	41,231,547	152,940,513	22,174,290
Deposit payable to channel cooperators	(87,451,225)	(460,000)	(1,312,000)	(190,222)
Accrued expenses and other current liabilities	102,802,015	(33,694,875)	65,114,595	9,440,729
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(679,234,601)	449,171,181	322,701,870	46,787,373
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment and intangible assets	(5,365,436)	(2,620,038)	(6,055,110)	(877,908)
Disposal of property and equipment	79,344	236,783	5,440	789
Purchase of financial investments	(6,000,000)	(112,843,800)	(90,539,800)	(13,127,037)
Collection of financial investments	—	36,000,000	—	—
Purchase of long-term investment	(3,500,000)	(315,000,000)	—	—
Collection of long-term investment	—	40,000,000	6,852,347	993,497
Loan to a related party	—	(150,000,000)	—	—
Loan repayment from a related party	—	150,000,000	—	—
Origination of loans receivables from Xiaoying Credit Loans and other loans	(5,746,369,142)	(1,755,301,405)	—	—
Sale and collection of loans receivables from Xiaoying Credit Loans and other loans	797,086,381	35,848,676	4,749,439	688,604
Principal payment of loans at fair value	(4,016,159,473)	(2,238,372,299)	(826,042,700)	(119,764,934)
Principal collection of loans at fair value	5,155,380,196	3,427,158,051	1,089,274,133	157,929,904
Principal payment of loans receivables of the Consolidated Trusts and Partnerships at amortized cost	—	(2,538,004,837)	(7,455,098,555)	(1,080,887,687)
Principal collection of loans receivables of the Consolidated Trusts and Partnerships at amortized cost	—	915,305,038	6,263,466,800	908,117,323
Collection of loans' earnings rights from related party	120,000,000	160,000,000	100,000,000	14,498,637
CASH USED IN INVESTING ACTIVITIES	(3,704,848,130)	(2,347,593,831)	(913,388,006)	(132,428,812)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of common shares	—	—	(146,740,902)	(21,275,431)
Proceeds from exercise of options	612,530	2,959,511	277,342	40,211
Acquisition of non-controlling interests	—	(1,200,000)	—	—
Cancelling of shares	(68,936)	—	—	—
Proceeds from short-term borrowings	511,545,000	266,500,000	70,208,800	10,179,319
Repayments of short-term borrowings	(161,000,000)	(450,545,000)	(166,500,000)	(24,140,231)
Cash received from institutional funding partners	5,707,175,065	2,052,099,474	—	—
Cash paid to institutional funding partners	(475,385,721)	(583,101,169)	(21,310,352)	(3,089,711)
Cash received from investors of Consolidated Trusts at fair value	1,537,760,000	454,490,000	98,800,000	14,324,653
Cash paid to investors of Consolidated Trusts at fair value	(2,629,925,825)	(1,905,959,250)	(420,225,590)	(60,926,983)
Cash received from investors and institutional funding partners of the Consolidated Trusts and Partnerships at amortized cost	—	1,466,068,260	2,497,000,169	362,030,994
Cash paid to investors and institutional funding partners of the Consolidated Trusts and Partnerships at amortized cost	—	—	(1,335,158,227)	(193,579,746)
CASH PROVIDED BY FINANCING ACTIVITIES	4,490,712,113	1,301,311,826	576,351,240	83,563,075
Effect of foreign exchange rate changes	(28,409,920)	(9,373,234)	29,255,917	4,241,709

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	78,219,462	(606,484,058)	14,921,021	2,163,345
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	1,520,303,432	1,598,522,894	992,038,836	143,832,111
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT YEAR END	1,598,522,894	992,038,836	1,006,959,857	145,995,456
Supplemental disclosures of cash flow information:				
Income taxes paid, net of refunds	107,751,825	30,958,576	37,369,220	5,418,028
Interest paid for borrowings	11,405,162	6,719,912	1,991,007	288,669
Reconciliation to amounts on consolidated balance sheets:				
Cash and cash equivalents	746,388,408	584,762,494	602,270,607	87,321,030
Restricted cash	852,134,486	407,276,342	404,689,250	58,674,426
Total cash and cash equivalents and restricted cash	1,598,522,894	992,038,836	1,006,959,857	145,995,456

The accompanying notes are an integral part of these consolidated financial statements.

X FINANCIAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2021 AND 2022

1. Organization and principal activities

X Financial (the “Company” or “X Financial”) is an exempted company incorporated with limited liabilities in the Cayman Islands under the laws of the Cayman Islands on January 5, 2015. The Company, its subsidiaries and its variable interest entities (collectively referred to as the “Group”) provides personal finance services in the People’s Republic of China (“PRC”) by connecting borrowers and investors through a proprietary internet platform.

The Group began the operations through Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. (“Shenzhen Ying Zhong Tong”), which was founded in March 2014 in the PRC by Mr. Tang, Chief Executive Officer and Mr. Zhu (the “Founders”) who collectively held more than 50% of the equity holdings.

During the period of 2015 to 2016, the Founders also established a number of special purpose vehicles (“SPVs”) to carry out personal finance business in the PRC. At the formation date of each SPV, Shenzhen Ying Zhong Tong entered into a series of contractual agreements with the SPV and its nominal shareholder(s) include Shareholders’ Voting Rights Proxy Agreements, Exclusive Call Option Agreements, Exclusive Business Cooperation Agreements, and Equity Pledge Agreements, through which Shenzhen Ying Zhong Tong (1) has power to direct the activities that most significantly affects the economic performance of the SPV and (2) can receive the economic benefits of the SPVs that could be significant to the SPV. Accordingly, Shenzhen Ying Zhong Tong is the primary beneficiary of the SPVs.

On January 5, 2015, X Financial was incorporated in the Cayman Islands by the Founders and one other individual. The Founders collectively held more than 50% of the equity holdings of X Financial. Further, Mr. Zhu designated all of his shareholder rights to Mr. Tang through a proxy agreement. As such, Mr. Tang effectively was the controlling shareholder of the Company since its incorporation.

On August 7, 2015, the Company completed its equity financing by issuing 38,095,238 ordinary shares to an unrelated third party investor at a consideration of US\$60,000,000. In conjunction with the equity financing, the Company also issued an additional 40,000,000 ordinary shares to Mr. Yue Tang. Mr. Tang remained as the effective controlling shareholder.

In order to raise capital through its initial public offering (“IPO”) in the United States, the Group undertook a series of transactions since late 2016 with X Financial being proposed as the listing entity (“Reorganization”):

As PRC laws and regulations prohibit and restrict foreign ownership of internet value-added businesses, the Company established a wholly-owned foreign invested subsidiary in the PRC, Xiaoying (Beijing) Information Technology Co., Ltd. (“Beijing WFOE”) on October 28, 2015. The existing contractual agreements with the SPVs and SPVs’ shareholders held by Shenzhen Ying Zhong Tong were assigned to Beijing WFOE.

On October 19, 2016, Shenzhen Xiaoying Technology Co., Ltd. (“Shenzhen Xiaoying”) was incorporated in the PRC by the same shareholders of the Company with identical shareholdings. In December 2016, Shenzhen Xiaoying acquired Shenzhen Ying Zhong Tong for nominal consideration and Shenzhen Ying Zhong Tong became the wholly-owned subsidiary of Shenzhen Xiaoying. As both Shenzhen Xiaoying and Shenzhen Ying Zhong Tong were controlled by Mr. Tang at the time, the transaction was a reorganization under common control.

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X Financial, through its PRC subsidiary, Beijing WFOE, entered into a series of contractual arrangements with Shenzhen Xiaoying, Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd. (“Beijing Ying Zhong Tong”) in December 2017, and Shenzhen Xintang Information Consulting Co., Ltd. (“Shenzhen Xintang”, previously named “Shenzhen Tangren Financing Guarantee Co., Ltd.”) in December 2016 and the shareholders of these entities respectively. Shenzhen Xiaoying, Beijing Ying Zhong Tong, Shenzhen Xintang and the SPVs are collectively referred to as “VIEs”. The series of contractual agreements included Shareholders’ Voting Rights Proxy Agreements, Spouse Consent Agreement, Exclusive Call Option Agreements, Exclusive Business Cooperation Agreements, and Equity Pledge Agreements. The Group believed that these contractual agreements would enable Beijing WFOE to (1) have power to direct the activities that most significantly affects the economic performance of the new VIEs and (2) receive the economic benefits of the VIEs that could be significant to the new VIEs. Accordingly, the Group is the primary beneficiary of the VIEs through Beijing WFOE.

In conjunction with the Reorganization, the Group completed equity financing of RMB1 billion in June 2017. This round of equity financing was initially conducted by increasing registered capital of Shenzhen Xiaoying by 9 existing and new investors. Subsequently, X Financial issued additional shares to the affiliates of the same shareholders of this round of equity financing such that the shareholder ownership in X Financial mirrored those in Shenzhen Xiaoying.

The Group considered the Reorganization as a reorganization of entities under common control. Accordingly, the accompanying financial statements have been prepared using historical cost basis as if the Reorganization had occurred at the beginning of the first period presented.

During December 2017, Beijing WFOE acquired two subsidiaries from Shenzhen Xiaoying at cost. During February and March 2018, one of the Group’s wholly-owned subsidiaries Shenzhen Xiaoying Puhui Technology Co., Ltd. (“Shenzhen Puhui”) acquired four subsidiaries from one of the VIE entities Shenzhen Ying Zhong Tong at cost. During 2018, predominantly all of the SPVs under Shenzhen Xiaoying had been transferred to Shenzhen Xiaoying Puhui Technology Co., Ltd. These transactions represented a reorganization of entities under common control as they were already within the consolidated Group, with no impact to the consolidated financials.

During September 2018, the Group completed an initial public offering of 11,763,478 American depositary shares (“ADSs”) at an initial offering price of US\$9.50 which included the ADSs sold upon the exercise of the over-allotment option granted to the underwriters, representing 23,526,956 Class A ordinary shares.

On May 31, 2021, Shenzhen Xiaoying Microcredit Co., Ltd. (“Xiaoying Microcredit”) was incorporated in the PRC with online microcredit business operating license by Shenzhen Xiaoying. Shenzhen Xiaoying had completed the capital contributions of RMB1 billion to Xiaoying Microcredit by the end of November, 2021.

On May 20, 2022, Tianjin Yuexin Financing Guarantee Co., Ltd. (“Tianjin Yuexin”) was incorporated in the PRC with financing guarantee license by Shenzhen Puhui. Shenzhen Puhui had completed the capital contributions of RMB50 million to Tianjin Yuexin.

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As of December 31, 2022, the Company's principal subsidiaries, VIEs and subsidiaries of the VIEs are as follows:

	Date of incorporation/ establishment	Place of incorporation/ establishment	Percentage of legal ownership	Principal activities
Wholly-owned subsidiaries				
YZT (HK) Limited	January 14, 2015	Hong Kong	100 %	Investment holding
Xiaoying (Beijing) Information Technology Co., Ltd. ("Beijing WFOE")	October 28, 2015	Beijing	100 %	Technology development and service, sale of products
Shenzhen Xiaoying Puhui Technology Co., Ltd. ("Shenzhen Puhui")	December 6, 2016	Shenzhen	100 %	Technology development and service, sale of products
Shenzhen Xiaoying Information Technology Co., Ltd. ("Shenzhen Xiaoying IT")	November 28, 2016	Shenzhen	100 %	Technology development and service, sale of products
Tianjin Yuexin Financing Guarantee Co., Ltd. ("Tianjin Yuexin")	May 20, 2022	Tianjing	100 %	Guarantee services
Dingyue Digital and Information Technology (Shenzhen) Co., Ltd. ("Dinigyue")	November 5, 2021	Shenzhen	100 %	Technology development service
VIEs				
Shenzhen Xiaoying Technology Co., Ltd. ("Shenzhen Xiaoying")	October 19, 2016	Shenzhen	100 %	Technology development and service, sale of products
Beijing Ying Zhong Tong Rongxun Technology Service Co., Ltd. ("Beijing Ying Zhong Tong")	March 27, 2015	Beijing	100 %	Technology development and service, sale of products
Shenzhen Xintang Information Consulting Co., Ltd. ("Shenzhen Xintang")	December 16, 2016	Shenzhen	100 %	Consulting services
Significant subsidiaries of the VIEs				
Shenzhen Ying Zhong Tong Financial Information Service Co., Ltd. ("Shenzhen Ying Zhong Tong")	March 7, 2014	Shenzhen	100 %	Technology development and service, sale of products
Shenzhen Ying Ai Gou Trading Co., Ltd. ("Shenzhen Ying Ai Gou")	October 25, 2018	Shenzhen	100 %	E-commerce services
Shenzhen Xiaoying Microcredit Co., Ltd. ("Xiaoying Microcredit")	May 31, 2021	Shenzhen	100 %	Microcredit services

2. Summary of significant accounting policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Principles of Consolidation

Variable interest entity

The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries, and consolidated VIEs. All intercompany transactions and balances have been eliminated.

The Company, through its wholly-owned foreign invested subsidiary, Beijing WFOE in the PRC, entered into a series of contractual arrangements ("VIE agreements") with Shenzhen Xiaoying, Beijing Ying Zhong Tong, and Shenzhen Xintang (collectively known as "the VIEs") and their respective shareholders that enable the Company to (1) have power to direct the activities that most significantly affects the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs.

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Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between Beijing WFOE and the VIEs through the aforementioned agreements with the nominee shareholders of the VIEs. The following is a summary of the VIE agreements:

(1) Shareholders' Voting Rights Proxy Agreement:

Pursuant to the voting rights proxy agreements signed between the VIEs' nominee shareholders and Beijing WFOE, each nominee shareholder irrevocably appointed Beijing WFOE as its attorney-in-fact to exercise on each shareholder's behalf and all rights that each shareholder has in respect of its equity interest in the VIEs (including but not limited to executing the exclusive right to the voting rights and the right to appoint directors and executive officers of the VIEs). The nominee shareholders cannot revoke the authorization and entrustment as long as the nominee shareholders remain a shareholder of the VIEs. For the arrangements among Beijing WFOE, each of the VIEs, and their shareholders, the power of attorney will remain in force for ten years. Unless a thirty-day notice is given by Beijing WFOE, this agreement shall be automatically renewed for another one year upon its expiration. The arrangement among Beijing WFOE and its shareholder does not specify its effective term.

(2) Spouse Consent Agreement

Under the spouse consent agreement, each signing spouse acknowledges that the shares of the VIEs held by the relevant shareholder of the VIEs are the personal assets of such shareholder and not jointly owned by the couple. Each signing spouse also unconditionally and irrevocably gives up his or her rights to such shares and any associated economic rights or interests to which he or she may be entitled pursuant to applicable laws and undertakes not to make any assertion of rights to such shares and the underlying assets. Each signing spouse agrees that he or she will not carry out in any circumstances any conduct that are contradictory to the contractual arrangements and this consent agreement.

(3) Executive Call Option Agreement:

Pursuant to the exclusive call option agreement entered into between the VIEs' nominee shareholders and Beijing WFOE, the nominee shareholders irrevocably granted Beijing WFOE a call option to request the nominee shareholders to transfer or sell any part or all of its equity interests in the VIEs, to Beijing WFOE, or their designees. The purchase price of the equity interests in the VIEs shall be equal to the minimum price required by PRC law. Without Beijing WFOE's prior written consent, the VIEs and its nominee shareholders shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, issue any additional equity or right to receive equity, provide any loans, distribute dividends in any form, etc. For the agreements among Beijing WFOE, each of the VIEs, and their shareholders, these arrangements will remain effective for ten years. Unless notified by Beijing WFOE, the parties to these agreements shall extend the term of these agreements for another ten years. The agreement among Beijing WFOE and its shareholder does not specify its effective term.

(4) Exclusive Business Cooperation Agreement:

Pursuant to the exclusive business cooperation agreement entered into by Beijing WFOE and the VIEs, Beijing WFOE provides exclusive technical support and consulting services in return for fees based on 100% of the VIE's total consolidated profit, which is adjustable at the sole discretion of Beijing WFOE. Without Beijing WFOE's consent, the VIEs cannot procure services from any third party or enter into similar service arrangements with any other third party, except for those from Beijing WFOE. For the agreements between Beijing WFOE and each of the VIEs, unless Beijing WFOE terminates these agreements in advance, these agreements will remain effective for ten years. Unless agreed by both parties in writing, this agreement shall be automatically renewed for another ten years upon its expiration.

(5) Equity Pledge Agreement

Each nominee shareholder of the VIEs has also entered into an equity pledge agreement with Beijing WFOE, pursuant to which each shareholder pledged his/her interest in Beijing WFOE to guarantee the performance of obligations of Beijing WFOE and its shareholders under the exclusive business cooperation agreement, exclusive call option agreement, and shareholders' voting rights proxy agreement. If the VIEs or any of the nominee shareholder breaches its contractual obligations, Beijing WFOE will be entitled to certain rights and interests regarding the pledged equity interests including the right to dispose the pledged equity interests. None of the nominee shareholders shall, without the prior written consent of Beijing WFOE, assign or transfer to any third party, create or cause any security interest and any liability in whatsoever form to be created on, all or any part of the equity interests it holds in the VIEs. This agreement is not terminated until all of the agreements under the shareholders' voting rights proxy agreement, exclusive call option agreement and the exclusive business cooperation agreement are fully performed.

The irrevocable power of attorney has conveyed all shareholder rights held by the VIEs' shareholders to Beijing WFOE or any person designated by Beijing WFOE, including the right to appoint executive directors of the VIEs to conduct day to day management of the VIEs' businesses, and to approve significant transactions of the VIEs. In addition, the exclusive call option agreement provides Beijing WFOE with a substantive kick-out right of the VIEs shareholders through an exclusive option to purchase all or any part of the shareholders' equity interest in the VIEs. In addition, through the exclusive business cooperation agreement, Beijing WFOE demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of the VIEs. The equity pledge agreements further secure the obligations of the shareholders of the VIEs under the above agreements.

Based on these contractual arrangements, the Company consolidates the VIEs in accordance with SEC Regulation S-X Rule 3A-02 and Accounting Standards Codification ("ASC") topic 810 ("ASC 810"), Consolidation.

Uncertainties in the PRC legal system could limit the Company's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

- revoke the Group's and operating licenses;
- levy fines on the Group;
- confiscate any of the Group's income that they deem to be obtained through illegal operations;
- shut down the Group's services;
- discontinue or restrict the Group's operations in China;
- impose conditions or requirements with which the Group may not be able to comply;
- require the Group to change corporate structure and contractual arrangements;
- restrict or prohibit the use of the proceeds from overseas offerings to finance the Group's PRC consolidated VIEs' business and operations; and
- take other regulatory or enforcement actions that could be harmful to the Group's business.

Consolidated Trusts

As part of the Group's efforts to develop new product offerings for investors and institutional funding partners, the Group established a business relationship with certain trusts which were administered by third-party trust companies. The trusts were set up to invest solely in the loans facilitated by the Group on its platform to provide returns to the beneficiaries of the trusts through interest payments made by the borrowers. Both direct model and intermediary model are adopted for these trusts. Under direct model, loans are originated from trusts to borrowers while under intermediary model, the Group typically provides credit to the borrowers through an intermediary first and then transfers the loans to the trusts, which issue beneficial interests to the investors and institutional funding partners. The Group determines to consolidate these trusts as the Group is the primary beneficiary, due to the following reasons: 1) the Group has the power to direct the operating activities of the trusts; 2) the Group absorbs or enjoys the potential residual losses or returns of these trusts. Under intermediary model, the transfer of loans to the Consolidated Trusts are not eligible for sale accounting because the trust is consolidated and the loan transfer is considered an intercompany transaction.

For Consolidated Trusts founded before December 31, 2021, the Group elected to apply fair value option to the loans (at the date of origination) and liabilities due to investors. That is, the loans are continued to be recorded on the Group's consolidated balance sheets as loans held for investment under "Loans at fair value" and the proceeds received from the investors are recorded as trust liabilities under "Payable to investors at fair value".

For Consolidated Trusts founded from January 1, 2022, the Group elected not to apply fair value option but instead apply amortized cost method to the loans (at the date of origination) and liabilities due to investors or institutional funding partners, to improve the understandability and relevance of financial information. That is, the loans are continued to be recorded on the Group's consolidated balance sheets as loans held for investment under "Loans receivable from Xiaoying Credit Loans and other loans, net", which is net of provision of credit loss, and the proceeds received from the investors or institutional funding partners are recorded as trust liabilities under "Payable to investors and institutional funding partners at amortized cost".

During 2021 and 2022, certain of the subsidiaries of the Group funded RMB74,051,199 and RMB81,200,000 to loan products facilitated on the Group's platform through third-party trust companies. The trusts are consolidated by the Group and the underlying loans are recorded on the Group's consolidated balance sheets as loans held for investment under "Loans at fair value " or "Loans receivable from Xiaoying Credit Loans and other loans, net".

Consolidated Partnerships

The Group continued developing the partnership business model , where the Group and certain trusts jointly established several limited partnership enterprises, or LPs, to invest solely in the loans facilitated by the Group on its platform to provide returns to partners of the LPs through interest payments made by the borrowers. Intermediary model is adopted for the Consolidated Partnerships, the Group typically provides credit to the borrowers through an intermediary first and then transfers the loans to the LPs. The Group determines to consolidate these LPs as the Group is the primary beneficiary, due to the following reasons: 1) the Group has the power to direct the operating activities of the LPs; 2) the Group absorbs or enjoys the potential residual losses or returns of these LPs. The transfer of loans to the Consolidated Partnerships are not eligible for sale accounting because the LP is consolidated and the loan transfer is considered an intercompany transaction. The Group further applies amortized cost to the loans and liabilities to trust partners in its consolidated financial statements. That is, the loans are recorded on the Group's consolidated balance sheets under "Loans receivable from Xiaoying Credit Loans and other loans, net" and the proceeds received from the trust partners are recorded as LP liabilities under "Payable to investors and institutional funding partners at amortized cost".

During 2021 and 2022, one of the subsidiaries of the Group funded RMB141,326,511 and RMB 146,245,430 to loan products facilitated on the Group's platform through the limited partnership enterprises. The LPs are consolidated by the Group and the underlying loans are recorded on the Group's consolidated balance sheets under "Loans receivable from Xiaoying Credit Loans and other loans, net".

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The following financial statement amounts and balances of the Consolidated Trusts and Partnerships are included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances:

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Assets:			
Restricted cash	212,812,257	398,439,250	57,768,261
Accounts receivable and contract assets, net	8,335,518	37,262,868	5,402,608
Loans receivable from Xiaoying Credit Loans and other loans, net	1,622,699,799	2,771,927,123	401,891,655
Loans at fair value	389,679,352	120,279,612	17,438,904
Prepaid expenses and other current assets	7,889,836	5,073,797	735,632
Total assets	2,241,416,762	3,332,982,650	483,237,060
Liabilities:			
Payable to investors and institutional funding partners at amortized cost	1,466,068,260	2,627,910,203	381,011,164
Payable to investors at fair value	462,714,400	141,288,810	20,484,952
Other taxes payable	5,631,031	3,226,746	467,834
Accrued expenses and other current liabilities	3,259,339	16,698,946	2,421,120
Total liabilities	1,937,673,030	2,789,124,705	404,385,070
	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB
Net revenue	331,300,043	285,859,862	648,893,767
Net income (loss)	(19,795,471)	105,610,429	360,550,889
			52,274,965
	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB
Net cash provided by (used in) operating activities	(20,179,042)	155,272,678	273,610,963
Net cash provided by (used in) investing activities	1,139,220,723	(433,914,047)	(928,400,322)
Net cash provided by (used in) financing activities	(1,092,165,825)	14,599,010	840,416,352
			121,848,917

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The following financial statement amounts and balances of the VIEs and Consolidated Trusts and Partnerships were included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances:

	As of December 31 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Assets:			
Cash and cash equivalents	212,766,581	116,523,581	16,894,331
Restricted cash	220,812,257	403,439,250	58,493,193
Accounts receivable and contract assets, net	67,917,846	65,289,514	9,466,090
Loans receivable from Xiaoying Credit Loans and other loans, net	2,458,221,481	3,777,595,492	547,699,863
Loans at fair value	389,679,352	120,279,612	17,438,904
Deposits to institutional cooperators, net	2,702,000	—	—
Prepaid expenses and other current assets, net	104,088,188	53,328,083	7,731,845
Financial guarantee derivative	11,816,799	—	—
Deferred tax assets, net	128,554,651	2,277,314	330,179
Long-term investments	556,571,016	495,994,880	71,912,498
Property and equipment, net	2,673,157	604,992	87,716
Intangible assets, net	29,554,089	28,711,872	4,162,830
Loan receivable from Xiaoying Housing Loans, net	12,083,317	10,061,258	1,458,745
Income taxes receivable	—	1,870,729	271,230
Other non-current assets	4,850,671	2,469,629	358,063
Total assets	4,202,291,405	5,078,446,206	736,305,487
Liabilities:			
Payable to investors and institutional funding partners at amortized cost	1,466,068,260	2,627,910,203	381,011,164
Payable to investors at fair value	462,714,400	141,288,810	20,484,952
Financial guarantee derivative	565,953,269	107,890,394	15,642,637
Short-term borrowings	—	20,000,000	2,899,727
Accrued payroll and welfare	8,959,248	12,047,490	1,746,722
Other taxes payable	100,333,129	123,105,603	17,848,635
Income taxes payable	8,189,833	—	—
Accrued expenses and other current liabilities	85,485,440	102,148,275	14,810,108
Other non-current liabilities	—	1,937,009	280,840
Total liabilities	2,697,703,579	3,136,327,784	454,724,785
	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB 2022 US\$
Net revenue	754,755,127	1,388,255,858	1,350,809,649 195,848,989
Net income (loss)	(180,518,614)	695,892,749	738,032,308 107,004,626
	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB 2022 US\$
Net cash provided by (used in) operating activities	(190,951,068)	485,090,529	151,675,178 21,990,834

Net cash provided by (used in) investing activities	1,133,193,197	(702,678,519)	(925,707,537)	(134,214,977)
Net cash provided by (used in) financing activities	(1,073,465,825)	(4,100,990)	860,416,352	124,748,645

The VIEs and Consolidated Trusts and Partnerships contributed 34%, 38% and 38% of the Group's consolidated revenue for the years ended December 31, 2020, 2021 and 2022, respectively. As of December 31, 2021 and 2022, the VIEs and Consolidated Trusts and Partnerships accounted for an aggregate of 57% and 57% of the consolidated total assets, and 80% and 77% of the consolidated total liabilities.

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There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIEs and Consolidated Trusts and Partnerships. However, if the VIEs were ever to need financial support, the Group may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholders of the VIEs or entrustment loans to the VIEs.

The Group believes that there are no assets held in the VIEs that can be used only to settle obligations of the VIEs, except for registered capital and the PRC statutory reserves. As 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 for any of the liabilities of the VIEs. Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 17 for disclosure of restricted net assets.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ materially from such estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include share-based compensation, allowance for credit losses of accounts receivables and contract assets, deposits to institutional cooperators, prepaid expenses and other current assets, loans receivables from Xiaoying Housing Loans and loans receivable from Xiaoying Credit Loans and other loans, allocation of considerations under revenue arrangements with various performance obligations, variable considerations of revenue recognition, valuation allowance for deferred tax assets, unrecognized tax benefits, the indefinite reinvestment assertion, fair value of financial guarantee derivatives and financial investments, loans at fair value and payable to investors at fair value, impairment of long-term investments and financial investments.

(d) Revenue recognition

The Group provides services as an online marketplace connecting borrowers and investors or institutional funding partners. Revenue is the transaction price the Group expects to be entitled to in exchange for the promised services in a contract in the ordinary course of the Group's activities and is recorded net of value-added tax ("VAT"). The services to be accounted for include loan facilitation service, post-origination service (e.g. cash processing and collection services) and financial guarantee service.

The major product offered by the Group is Xiaoying Credit Loan, which mainly consists of Xiaoying Card Loan, Xiaoying Preferred Loan and other unsecured loan products that the Group introduce from time to time. The major products offered by the Group before 2021 also include Xiaoying Revolving Loan which mainly consists of Yaoqianhua (previously named as Xiaoying Wallet). The Group ceased facilitation of Xiaoying Preferred Loan in 2019, and ceased facilitation of Xiaoying Revolving Loan in 2020.

The Group provides services primarily through the use of two business models. The first business model ("Direct Model") involves the Group matching borrowers with investors or institutional funding partners who directly funds the credit drawdowns to the borrowers. The Group has determined that it is not the legal lender or borrower in the loan origination and repayment process, but acting as an intermediary to bring the lender and the borrower together. Therefore, the Group does not record the loans receivable or payable arising from the loans facilitated between the investors or institutional funding partners and borrowers on its platform.

The second business model ("Intermediary Model") involves the Group initially providing credit to borrowers using its own funds through an intermediary and subsequently selling the loans including all of the creditor rights in the loans to external investors or institutional funding partners on its platform within a short period of time.

Loans facilitated by the Group typically have a term of less than 1 year. For each loan facilitated either through the Direct Model or Intermediary Model, the Group charges a service fee (i) from the borrower indirectly through one of the Group's VIEs, Shenzhen Xintang, or (ii) from the borrower indirectly through external financing guarantee company, or (iii) from institutional funding partner directly. No application fee is charged to borrowers or investors or institutional funding partners.

For the loans the Group is entitled to the full service fee regardless of whether the borrowers choose to early repay or not, the Group has the unconditional right to the consideration.

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For the loans facilitated that the Group collected service fees indirectly through Shenzhen Xintang, when borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees, the Group's right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. At contract inception, the Group determines the consideration based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination.

For the loans facilitated that the Group collected service fee indirectly through external financing guarantee company or directly from institutional funding partner, the Group's transaction price includes variable consideration in the form of default risk of the borrowers and prepayment risk of the borrowers. The Group determines the consideration based on historical experiences as well as the credit due diligence performed on each borrower prior to loan origination.

In order to be more competitive by providing a certain level of assurance to the investors or institutional funding partners, for certain loans facilitated by the Group's platform, either borrowers or institutional funding partners are required to directly sign a credit insurance agreement with ZhongAn Online P&C Insurance Co., Ltd. ("ZhongAn") to protect investors or institutional funding partners against the risk of borrower default. Prior to September 2017, substantially all of the loans facilitated by the Group's platform are insured by ZhongAn. ZhongAn initially reimbursed the loan principal and interest to the investor upon borrower's default. In order to maintain stable business relationship with ZhongAn, the Group at its sole discretion paid ZhongAn for substantially all the defaulted loan principal and interest but have not been subsequently collected. From September 2017, the Group revised the arrangement with ZhongAn. Starting from 2020, the Group enters into a series of arrangements with various external financing guarantee companies, which is similar to the revised arrangement with ZhongAn.

The Group provides guarantee to investors and institutional funding partners on certain loan products via its consolidated entities. The Group is compensated for this reimbursement from the contractual service fees collected from the borrowers. If a borrower defaults, the Group makes its best efforts to collect the default loan. The Group directly makes payment to the defaulted principal and interest to each investor, and deemed the guarantee as a guarantee service to the investors and recognizes a stand ready obligation for its guarantee exposure in accordance with ASC Topic 460, Guarantees which requires the guarantee to be measured initially at fair value based on the stand-ready obligation. Starting from 2020, the Group ceased to provide guarantee service on the loan facilitated.

For certain Xiaoying Card Loans and certain Xiaoying Revolving Loans that are repaid in installments by borrowers, borrowers are required to enter into a guarantee agreement with the Group and an insurance/guarantee agreement with ZhongAn/financing guarantee companies, to pay the guarantee fee and insurance fee to the respective party at a pre-agreed rate. For certain loans that facilitated since 2020, borrowers are required to enter into a guarantee agreement with the Group to pay the guarantee fee at a pre-agreed rate while at the same time, it is the institutional investors who enter into an insurance agreement with ZhongAn and the Group voluntarily pay the insurance fee to ZhongAn. The obligation/ credit risk/ exposure of the Group and ZhongAn to compensate the defaulted loans has no change.

Upon borrower's default, ZhongAn/financing guarantee companies reimburse the full loan principal and interest to the investors or institutional funding partner first, and has the right to recourse to both the borrower and the Group, and the Group's contractual obligation is at any time it limited to a cap (the "Cap") which is the lower of (1) total amount of guarantee fees contractually required to be collected from the borrowers for such loans facilitated during the current period on an aggregated basis, and (2) a certain percentage of the total principal of the loans facilitated stated in an annualized manner, as pre-agreed with ZhongAn/financing guarantee companies (the "Rate"). The contractual guarantee fees in (1) is not influenced by default or early repayment of borrowers. The Group has no obligation or intention to compensate ZhongAn/financing guarantee companies for any losses in excess of the contractual obligation. The Rate will be negotiated prospectively at each quarter between the two parties based on the expected default rate. The actual loss in excess of the Cap is absorbed by ZhongAn/financing guarantee companies. ZhongAn/financing guarantee companies ultimately bear substantially all of the credit risk. The Group's exposure in this arrangement is limited to the default and prepayment risk in relation to the guarantee fee when the Group cannot collect the guarantee fee under the agreement with the borrower on an individual basis but is still obligated to compensate ZhongAn/financing guarantee companies up to the Cap on a pool basis. The Group evaluated the guarantee arrangement pursuant to ASC Topic 815, and concluded that the arrangement meets the definition of a derivative and that it is not eligible for the guarantee scope exception. Therefore, the guarantee is recognized as a derivative liability/asset at fair value and is not accounted for pursuant to ASC Topic 460 or 450. See accounting policy for financial guarantee derivative.

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Direct Model

The Group has adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified ASC 606.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the Group applies the following steps:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group determines its customers to be both the borrowers and the investors or institutional funding partners. The Group considers the loan facilitation service and post-origination service as two separate performance obligations under ASC 606, as these two deliverables are distinct in that customers can benefit from each service on its own and the Group's promises to deliver the services are separately identifiable from each other in the contract. While the post-origination service is within the scope of ASC Topic 860, the ASC Topic 606 revenue recognition model is applied due to the lack of definitive guidance in ASC Topic 860.

The Group determines the total transaction price to be the service fees chargeable from the borrowers indirectly through one of the VIEs, Shenzhen Xintang, or external financing guarantee companies or from certain institutional funding partners directly, including the guarantee fees charged by the Group under the separate guarantee agreement with the borrowers for certain type of Xiaoying Card Loans that are newly facilitated since September 2017. The Group's transaction price includes variable consideration in the form of default risk of the borrowers for the service fees collected from certain institutional funding partners or through external financing guarantee companies and prepayment risk of the borrowers. The Group reflects, in the transaction price, the default risk and the prepayment risk. The Group estimates variable consideration for these contracts using the expected value approach on the basis of historical information and current trends of the default and prepayment percentage of the borrowers. The transaction price is allocated amongst the financial guarantee service, if any, and two performance obligations.

The Group first allocates the transaction price to the financial guarantee, if any, that is recognized in accordance with ASC Topic 815, which requires the guarantee to be measured initially and subsequently at fair value. Then the remaining considerations are allocated to the loan facilitation services and post-origination services using their relative standalone selling prices consistent with the guidance in ASC 606. The Group does not have observable standalone selling price information for the loan facilitation services or post-origination services because it does not provide loan facilitation services or post-origination services on a standalone basis. There is no direct observable standalone selling price for similar services in the market that is reasonably available to the Group. As a result, the estimation of standalone selling price involves significant judgment. The Group uses an expected cost plus margin approach to estimate the standalone selling prices of loan facilitation services and post origination services as the basis of revenue allocation. In estimating its standalone selling price for the loan facilitation services and post-origination services, the Group considers the cost incurred to deliver such services, profit margin for similar arrangements, customer demand, effect of competitors on the Group's services, and other market factors.

For each type of service, the Group recognizes revenue when (or as) the entity satisfies the service/performance obligation by transferring a promised good or service (that is, an asset) to a customer. Revenues from loan facilitation are recognized at the time a loan is originated between the borrower and the investor or institutional funding partner and the principal loan balance is transferred to the borrower, at which time the facilitation service is considered completed. Revenues from post-origination services are recognized on a straight-line basis over the term of the underlying loans as the services are provided. The collection of service fees is not conditional on the provision of subsequent post-origination services.

Intermediary Model

The Group cooperates with several microcredit companies who use their own funds to provide credit to borrowers first; the Group provide facilitation and post-origination services for these loans and receive service fee from borrowers. These microcredit companies transfer their rights as creditors shortly to SPVs controlled by the Group at the price of the carrying amount of the outstanding loan principal balance and accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to SPVs. The SPVs usually further transfer their creditor's rights to third party investors or institutional funding partners in a short period at the price of the carrying amount of the outstanding loan principal balance and the accumulated accrued interest not paid by the borrowers as of the day on which the creditor's rights are legally transferred to investors or institutional funding partners. The Group accounts the relevant interest and service fees received from the borrowers as the financing income and the fee charged by the microcredit companies which is proportionate to the loans facilitated as the origination and servicing cost in its consolidated financial statements.

Under the Intermediary business model, the Group provides the funds that are loaned to borrowers and agrees to take predominantly all the risk arising from potential breaches of agreement by the borrowers receiving financing.

The Group provides financing to borrowers on their platform and the loans are initially recorded on the consolidated balance sheet as loans held for sale or loans receivable from Xiaoying Credit Loans and other loans. These loans carry the same insurance/ guarantee agreement with external financial institutional co-operators as loans facilitated under the Direct Model, which is attached to the loan and transfers along with the loan. The Group also charges service fees in the same manner as loans facilitated under the Direct Model.

Intermediary Model—Non-Trust Model

The transfer of loans (including the creditor rights) to external investors or institutional funding partners not involving trust structure is accounted for as a true sale under ASC 860 (see accounting policy under "Sales and Transfers of Financial Instruments"). The Group continues to provide post-origination services to the loans subsequent to their sale in the same manner as the Group services the loans facilitated under the Direct Model. No additional service fee is charged. Similar to the loans facilitated under the Direct Model, the Group charges and collects service fees from the borrowers or institutional funding partners in relation to the transferred loans on a monthly basis. The difference between (1) the proceeds received from the investors or institutional funding partners and accounts receivable and contract assets (see accounting policy on "Accounts receivable and contract assets and allowance for uncollectible accounts receivable and contract assets") and (2) the sum of the carrying value of the loans and the fair value of the financial guarantee, if any, is recognized as a gain of sale, which effectively represents the service fees earned from facilitation of the loans under Intermediary Model, as the "Loan facilitation service—Intermediary Model" in the consolidated statements of comprehensive income (loss). The subsequent accounting for post-origination service and guarantee services is consistent with that for loans facilitated under the Direct Model.

Intermediary Model—Trust Model

The transfer of loans to institutional funding partners under the Intermediary Model often involves transferring the loans to a trust formed and operated by unrelated third party trust companies. The Group consolidates such trusts under the VIE model (see accounting policy on "Consolidated Trusts"). Loans transferred to Consolidated Trusts do not qualify for sales accounting as the transfer is to a consolidated subsidiary.

Before December 31, 2021, the Group elected to apply fair value option to these loans at the date of origination. The loans are recorded as "Loans at fair value" in the consolidated balance sheets.

From January 1, 2022, the Group elected to apply amortized cost method to the loans of newly formed Consolidated Trusts at the date of origination. For loan assets measured at amortized cost, they are recorded as "Loans receivable from Xiaoying Credit Loans and other loans, net".

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Under both method, the Group recognizes as revenue under “Financing income” the service fees and interests charged to the borrowers over the lifetime of the loans using effective interest method.

Intermediary Model—Partnership Model

The transfer of loans to institutional funding partners under the Intermediary Model involves transferring the loans to a limited partnership enterprise, or LP, formed and operated by unrelated third-party trust companies and the Group. The Group consolidates such partnerships under the VIE model (see accounting policy on “Consolidated Partnerships”). The Group elects to measure these loans at amortized cost at the time of origination. Loans transferred to Consolidated Partnerships do not qualify for sales accounting as the transfer is to a consolidated subsidiary. The loans are recorded as “Loans receivable from Xiaoying Credit Loans and other loans, net” in the consolidated balance sheets. The Group recognizes as revenue under “Financing income” the service fees and interests charged to the borrowers over the lifetime of the loans using effective interest method.

The online Intermediary Model ceased in April 2017 and the offline Intermediary Model with funding from banking financial institution partners ceased in February 2018 to comply with the promulgated regulatory requirements. The Group continues the operations through the offline Intermediary Model with funding from other partners to the extent permitted under applicable laws and regulations.

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Disaggregation of revenues

All of the Group's revenue for the years ended December 31, 2020, 2021 and 2022 were generated from the PRC. As the remaining duration of the Group's performance obligations of the contracts is one year or less, the Group elects to apply the exemption of disclosing the aggregate amount of transaction price allocated to the performance obligations at the end of 31 December, 2020, 2021 and 2022, The following table illustrates the disaggregation of revenue by product the Group offered in 2020, 2021 and 2022:

	Loan facilitation service-Direct Model (RMB)	Loan facilitation service- Intermediary Model (RMB)	Post-origination service (RMB)	Financing income (RMB)	Other revenue (RMB)	Total (RMB)
2020						
Major products						
Xiaoying Credit Loan	1,190,088,566	19,755,482	176,229,908	538,869,175	39,537,661	1,964,480,792
Xiaoying Revolving Loan	76,444,207	21,571,881	26,000,468	73,991,011	597,911	198,605,478
Xiaoying Housing Loan	—	—	—	—	172,960	172,960
Internet Channel(1)	—	45,449	1,611,453	3,291	11	1,660,204
Other loans	—	—	—	—	226,720	226,720
Other service(2)	—	—	—	—	27,811,304	27,811,304
Total	1,266,532,773	41,372,812	203,841,829	612,863,477	68,346,567	2,192,957,458
	Loan facilitation service-Direct Model (RMB)	Loan facilitation service- Intermediary Model (RMB)	Post-origination service (RMB)	Financing income (RMB)	Other revenue (RMB)	Total (RMB)
2021						
Major products						
Xiaoying Credit Loan	2,545,431,636	161,313	312,373,187	644,009,587	31,877,690	3,533,853,413
Xiaoying Revolving Loan	—	—	3,216,931	27,891,908	537,311	31,646,150
Other loans	—	—	—	—	130,768	130,768
Other service(2)	—	—	—	—	60,834,774	60,834,774
Total	2,545,431,636	161,313	315,590,118	671,901,495	93,380,543	3,626,465,105
	Loan facilitation service-Direct Model (RMB)	Loan facilitation service- Intermediary Model (RMB)	Post-origination service (RMB)	Financing income (RMB)	Other revenue (RMB)	Total (RMB)
2022						
Major products						
Xiaoying Credit Loan	2,044,343,554	—	372,015,426	959,446,184	20,815,986	3,396,621,150
Xiaoying Revolving Loan	—	—	435,180	2,815	—	437,995
Other loans	—	—	—	6,828,467	207,964	7,036,431
Other service(2)	—	—	—	—	158,854,539	158,854,539
Total	2,044,343,554	—	372,450,606	966,277,466	179,878,489	3,562,950,115

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2022	Loan facilitation service-Direct Model (US\$)	Loan facilitation service- Intermediary Model (US\$)	Post-origination service (US\$)	Financing income (US\$)	Other revenue (US\$)	Total (US\$)
Major products						
Xiaoying Credit Loan	296,401,954	—	53,937,167	139,106,621	3,018,034	492,463,776
Xiaoying Revolving Loan	—	—	63,095	408	—	63,503
Other loans	—	—	—	990,034	30,152	1,020,186
Other services(2)	—	—	—	—	23,031,743	23,031,743
Total	296,401,954	—	54,000,262	140,097,063	26,079,929	516,579,208

(1) Represents loans facilitated to borrowers referred by other platforms. The Group ceased to facilitate loans for other platforms in 2020.

(2) Primarily consists of referral service fees for introducing borrowers to other platforms, technology service fees received for providing assistant technology development services and penalty fees for loan prepayment and late payment.

Contract balances

The Group did not enter into contracts with customers that were greater than one year for substantially all products for the years ended December 31, 2020, 2021 and 2022. The Group did not record any contract liabilities for both 2021 and 2022. For the loans the Group is entitled to the full service fee regardless of whether the borrowers choose to early repay or not, the Group has the unconditional right to the consideration and an accounts receivable is recorded. For the loans facilitated with borrowers who have the option of early repayment and upon termination they do not have the obligation to pay the remaining monthly service fees, the Group's right to consideration for the service fees of facilitation service is conditional on whether or not the borrowers repay in advance. In these instances, the Group records a corresponding contract asset when recognizing revenue from loan facilitation service. The contract asset will not be reclassified to a receivable given that the right to invoice and the payment due date is the same date. Revenue for these loan products are recognized when the collection of consideration becomes probable.

Remaining unsatisfied performance obligations as of December 31, 2020, 2021 and 2022 pertained to post-origination service in the amount of RMB61,415,170 , RMB113,840,873 and RMB224,461,482 (US\$32,543,856), respectively. All remaining unsatisfied performance obligations would be recognized as revenue in the subsequent year.

Incentives to investors

To expand its market presence, the Group provides incentives to investors in a variety of forms that either reduces the amount of investment required to purchase financial products or entitles them to receive higher interest rates in the products they purchase. During the relevant incentive program period, the Group sets certain thresholds for the investor to qualify to enjoy the incentive. Such incentives are accounted for as a reduction of revenue in accordance with ASC 606.

Financing income

Financing income consists primarily the financing fees the Group charges for the loans facilitated through the Consolidated Trusts and Consolidated Partnerships, including interest income and service fees generated from providing loan facilitation and post-origination services to the investors and institutional funding partners of the Consolidated Trusts and Consolidated Partnerships, and are recorded as revenue over the life of the underlying financing using the effective interest method.

Financing income also includes financing fees, including interest income and service fee, from loans held for sale and loans receivables from Xiaoying Credit Loans and other loans that have not yet been transferred to external investors or institutional funding partners or have been transferred but such transaction does not qualify for sale accounting under the Intermediary Model.

Starting from 2021, financing income also includes interest income generated from providing loans by the Group's own fund from microcredit business, and are

recorded as revenue over the life of the underlying financing using the effective interest method. The Group maintains the right to terminate the contract in advance based on the credit due diligence performed on each borrower. The remaining installments of interest would be recognized on non-accrual status after the contract terminated.

Other revenue

Other revenue primarily includes referral service fees for introducing borrowers to other platforms, technology service fees received for providing assistant technology development services and penalty fees for loan prepayment and late payment. The referral service fees for introducing borrowers to other platforms are recognized when the obligation is fulfilled and is confirmed by the other platforms. The technology service fees are recognized when the assistant technology development services to third parties provided. The penalty fees, which are fees paid to the Group, will be received as a certain percentage of past due amounts in the case of late payments or a certain percentage of interest over the prepaid principal loan amount in the case of prepayment. Penalty fees are contingency-based variable considerations and constrained by the occurrence of delinquency or prepayment. They are recognized when the uncertainty associated with the variability is resolved, that is, when the underlying event occurs.

(e) Sales and transfers of financial instruments

Sales and transfers of financial instruments are accounted under authoritative guidance for the transfers and servicing of financial assets and extinguishment of liabilities. Specifically, a transfer of a financial asset, a group of financial assets, or a participating interest in a financial asset is accounted for as a sale only if all the following conditions are met:

1. The financial assets are isolated from the transferor and its consolidated affiliates as well as its creditors;
2. The transferee or beneficial interest holders have the right to pledge or exchange the transferred financial assets; and
3. The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control of the transferred asset. A transferor's effective control over the transferred financial assets includes, but is not limited to, any of the following:
 - a. An agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity.
 - b. An agreement, other than through a cleanup call that provides the transferor with both of the following: (i) The unilateral ability to cause the holder to return specific financial assets. (ii) A more-than-trivial benefit attributable to that ability; and
 - c. An agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Under the Intermediary Model, the Group, through its Intermediary, facilitates credits to borrowers and subsequently transfers the loans (including the creditor rights) to third party investors or institutional funding partners at face value within a short period of time.

When the loan (including the creditor rights) is transferred, the transferee becomes the direct counterparty to the borrower and the legal record holder of the loan upon transfer. The transfer is accounted for as a sale, when (1) the transferred loans are considered legally isolated from the assets of the Group and its creditors even in the bankruptcies under the PRC laws and regulations, (2) the investors or institutional funding partners (transferees) can freely pledge or exchange the transferred loans, and (3) the Group does not maintain effective control over the transferred loans. When a transfer does not qualify for sale accounting, e.g. when the Group sells loans with recourse to the Group, the transferred financial asset remains in the statement of financial position and a financial liability is recognized for any consideration received.

For Xiaoying Housing Loans facilitated through the Intermediary Model, borrowers are required to pledge properties to one of the Group's consolidated VIE entities (other than the Intermediary or the SPV conducting the facilitation and transfer of the loan) as collateral for the guarantee that the Group is providing to ZhongAn against borrower's default. It is a separate arrangement with different counterparties from the loan provided by the Group. While the loan (including creditor's rights) is transferred to third party investors or institutional funding partners, the lien remains under the Group's name and in security for the Group agreeing to provide the guarantee to ZhongAn. The holding of the lien does not affect the creditor's right in the loan being fully transferred. Provided all aforementioned conditions under sales accounting are met, the transfer of such loans with collateral are accounted for as a sale. The Group ceased facilitation of Xiaoying Housing Loan in 2019.

(f) Foreign currency translation

The functional currency of X Financial is in US dollars (“US\$”). The functional currency of the Group’s subsidiaries and VIEs in the PRC is Renminbi (“RMB”). The determination of the respective functional currency is based on the criteria stated in ASC 830, Foreign Currency Matters. The Group also uses RMB as its reporting currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency are measured and recorded in the functional currency at the exchange rate prevailing on the transaction date. Translation gains and losses are recognized in the statements of comprehensive income (loss).

The Company with functional currency of US\$ translates its operating results and financial positions into RMB, the Group’s reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Equity amounts are translated at historical exchange rates. Revenues, expenses, gains and losses are translated using the average rates for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component in the statements of comprehensive income (loss).

(g) Guarantee liabilities

The Group has guarantee service which is directly and indirectly provided to the investors or institutional funding partners. The Group also provides direct guarantee to investors or institutional funding partners on certain loan products via its consolidated entities. If a borrower defaults, the Group makes its best efforts to collect the default loan. The Group directly or indirectly makes payment to the defaulted principal and interest to each investor or institutional funding partner. Prior to September 2017, ZhongAn initially reimbursed the loan principal and interest to the investor or institutional funding partner upon the borrower’s default. In order to maintain stable business relationship with ZhongAn, although not contractually obligated, the Group at its sole discretion compensated ZhongAn for substantially all loan principal and interest default but not subsequently collected. At the inception of each loan, the Group recognizes the guarantee liability at fair value in accordance with ASC 460-10, which incorporates the expectation of potential future payments under the guarantee and takes into both non-contingent and contingent aspects of the guarantee. Subsequent to the loan’s inception, the guarantee liability is composed of two components: (i) ASC Topic 460 component; and (ii) ASC Topic 450 component. The liability recorded based on ASC Topic 460 is determined on a loan by loan basis and it is reduced when the Group is released from the underlying risk, i.e. as the loan is repaid by the borrower or when the investor or institutional funding partner is compensated in the event of a default. This component is a stand-ready obligation which is not subject to the probable threshold used to record a contingent obligation. When the Group is released from the stand-ready liability upon expiration of the underlying loan, the Group records a corresponding amount as “Other revenue” in the consolidated statement of comprehensive income. The other component is a contingent liability determined based on probable loss considering the actual historical performance and current conditions, representing the obligation to make future payouts under the guarantee liability in excess of the stand-ready liability, measured using the guidance in ASC Topic 450. The ASC Topic 450 contingent component is determined on a collective basis and loans with similar risk characteristics are pooled into cohorts for purposes of measuring incurred losses. The ASC 450 contingent component is recognized as part of operating expenses in the consolidated statement of comprehensive income. At all times the recognized liability (including the stand-ready liability and contingent liability) is at least equal to the probable estimated losses of the guarantee portfolio.

The Group measures its guarantee liabilities at inception at fair value based on the Group’s expected payouts and also incorporating a markup margin. As the Group’s guarantee liabilities are not traded in an active market with readily observable prices, the Group applies a discounted cash flow methodology to measure the fair value of guarantee liabilities. The impact of credit losses is also considered by applying discounted cash flow method for the subsequent measurement of guarantee liabilities, based on the consideration of reasonable and supportable forecasts of future economic conditions. The significant unobservable inputs used include expected future payout and discount rate. The expected future payouts were estimated based on expected default rates and collection rates for each product type, taking into consideration of historical loss experiences for both contingent and noncontingent elements. The expected future payouts take into account missed payments initially compensated by ZhongAn within two business days from borrowers’ payment due date. The expected collection rate of defaulted loans incorporates the proceeds from liquidation of underlying collateral that would be expected to cover the payouts under the guarantee and was based on the average historical collection rate of the Group’s products. These inputs in isolation can cause significant increases or decreases in fair value. Increase in the expected default rates can significantly increase the fair value of guarantee liabilities; conversely a decrease in the expected default rates can significantly decrease the fair value of guarantee liabilities. The discount rate applied discounted cash flow methodology to present value the projected cash flows which is based on market rates. The Group also estimated the markup margin by looking at several comparable business models. The approximate term of the guarantee service correlates directly with the term of the loan product.

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Refer to Note 12 for additional information about guarantee liabilities for the years ended December 31, 2020, 2021 and 2022.

From September 2017, the Group revised the arrangement with Zhongan on Xiaoying Credit Loan products, which is the major product offered by Group. The Group no longer records any guarantee liabilities in accordance with ASC Topic 460 for substantially all Xiaoying Preferred Loans. For most Xiaoying Card Loans, the Group records financial guarantee derivatives in accordance with ASC 815. See accounting policy of revenue recognition and financial guarantee derivatives. Starting from 2020, the Group ceased to provide guarantee service on the loan facilitated. The outstanding balance of guarantee liabilities was nil and nil as of December 31, 2021 and 2022.

(h) Financial guarantee derivatives

Starting from September 2017, for newly facilitated Xiaoying Credit Loans and Xiaoying Revolving Loans, the Group entered into a series of arrangements with various financial institutional cooperators in which it has agreed that the Group's exposure is limited to the contractual guarantee fee that the Group cannot collect under the agreement from the borrower as a result of default or prepayment but are still obligated to compensate those financial institutional cooperators based on the contractual guarantee fee up to the pre-agreed cap. See accounting policy in Revenue Recognition. The financial guarantee is accounted for as a derivative under ASC 815 because the financial guarantee scope exemption in ASC 815-10-15-58 is not met. The derivative is remeasured at each reporting period. The change in fair value of the derivative is recorded as a change in fair value of financial guarantee derivatives in the consolidated statements of comprehensive income(loss). The derivative is increased by the guarantee fees collected from the borrowers upon receipt as the Group expects all the fees to be ultimately paid to those financial institutional cooperators. When the Group settles the guarantee through performance of the guarantee by making payments to those financial institutional cooperators, the Company records a corresponding deduction to the derivative.

The Group uses the discounted cash flow model to value these financing guarantee derivatives at inception and subsequent valuation dates. This discounted cash flow model incorporates assumptions such as the expected delinquency rates, prepayment rate and discount rate. The expected delinquency rate and prepayment rate is estimated by taking into consideration of historical loss experiences. The discount rate is determined based on the market rates. The Group considers that the impact of discount rate to the fair value of financial guarantee derivatives is immaterial.

(i) Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

- Level 1—inputs are based upon unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2—inputs are based upon quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Most fair value is therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

(j) Cash and Cash Equivalents

Cash and cash equivalents primarily consist of cash on hand and cash in bank which are highly liquid. As of December 31, 2021 and 2022, cash equivalents were comprised of term deposits in banks. All cash and cash equivalents are unrestricted as to withdrawal and use.

(k) Restricted Cash

Restricted cash consists primarily of cash held by the Consolidated Trusts and Partnerships through segregated bank accounts which can only be used by the Consolidated Trusts and Partnerships to specified activities as stipulated in the Consolidated Trust or Partnership agreements. Cash in the Consolidated Trusts and Partnerships is not available to fund the general liquidity needs of the Group.

Restricted cash also includes cash deposited with banks as collateral for borrowings from the respective banks and security deposits set aside in banks. Restriction on the use of such cash and the interest earned thereon is imposed by the banks and remains effective throughout the terms of the borrowings. See Note 8.

(l) Accounts receivable and contract assets, net

Accounts receivable and contract assets consist of accounts receivable and contract assets from the facilitation and post-origination service in relation to loans facilitated under both Direct and Intermediary Models, and from financing income generated from Consolidated Trusts and Partnerships and Xiaoying Microcredit. Contract assets represent the Group's right to consideration in exchange for facilitation services that the Company has transferred to the customer before payment is due. The Group only recognizes accounts receivable and contract assets to the extent that the Group believes it is probable that they will collect substantially all of the consideration to which it will be entitled in exchange for the services transferred to the customer. The general life time of accounts receivable and contract assets lasts no more than 12 months.

Accounts receivable and contract assets from facilitation service and financing income is stated at the historical carrying amount net of write-offs and allowance for credit losses. The Group establishes an allowance for credit losses in accordance with ASC 326 based on estimates, historical experience of net default rates, current economic conditions, reasonable and supportable forecasts of future economic conditions and other factors surrounding the credit risk of customers. The profile of the borrowers is similar under each product therefore the Group applies a consistent credit risk management framework to the entire portfolio of borrowers under each product. For individual customers where there is an observable indicator of impairment such as fraud, a specific allowance is provided. The Group also constantly monitor the financial condition and evaluates the credit quality of certain institutional funding partners and external financing guarantee companies from which the Group's service fees are collected directly or indirectly. The Group evaluates and adjusts its allowance for credit losses for accounts receivable and contract assets on a quarterly basis or more often as necessary. Uncollectible accounts receivable or contract assets are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when accounts receivable or contract assets are deemed uncollectible.

The following table presents the accounts receivable and contract assets from facilitation, post-origination and financing income as of December 31, 2021 and 2022, respectively:

As of December 31, 2021	Accounts receivable and contract assets from facilitation services	Accounts receivable and contract assets from post-origination services	Accounts receivable from financing income	Allowance for credit losses	Total
	RMB	RMB	RMB	RMB	RMB
Accounts receivable:					
Xiaoying Credit Loan	189,556,149	2,468,496	26,080,407	(8,092,404)	210,012,648
Contract assets:					
Xiaoying Credit Loan	529,311,240	25,931,783	—	(17,775,553)	537,467,470
Total	718,867,389	28,400,279	26,080,407	(25,867,957)	747,480,118

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As of December 31, 2022	Accounts receivable and contract assests from facilitation services RMB	Accounts receivable and contract assests from post-origination services RMB	Accounts receivable and contract assests from financing income RMB	Allowance for credit losses RMB	Total RMB
Accounts receivable:					
Xiaoying Credit Loan	24,326,715	1,427,297	54,103,450	(15,353,343)	64,504,119
Other loans	—	—	824,527	(39,132)	785,395
Contract assests:					
Xiaoying Credit Loan	1,038,520,804	60,244,520	317,399	(6,480,105)	1,092,602,618
Other loans	3,887,805	134,389	—	(2,586)	4,019,608
Total	1,066,735,324	61,806,206	55,245,376	(21,875,166)	1,161,911,740

As of December 31, 2022	Accounts receivable and contract assests from facilitation services US\$	Accounts receivable and contract assests from post-origination services US\$	Accounts receivable and contract assests from financing income US\$	Allowance for credit losses US\$	Total US\$
Accounts receivable:					
Xiaoying Credit Loan	3,527,042	206,939	7,844,263	(2,226,025)	9,352,219
Other loans	—	—	119,545	(5,674)	113,871
Contract assests:					
Xiaoying Credit Loan	150,571,362	8,734,634	46,019	(939,527)	158,412,488
Other loans	563,679	19,485	—	(375)	582,789
Total	154,662,083	8,961,058	8,009,827	(3,171,601)	168,461,367

The following tables present the aging of accounts receivable as of December 31, 2021 and 2022 respectively. The Group charges off accounts receivable overdue more than 60 days.

As of December 31, 2021 Aging	Not past-due RMB	1 - 30 days RMB	30 - 60 days RMB	Total RMB
Xiaoying Credit Loan	205,943,964	6,352,735	5,808,353	218,105,052
Total	205,943,964	6,352,735	5,808,353	218,105,052

As of December 31, 2022 Aging	Not past-due RMB	1 - 30 days RMB	30 - 60 days RMB	Total RMB
Xiaoying Credit Loan	72,674,385	2,932,527	4,250,550	79,857,462
Other loans	746,331	40,675	37,521	824,527
Total	73,420,716	2,973,202	4,288,071	80,681,989

As of December 31, 2022 Aging	Not past-due US\$	1 - 30 days US\$	30 - 60 days US\$	Total US\$
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Xiaoying Credit Loan	10,536,796	425,176	616,272	11,578,244
Other loans	108,208	5,897	5,440	119,545
Total	10,645,004	431,073	621,712	11,697,789

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The following tables present the movement of allowance for credit losses for accounts receivables and contract assets as of December 31, 2020, 2021 and 2022:

	As of January 1, 2020	Adoption of ASU 2016-13	Provision for accounts receivable (net of recovery) (1)	Charge-off for accounts receivable	As of December 31, 2020
	RMB	RMB	RMB	RMB	RMB
Xiaoying Credit Loan	185,085,029	11,480,592	112,833,743	(271,870,171)	37,529,193
Xiaoying Revolving Loan	7,824,878	811,579	11,883,737	(19,367,707)	1,152,487
Internet Channel	—	3,232,265	(3,232,265)	—	—
Total	192,909,907	15,524,436	121,485,215	(291,237,878)	38,681,680

	As of January 1, 2021	Provision for accounts receivable and contract assets (net of recovery) (1)	Charge-off for accounts receivable and contract assets	As of December 31, 2021
	RMB	RMB	RMB	RMB
Accounts receivable:				
Xiaoying Credit Loan	37,529,193	46,512,298	(75,949,087)	8,092,404
Xiaoying Revolving Loan	1,152,487	1,612,419	(2,764,906)	—
Contract assests:				
Xiaoying Credit Loan	—	29,123,093	(11,347,540)	17,775,553
Total	38,681,680	77,247,810	(90,061,533)	25,867,957

	As of January 1, 2022	Provision for accounts receivable and contract assets (net of recovery) (1)	Charge-off for accounts receivable and contract assets	As of December 31, 2022
	RMB	RMB	RMB	RMB
Accounts receivable:				
Xiaoying Credit Loan	8,092,404	21,753,517	(14,492,578)	15,353,343
Other loans	—	145,931	(106,799)	39,132
Contract assests:				
Xiaoying Credit Loan	17,775,553	(66,409)	(11,229,039)	6,480,105
Other loans	—	2,586	—	2,586
Total	25,867,957	21,835,625	(25,828,416)	21,875,166

	As of January 1, 2022	Provision for accounts receivable and contract assets (net of recovery) (1)	Charge-off for accounts receivable and contract assets	As of December 31, 2022
	US\$	US\$	US\$	US\$
Accounts receivable:				
Xiaoying Credit Loan	1,173,288	3,153,963	(2,101,226)	2,226,025
Other loans	—	21,158	(15,484)	5,674
Contract assests:				
Xiaoying Credit Loan	2,577,213	(9,628)	(1,628,058)	939,527

Other loans	—	375	—	375
Total	3,750,501	3,165,868	(3,744,768)	3,171,601

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- (1) The recoveries of charge-off of accounts receivables and contract assets amounted to RMB4,243,262, RMB850,597 and RMB1,738,580 (US\$252,070) during the year ended December 31, 2020, 2021 and 2022, respectively.

(m) Loans receivables from Xiaoying Credit Loans and other loans, net

Loans receivables represent loans facilitated through the Consolidated Trusts and Partnerships and loans provided by Xiaoying Microcredit, which consist of Xiaoying Credit Loans, Xiaoying Revolving Loans and other miscellaneous loans that the Group facilitated and provided during the years. Loans receivables from Xiaoying Credit Loans and other loans are stated at the historical carrying amount net of write-offs and allowance for credit losses. The Group establishes an allowance for credit losses in accordance with ASC 326 based on estimates, historical experience of net default rates, current economic conditions, reasonable and supportable forecasts of future economic conditions and other factors surrounding the credit risk of customers. The profile of the borrowers is similar under each product therefore the Group applies a consistent credit risk management framework to the entire portfolio of borrowers under each product. For individual customers where there is an observable indicator of impairment such as fraud, a specific allowance is provided. The Group evaluates and adjusts its allowance for credit losses for loans receivables on a quarterly basis or more often as necessary. Uncollectible loans receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when loans receivables are deemed uncollectible.

As of December 31, 2021 and 2022, loans receivables from Xiaoying Credit Loans and other loans amounted to RMB2,484,072,931 and RMB3,810,393,225 (US\$552,455,087) respectively. The general life time of loans receivables from Xiaoying Credit Loans and other loans lasts no more than 12 months.

The Group excluded the accrued interest receivable balance from the disclosed amortized cost basis, amounting to RMB26,080,407 and RMB55,245,376 (US\$8,009,827) as of December 31, 2021 and 2022. The accrued interest receivables were recorded in accounts receivable and contract assets from financing income in the consolidated balance sheet. In 2021 and 2022, the Group charges off loan receivables from Xiaoying Credit Loans and other loans overdue more than 60 days.

The following table presents the loans receivable from Xiaoying Credit Loans and other loans originated and retained by the Company as of December 31, 2021 and 2022, respectively:

As of December 31, 2021	Loans receivables from Xiaoying Credit Loans and other loans RMB	Allowance for credit losses RMB	Total RMB
Xiaoying Credit Loan	2,537,161,361	(54,725,057)	2,482,436,304
Xiaoying Revolving Loan	2,247,311	(610,684)	1,636,627
Total	2,539,408,672	(55,335,741)	2,484,072,931
As of December 31, 2022	Loans receivables from Xiaoying Credit Loans and other loans RMB	Allowance for credit losses RMB	Total RMB
Xiaoying Credit Loan	3,856,622,443	(103,630,827)	3,752,991,616
Other loans	60,249,936	(2,848,327)	57,401,609
Total	3,916,872,379	(106,479,154)	3,810,393,225
As of December 31, 2022	Loans receivables from Xiaoying Credit Loans and other loans US\$	Allowance for credit losses US\$	Total US\$
Xiaoying Credit Loan	559,157,693	(15,025,057)	544,132,636

Other loans	8,735,420	(412,969)	8,322,451
Total	567,893,113	(15,438,026)	552,455,087

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The following tables present the movement of provision for loans receivable from Xiaoying Credit Loans and other loans as of December 31, 2020, 2021 and 2022, respectively:

	As of January 1, 2020	Adoption of ASU 2016-13	Provision for loans receivable from Xiaoying Credit Loans and other loans (net of recovery) (1)	Charge-off	As of December 31, 2020
	RMB	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	—	—	74,934,783	(4,319,003)	70,615,780
Xiaoying Revolving Loans	24,709,468	4,205,046	152,275,243	(149,249,753)	31,940,004
Total	24,709,468	4,205,046	227,210,026	(153,568,756)	102,555,784

	As of January 1, 2021	(Reversal of) provision for loans receivable from Xiaoying Credit Loans and other loans (net of recovery) (1)	Charge-off	As of December 31, 2021
	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	70,615,780	80,823,776	(96,714,499)	54,725,057
Xiaoying Revolving Loans	31,940,004	(4,428,608)	(26,900,712)	610,684
Total	102,555,784	76,395,168	(123,615,211)	55,335,741

	As of December 31, 2021	(Reversal of) provision for loans receivable from Xiaoying Credit Loans and other loans (net of recovery) (1)	Charge-off	As of December 31, 2022
	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	54,725,057	160,131,434	(111,225,664)	103,630,827
Xiaoying Revolving Loans	610,684	—	(610,684)	—
Other loans	—	4,510,445	(1,662,118)	2,848,327
Total	55,335,741	164,641,879	(113,498,466)	106,479,154

	As of December 31, 2021	(Reversal of) provision for loans receivable from Xiaoying Credit Loans and other loans (net of recovery) (1)	Charge-off	As of December 31, 2022
	US\$	US\$	US\$	US\$
Xiaoying Credit Loans	7,934,387	23,216,876	(16,126,206)	15,025,057
Xiaoying Revolving Loans	88,541	—	(88,541)	—
Other loans	—	653,953	(240,984)	412,969
Total	8,022,928	23,870,829	(16,455,731)	15,438,026

(1) The recoveries of charge-off of loans receivables from Xiaoying Credit Loans and other loans amounted to RMB11,249,305, RMB8,803,265 and RMB12,189,107 (US\$1,767,254) during the years ended December 31, 2020, 2021 and 2022, respectively.

The following table presents the aging of loans receivable from Xiaoying Credit Loans and other loans as of December 31, 2021 and 2022, respectively:

As of December 31, 2021				
Aging	Not past-due	1 - 30 days	30 - 60 days	Total
	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	2,514,735,264	13,800,724	8,625,373	2,537,161,361
Xiaoying Revolving Loans	2,241,915	—	5,396	2,247,311
Total	2,516,977,179	13,800,724	8,630,769	2,539,408,672
As of December 31, 2022				
Aging	Not past-due	1 - 30 days	30 - 60 days	Total
	RMB	RMB	RMB	RMB
Xiaoying Credit Loans	3,822,596,905	22,812,090	11,213,448	3,856,622,443
Other loans	57,586,395	1,705,924	957,617	60,249,936
Total	3,880,183,300	24,518,014	12,171,065	3,916,872,379
As of December 31, 2022				
Aging	Not past-due	1 - 30 days	30 - 60 days	Total
	US\$	US\$	US\$	US\$
Xiaoying Credit Loans	554,224,454	3,307,442	1,625,797	559,157,693
Other loans	8,349,243	247,336	138,841	8,735,420
Total	562,573,697	3,554,778	1,764,638	567,893,113

(n) Loans and payable to investors at fair value of Consolidated Trusts

For Consolidated Trusts founded before December 31, 2021, the Group elected to apply the fair value option for the loan assets and liabilities of the Consolidated Trusts on an individual basis at initial recognition, which is irrevocable throughout the existing period of each Consolidated Trust. For the Consolidated Trusts founded after January 1, 2022, the Group elected to apply amortized cost method to the loan assets and liabilities of newly formed Consolidated Trusts.

For loan assets and liabilities measured at fair value, the Group uses 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 contractual cash flows, taking into consideration of estimated delinquency rate, prepayment rate and collection rate of the loans, and the pre-determined rate of the Group's guarantee exposure for certain products. They are recorded as "Loans at fair value" and "Payable to investors at fair value" in the consolidated balance sheet. Changes in fair value of loans and payable to investors are reported net as recorded in "Fair value adjustments related to Consolidated Trusts" in the consolidated statement of comprehensive income. See Note 3 for further disclosure on financial instruments of the Consolidated Trusts for which the fair value option has been elected.

(o) Loan receivable from Xiaoying Housing Loans, net

Xiaoying Housing Loan is a home equity loan product secured by properties owned by borrowers and had been ceased the facilitation since 2019.

The Group directly or indirectly guarantees on borrowers' defaults to the investors or institutional funding partners of Xiaoying Housing Loan products and obtains a collateral right from the borrowers for such guarantees. The collaterals include apartments, houses and properties, which can fully cover the underlying loan principle and interest. Upon default of the loan, the Group compensates the investor or institutional funding partners for defaulted loan principal and interest and obtains the creditor's right of the underlying loan. The payout amount in relation to the original guarantee provision provided at loan inception was recorded as a deduction of guarantee liability, reflected in net payouts in the guarantee liabilities rollforward. The remaining payout amount in relation to the acquisition of the creditor's right of the underlying loan is recorded as loan receivable upon payment of compensation in "Loan receivable from Xiaoying Housing Loans" in the consolidated balance sheets as the collection cycle typically will be more than one year. No loan receivables are recorded at loan inception.

Loan receivable from Xiaoying Housing Loans is recorded based on the present value of the expected amount to be collected from the exercise of the collateral right. Given the deterioration of the credit related to those loans upon acquisition, the Group determined that those loans are in non-accrual status and should only recognize related service and penalty fees upon cash received in other revenues.

The outstanding balance of loan receivable from Xiaoying Housing Loans were RMB12,083,317 and RMB10,061,258 (US\$1,458,745) as of December 31, 2021 and 2022, respectively. The contractually required payments that are receivable for loans acquired during 2021 and 2022 were nil and nil, respectively. The outstanding undiscounted balance including the principal, interest, fees, penalties under Xiaoying Housing Loans receivable were RMB121,854,733 and RMB154,623,985 (US\$22,418,371), as of December 31, 2021 and 2022, respectively. The guarantee related to the default of the outstanding balance of Xiaoying Housing Loan were all settled in 2020.

Allowance for loan receivable is established through periodic charges to the provision for loan receivable when the Group believes that the future collection of defaulted loan principal and interest is unlikely. Allowance for credit losses for loan receivables from Xiaoying Housing loans is also recognized when the fair value is below the original recorded present value of the expected amount to be collected. In order to accelerate the collection process, the Group transferred the creditor rights of certain defaulted loans as well as the underlying collateral right to third party companies at a discount in 2020, 2021 and 2022. The discounted amount was recorded as an allowance for loan receivables which represent the amount that the Group expects not able to collect from the proceedings. In addition, the Group also recorded an allowance for the remaining outstanding loans not transferred benchmarked to the discounted amount. The Group also institutes proceedings to collect the payout amount from collaterals. Uncollectible loan receivable from Xiaoying Housing Loans is written off when a settlement is reached for an amount that is less than the outstanding historical balance or when loan receivables are deemed uncollectible.

The following tables presents the movement in provision for loans receivable from Xiaoying Housing Loans for the years ended December 31, 2020, 2021 and 2022.

As of December 31, 2019	Provision for Loans Receivable from Xiaoying Housing Loans	Charge-off	As of December 31, 2020
RMB	RMB	RMB	RMB
48,211,512	17,993,570	(66,205,082)	—
As of December 31, 2020	Reversal of provision for Loans Receivable from Xiaoying Housing Loans	Recoveries of charge-off	As of December 31, 2021
RMB	RMB	RMB	RMB
—	(377,559)	377,559	—
As of December 31, 2021	Reversal of provision for Loans Receivable from Xiaoying Housing Loans	Recoveries of charge-off	As of December 31, 2022
RMB	RMB	RMB	RMB
—	(6,066,176)	6,066,176	—

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As of December 31, 2021	Reversal of provision for Loans Receivable from Xiaoying Housing Loans	Recoveries of charge-off	As of December 31, 2022
US\$	US\$	US\$	US\$
—	(879,513)	879,513	—

The following tables presents the aging of Loan receivables from Xiaoying Housing Loans as of December 31, 2021 and 2022, respectively:

As of December 31, 2021 Aging	Over due 1 - 2 years	Over due 2 - 3 years	Over due over 3 years	Total
	RMB	RMB	RMB	RMB
Xiaoying Housing Loans	—	1,392,439	10,690,878	12,083,317

As of December 31, 2022 Aging	Over due 1 - 2 years	Over due 2 - 3 years	Over due over 3 years	Total
	RMB	RMB	RMB	RMB
Xiaoying Housing Loans	—	—	10,061,258	10,061,258

As of December 31, 2022 Aging	Over due 1 - 2 years	Over due 2 - 3 years	Over due over 3 years	Total
	US\$	US\$	US\$	US\$
Xiaoying Housing Loans	—	—	1,458,745	1,458,745

(p) Financial investments

The Group invested in several Venture Capital funds (“VC funds”) in the year 2021 and 2022. These investments are in the legal form of limited partnership or zero coupon convertible note.

For partnership investments, unless the fair value option under ASC 825 is elected, the Group uses equity method to account for these investments under ASC 323, which means these investments are initially recorded at cost and subsequently adjusted for the proportionated share of income or loss, impairment as well as contributions made or distributions received. However, for the case that virtually no influence was exerted by the Group in the partnership agreement, fair value measurement is applied under ASC 321. For VC funds investment measured under ASC 321, fair value measurement is applied except for the case that readily determinable fair value is not available thus the Group measures them alternatively at cost minus impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer.

For the investment in the legal form of zero coupon convertible note, it is in substance a prepaid forward contract that entitles the Group to obtain shares of the VC fund in the future, and because no readily determinable fair value is available, the Group measures the investment at cost minus impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer under ASC 321.

The Group reviews VC funds investment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value.

(q) Deposits to institutional cooperators, net

Starting from November 2019, the Group enter into a series of deposit arrangements with financing institutional cooperators, such as insurance company and financing guarantee company. The Group is required to pay deposits to those financial institutional cooperators monthly or in accordance with an agreed payment schedule. The amount of deposit is separately agreed with each institutional cooperator, usually calculated by multiplying the outstanding loan balance on the reconciliation date by an agreed percent rate (“the standard amount”). The agreed percent rate may be adjusted from time to time. If the balance of the deposits exceeds the standard amount or supplementary payment of deposit is needed, the financial institutional cooperators shall refund the excess part to the Group or the Group shall make supplementary payment of deposit in accordance with an agreed payment schedule.

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Deposits to institutional cooperators is stated at the historical carrying amount net of write-offs and allowance for credit losses. The Group establishes an allowance based on estimates, the current and expected default rates, insurance premium/guarantee fee, the historical pay-out amounts, the outstanding loan balances, the forecasted loan facilitation amounts and the credit risk of institutional cooperators. The Group evaluates and adjusts its allowance for deposits to institutional cooperators on a quarterly basis or more often as necessary. Deposits to institutional cooperators are written off when deposits are deemed uncollectible. Deposits to institutional cooperators are recorded as current assets because the term of the underlying loan assets was 12 months or less. As of December 31, 2021 and 2022, all deposits are refundable and none of them passed the original due date.

(r) Property and equipment, net

Furniture and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

Computer and transmission equipment	3 years
Furniture and office equipment	5 years
Motor vehicles	4 years
Leasehold improvements	Over the shorter of the lease term or expected useful lives

Gains and losses from the disposal are included in "Other income (loss), net".

(s) Intangible assets

Intangible assets with finite lives represent domain name and purchased computer software. These intangible assets are amortized on a straight-line basis over their estimated useful lives of the respective asset, which varies from 1 to 10 years.

Intangible assets with an indefinite useful life represent the insurance broker license purchased during 2018 and insurance sale on line license authorized in 2019, See Note 7. Intangible assets with an indefinite life is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

(t) Impairment of long-lived assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying amounts of the assets to an estimate of future undiscounted cash flows attributable to these assets. If the sum of the future undiscounted cash flows is less than the carrying amounts of the assets, the Group recognizes an impairment loss based on the excess of the carrying amounts of the assets over the fair value of the assets. Meanwhile, annual impairment testing is required for goodwill and intangible assets that have an indefinite useful life.

(u) Long-term investments

The Group accounts for long-term investments using either the cost or equity method of accounting depending upon whether the Group has the ability to exercise significant influence over investments. As part of this evaluation, the Group considers the participating and protective rights in the investments as well as its legal form.

The Group applies the equity method of accounting for the long-term investments when the Group has the ability to significantly influence the operations or financial activities of the investee. The Group records the investments at cost and subsequently adjusts the carrying amount each period for share of the earnings or losses of the investee and other adjustments required by the equity method of accounting. Dividends received from the equity method investments are recorded as reductions in the cost of such investments.

The Group records the cost method long-term investments at historical cost and subsequently record any dividends received from the net accumulated earnings of the investee as income. Dividends received in excess of earnings are considered a return of investment and are recorded as reductions in the cost of the investments.

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Long-term investments are evaluated for impairment when facts or circumstances indicate that the fair value of the long-term investments is less than its carrying value. An impairment is recognized when a decline in fair value is determined to be other-than-temporary. The Group reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than cost; (iv) financial condition and near term prospects of the investments; and (v) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2021 and 2022, long-term investments of the Group consist of five and three equity investments of PRC private companies, respectively.

(v) Deposit payable to channel cooperators

The Group co-operates with selected Fintech and other financial companies by connecting the borrowers referred by those companies to investors on the Group's platform. As part of the arrangements, the selected companies also provide credit enhancements on the loans facilitated to the borrowers referred by them and are required to pay a certain amount of cash as deposit to the Group, from which the Group is entitled to deduct if they fail to compensate the defaulted loans on a timely basis. Any remaining balance of the deposit is released upon expiry of the co-operation agreements or newly signed settlement agreements. As of December 31, 2021 and 2022, the outstanding balance of the deposit that the Group received from Fintech and other financial companies were RMB21,012,235 and RMB19,700,235 (US\$2,856,266) respectively.

(w) Employee defined contribution plan

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group make contributions to the government for these benefits based on a certain percentage of the employee's salaries. The Group has no legal obligation for the benefits beyond the contributions. The total amount that was expensed as incurred were RMB28,891,339 , RMB35,601,429 and RMB41,757,571(US\$6,054,279) for the years ended December 31, 2020, 2021 and 2022 respectively.

(x) Advertising cost

Advertising costs are expensed as incurred in accordance with ASC 720-35 Other Expense—Advertising costs. Advertising costs were RMB25,594,249,RMB7,395,353 and RMB8,491,724 (US\$1,231,184) for the years ended December 31, 2020, 2021 and 2022 respectively. Advertising costs are included in sales and marketing expense in the consolidated statements of comprehensive income (loss).

(y) Origination and servicing expense

Origination and servicing expense consists primarily of variable expenses and vendor costs, including labor costs, costs related to credit assessment, borrower acquisitions, payment processing services, fees paid to third party collection agencies, as well as interest expense paid to investors and institutional funding partners of the Consolidated Trusts and Partnerships.

(z) Income taxes

Current taxes are provided for in accordance with the laws of the relevant tax authorities.

Deferred taxes are provided using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax return. Under this method, deferred tax assets and liabilities are recognized for the differences between the financial statement carrying amount and the 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 then evaluated to determine the extent to which they are more likely than not to be realized. In making such a determination, management considers all positive and negative evidence, including future reversals of existing taxable temporary differences and projected future taxable income exclusive of reversing temporary differences and carryforwards. Deferred tax assets are then reduced by a valuation allowance to the amount, in the opinion of management, that is more like than not to be realized.

The Group accounts for uncertainty in income taxes recognized in the consolidated financial statements by applying a two-step process to determine the amount of the benefit to be recognized. First, each the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If a tax position is deemed more-likely-than-not to be sustained (defined as a likelihood of more than fifty percent of being sustained upon an examination, based on the technical merits of the tax position), the tax position is then assessed to determine the amount of benefits to recognize in the consolidated financial statements. The amount of the benefits that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon settlement. Interest and penalties on income taxes are classified as a component of income taxes.

(aa) Value added taxes ("VAT")

The Group is subject to VAT at the rate of 6% and 13% given that they are classified as general tax payers and at the rate of 3% as certain Consolidated Trusts and Partnerships of the Group are classified as small-scale tax payers. VAT is reported as a deduction to revenue when incurred and amounted to RMB197,016,590 , RMB228,029,948, and RMB234,931,501(US\$34,061,866) for the years ended December 31, 2020, 2021 and 2022 respectively. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in the line item of accrued expense and other liabilities on the consolidated balance sheets.

(ab) Segment information

The Group uses management approach to determine operation segment. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker ("CODM")for making decisions, allocation of resource and assessing performance.

The Group's CODM has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group. The Group operates and manages its business as a single segment.

All of the Group's revenue for the years ended December 31, 2020, 2021 and 2022 were generated from the PRC. As the Group generates all of its revenues in the PRC, no geographical segments are presented.

(ac) Treasury shares

The Group accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury shares account in the consolidated balance sheets. In the event that treasury shares are transferred to Employee Stock Ownership Plans ("ESOP"), the Company recognized the amount in addition paid-in capital. The treasury shares account includes 41,199,374 ordinary shares as of December 31, 2022, which will be canceled or held as treasury shares.

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(ad) Leases

The Group adopted ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”) from January 1, 2019 by using the modified retrospective method and did not restate the comparable periods. The Group has elected the package of practical expedients, which allows the Group not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Group also elected the practical expedient not to separate lease and non-lease components of contracts. Lastly, the Group elected the short-term lease exemption for all contracts with lease terms of 12 months or less.

The Group determines if an arrangement is a lease or contains a lease at inception. Right-of-use (“ROU”) assets and liabilities are recognized at lease commencement date based on the present value of remaining lease payments over the lease terms. As most of the Group’s leases do not provide an implicit rate, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The Group’s leases often include options to extend lease terms and such extended terms are included in lease terms when the Group is reasonably certain to exercise those options. Lease terms also include periods covered by options to terminate the leases when the Group is reasonably certain not to exercise those options. Lease expense is recorded on a straight-line basis over the lease term. For operating leases, ROU assets were recorded as “Other non-current assets”, and the current and non-current portions of the lease liabilities were recorded as “Accrued expenses and other current liabilities” and “Other non-current liabilities” in the consolidated balance sheets. The Group does not have any finance leases for the year ended December 31, 2021 and 2022.

As of December 31, 2021 and 2022, the Group recognized ROU assets of RMB25,199,346 and RMB62,688,248 (US\$9,088,942), and total lease liabilities of RMB24,350,514 and RMB62,497,742 (US\$9,061,321), including current portion of RMB12,331,166 and RMB11,304,693 (US\$1,639,026).

The Group’s operating leases mainly related to office facilities. As of December 31, 2022, the weighted average remaining lease term was 4.77 years and the weighted average discount rate was 6.2% for the Group’s operating leases.

Operating lease cost for the year ended 31 December, 2022 was RMB17,254,245(US\$2,501,630), which excluded cost of short-term contracts. Short-term lease cost for the year ended 31 December, 2022 was insignificant. For the year ended 31 December, 2021 and 2022, no lease cost for operating leases was capitalized. Supplemental cash flow information related to operating leases was as follows:

	As of December 31, 2022	
	RMB	US\$
Cash payments for operating leases	18,949,406	2,747,406
ROU assets obtained in exchange for operating lease liabilities	54,743,146	7,937,010

Future lease payments under operating leases as of December 31, 2022 were as follows:

	Operating leases	
	RMB	US\$
Year ending December 31,		
2023	16,425,020	2,381,404
2024	16,829,056	2,439,984
2025	15,561,821	2,256,252
2026	9,572,584	1,387,894
2027 and thereafter	15,896,286	2,304,745
Total future lease payments	74,284,767	10,770,279
Less: Imputed interest	11,787,025	1,708,958
Total lease liability balance	62,497,742	9,061,321

As of December 31, 2022, additional operating leases that have not yet commenced were immaterial.

(ae) Net income (loss) per share

Basic income (loss) per share is computed by dividing net income (loss) attributable to the holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted income (loss) per share is calculated by dividing net income (loss) attributable to the holders of ordinary shares as adjusted for the effect of dilutive ordinary share equivalents, if any, by the weighted average number of ordinary shares and dilutive ordinary share equivalents outstanding during the period. Ordinary share equivalents of stock options are calculated using the treasury stock method. However, ordinary share equivalents are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive, such as in a period in which a net loss is recorded.

(af) Share-based compensation

Share-based payment transactions with employees and directors, such as stock options and restricted stocks, are measured based on the grant date fair value of the awards in accordance with ASC 718, Compensation-Stock Compensation, with the resulting expense generally recognized on a straight-line basis in the consolidated statements of income over the period during which the employee is required to perform service in exchange for the award.

(ag) Certain risks and concentrations

Financial instruments that potentially expose the Group to concentrations of credit risk consist principally of cash, restricted cash, financial investments, accounts receivable and contract assets, deposits to institutional cooperators, loans receivables and loans at fair value.

The Group's investment policy requires cash and restricted cash to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. The Group regularly evaluates the credit standing of the counterparties or financial institutions.

Financial investments that potentially subject the Group to market risk mainly consist of investments in VC funds. The Group limits its exposure to market risks associated with financial investments by regularly conducting post-investment management of the funds.

Accounts receivable and contract assets are typically unsecured and are derived from revenue earned from customers in the PRC. The risk with respect to accounts receivable and contract assets is mitigated through the Group's consistent credit risk management framework to the entire portfolio of borrowers under each product. The Group also constantly monitor the financial condition and evaluates the credit quality of certain institutional funding partners and external financing guarantee companies from which the Group's service fees are collected.

Deposits to institutional cooperators are placed with financial institutional cooperators. The Group regularly monitors the financial condition and evaluates the credit quality of each institutional cooperator.

Credit of loans receivables and loans at fair value is controlled by the application of credit approval, limit and monitoring procedures.

No investor or institutional funding partner represented greater than 10% or more of the total net revenues for the years ended December 31, 2020, 2021 and 2022.

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During the years ended December 31, 2020 and 2021, there was one and one institutional cooperator individually provided credit insurance or guarantee services for greater than 10% or more of the total loans the Group facilitated and provided. During the year ended December 31, 2022, there were two institutional cooperators individually provided credit insurance or guarantee services for greater than 10% or more of the total loans the Group facilitated and provided.

	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2021</u>	<u>Year ended December 31, 2022</u>
Institutional cooperator A	Nil	*	29.6 %
Institutional cooperator B	*	*	12.3 %
Institutional cooperator C	54.4 %	27.6 %	*

There were two and three contract assets due from institutional funding partners/institutional cooperators that individually accounted for greater than 10% of the Group's carrying amount of accounts receivable and contract assets as of December 31, 2021 and 2022, respectively.

	<u>As of December 31, 2021</u>	<u>As of December 31, 2022</u>
Institutional cooperator A	*	26.3 %
Institutional cooperator B	*	13.7 %
Institutional cooperator D	Nil	15.6 %
Institutional cooperator E	15.5 %	*
Institutional funding partner A	11.0 %	*

As of December 31, 2021 and 2022, two and four institutional cooperators individually accounted for more than 10% of the Group's deposits to institutional cooperators, respectively.

	<u>As of December 31, 2021</u>	<u>As of December 31, 2022</u>
Institutional cooperator B	*	20.1 %
Institutional cooperator C	30.7 %	Nil
Institutional cooperator D	*	19.2 %
Institutional cooperator E	23.1 %	10.7 %
Institutional cooperator F	*	10.0 %

* Less than 10%.

The Company manages current payment risk of financial guarantee derivative through a self-developed risk management model. The rating scale of risk management model takes into account factors such as identity characteristics, credit history, payment overdue history, payment capacity, behavioral characteristics and online social network activity. As of December 31, 2022, substantially all of the loans facilitated by the Group were insured/guaranteed by external insurance company or financing guarantee companies.

(ah) Credit losses

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The ASU introduced a new credit loss methodology, the current expected credit losses ("CECL") methodology, which requires earlier recognition of credit losses while also providing additional disclosure about credit risk. The Group adopted the ASU as of January 1, 2020, which resulted in an increase in the Group's Allowance for credit losses ("ACL") and a decrease to opening Retained earnings, net of deferred income taxes, at January 1, 2020.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, receivables, contract assets and

other financial assets measured at amortized cost at the time the financial asset is originated or acquired. The ACL is adjusted each period for changes in expected lifetime credit losses. The CECL methodology represents a significant change from prior U.S. GAAP and replaced the prior multiple existing impairment methods, which generally required that a loss be incurred before it was recognized. Within the life cycle of a loan or other financial asset, the methodology generally results in the earlier recognition of the provision for credit losses and the related ACL than prior U.S. GAAP.

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The CECL methodology's impact on expected credit losses, among other things, reflects the Group's view of the current state of the economy, forecasted macroeconomic conditions and the Group's portfolios. 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.

At the January 1, 2020 date of adoption, based on forecasts of macroeconomic conditions and exposures at that time, the aggregate impact to the Group was an approximate RMB22.99 million, or an approximate 8.03%, pre tax increase in the Allowance for credit losses, along with a RMB17.24 million after-tax decrease in Retained earnings and a deferred tax asset increase of RMB5.75 million.

Under the CECL methodology, the allowance for credit losses is model based and utilizes a forward-looking macroeconomic forecast in estimating expected credit losses. The model of the allowance for credit losses would be considers (i) the uncertainty of forward-looking scenarios based on the likelihood and severity of a possible recession as another possible scenario; (ii) certain portfolio characteristics, such as portfolio concentration and collateral coverage; and (iii) model limitations as well as idiosyncratic events.

(ai) Impact of COVID-19

The Company's results of operations have been adversely affected by the COVID-19 which harmed the Chinese and global economy in general in 2020. In the early onset of the third quarter of 2020, the Group's business was already on track for a steady recovery. In July 2020, the Group's total loan facilitation amount was back to the level in January 2020 before COVID-19, and so were the delinquency rates for outstanding loans. In 2021 and 2022, the Group's operational and financial results continued to show progress against the Group's strategic objectives. The Company has also provided additional credit losses for accounts receivable and contract assets, other current assets and loans receivables in 2021 and 2022, due to the impact of COVID-19, other economic conditions and other factors. In January, 2023, China officially started to manage COVID-19 as a Class-B infectious disease. The implementation of Class-B management of COVID-19 emphasizes more scientific, precise and efficient epidemic prevention and minimizes its disruptions in the economy and society.

However, there are still uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of a second wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition, almost all of which are beyond the Company's control. As a result, certain of the Company's estimates and assumptions, including the allowance for credit losses, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to the Company's current estimates in future periods.

(ak) Recent accounting pronouncements

The FASB issued Accounting Standards Update No. 2021-08 Business Combinations (Topic 805) in October 2021, which will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Accounting Standards Update No. 2021-08 requires that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination, which applies prospectively for all business combinations that occur on or after the date of initial application. The Group will evaluate the impact of this new guidance on the consolidated financial statements when necessary.

The FASB issued Accounting Standards Update No. 2022-02 Financial Instruments—Credit Losses (Topic 326) in March, 2022, which will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Accounting Standards Update No. 2022-02 is related to credit loss from troubled debt restructurings and vintage disclosures. The Group is currently evaluating the impact of this new guidance on the consolidated financial statements but does not expect this guidance will have a material impact on its consolidated financial statements.

(al) Translation into United States Dollars

The financial statements of the Group are stated in RMB. Translations of amounts from RMB into United States dollars are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB6.8972, on December 31, 2022, as set forth in H.10 statistical release of the Federal Reserve Board. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on December 31, 2022, or at

any other rate.

3. Fair value of assets and liabilities

For a description of the fair value hierarchy and the Group's fair value methodologies, see "Note 2—Summary of Significant Accounting Policies".

Financial Instruments Recorded at Fair Value on a Recurring Basis

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis:

December 31, 2021	Level 1 (RMB)	Level 2 (RMB)	Level 3 (RMB)	Balance at Fair Value (RMB)
Assets				
Loans at fair value	—	—	389,679,352	389,679,352
Financial guarantee derivative	—	—	11,816,799	11,816,799
Total assets	—	—	401,496,151	401,496,151
Liabilities				
Payable to investors at fair value	—	—	462,714,400	462,714,400
Financial guarantee derivative	—	—	565,953,269	565,953,269
Total liabilities	—	—	1,028,667,669	1,028,667,669
December 31, 2022	Level 1 (RMB)	Level 2 (RMB)	Level 3 (RMB)	Balance at Fair Value (RMB)
Assets				
Loans at fair value	—	—	120,279,612	120,279,612
Financial investments	—	—	10,713,953	10,713,953
Total assets	—	—	130,993,565	130,993,565
Liabilities				
Payable to investors at fair value	—	—	141,288,810	141,288,810
Financial guarantee derivative	—	—	107,890,394	107,890,394
Total liabilities	—	—	249,179,204	249,179,204
December 31, 2022	Level 1 (US\$)	Level 2 (US\$)	Level 3 (US\$)	Balance at Fair Value (US\$)
Assets				
Loans at fair value	—	—	17,438,904	17,438,904
Financial investments	—	—	1,553,377	1,553,377
Total assets	—	—	18,992,281	18,992,281
Liabilities				
Payable to investors at fair value	—	—	20,484,952	20,484,952
Financial guarantee derivative	—	—	15,642,637	15,642,637
Total liabilities	—	—	36,127,589	36,127,589

Financial guarantee derivative

The Group uses the discounted cash flow model to value the financial guarantee derivatives. Net cumulative expected loss rates represent expected default rate, prepayment rate and collection rate at inception, as significant unobservable inputs applied in the discounted cash flow model, which ranged from 3.43% to 13.29% and from 5.19% to 10.48% for the year ended December 31, 2021 and 2022, respectively.

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The following table sets forth the asset side of Group's financial guarantee derivative movement activities for the years ended December 31, 2021 and 2022.

	For loans facilitated in 2020 RMB	For loans facilitated in 2021 RMB	Total RMB
Year ended December 31, 2021			
Balance at December 31, 2020	3,842,853	—	3,842,853
Estimated payment to financial institutional cooperators based on the pre-agreed Cap (1)	—	212,641,902	212,641,902
Less: Initially estimated net guarantee service fee to be collected (2)	—	201,562,969	201,562,969
Add : Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans (3)	1,044,741	1,731,660	2,776,401
Change in fair value of financial guarantee derivative	1,044,741	12,810,593	13,855,334
Add: Guarantee service fee received from borrowers	52,087,120	94,897,894	146,985,014
Less: Compensation paid/payable to financial institutional cooperators	56,974,714	119,525,286	176,500,000
Balance at December 31, 2021	—	(11,816,799)	(11,816,799)
Potential maximum undiscounted amount payable (Remaining estimated payment to financial institutional cooperators based on the pre-agreed Cap at December 31, 2021)	—	93,116,616	93,116,616
Changes in fair value related to balance outstanding at December 31, 2021	—	11,388,942	11,388,942

	For loans facilitated in 2021 RMB	For loans facilitated in 2022 RMB	Total RMB	Total USD
Year ended December 31, 2022				
Balance at December 31, 2021	(11,816,799)	—	(11,816,799)	(1,713,275)
Estimated payment to financial institutional cooperators based on the pre-agreed Cap (1)	—	—	—	—
Less: Initially estimated net guarantee service fee to be collected (2)	—	—	—	—
Add : Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans (3)	(15,743,564)	—	(15,743,564)	(2,282,602)
Change in fair value of financial guarantee derivative	(15,743,564)	—	(15,743,564)	(2,282,602)
Add: Guarantee service fee received from borrowers	110,656,100	—	110,656,100	16,043,626
Less: Compensation paid to financial institutional cooperators	83,095,737	—	83,095,737	12,047,749
Balance at December 31, 2022	—	—	—	—
Potential maximum undiscounted amount payable (Remaining estimated payment to financial institutional cooperators based on the pre-agreed Cap at December 31, 2022)	—	—	—	—
Changes in fair value related to balance outstanding at December 31, 2022	—	—	—	—

Note:

(1) Amount represents estimated payment to financial institutional cooperators which is the aggregated amount of guarantee fees, which would be the amount of loan principle multiplied by annualized guarantee fee ratio. The obligation is not influenced by default and early repayment of borrowers.

(2) Amount represents estimated guarantee service fees to be collected for loans newly facilitated during each vintage period according to the guarantee service agreement with the borrowers, net of estimated defaults and prepayments.

(3) Amount represents the subsequent adjustment to update the estimated net guarantee service fees to be collected for all outstanding loans as a result of changes in estimated default or prepayment rates.

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The following table sets forth the liability side of Group's financial guarantee derivative movement activities for the years ended December 31, 2021 and 2022.

	For loans facilitated in 2020 RMB	For loans facilitated in 2021 RMB	Total RMB	
Year ended December 31, 2021				
Balance at December 31, 2020	(171,328,829)	—	(171,328,829)	
Estimated payment to financial institutional cooperators based on the pre-agreed Cap(1)	—	1,927,017,013	1,927,017,013	
Less: Initially estimated net guarantee service fee to be collected(2)	—	1,827,304,009	1,827,304,009	
Add : Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans(3)	3,790,670	52,979,985	56,770,655	
Change in fair value of financial guarantee derivative	3,790,670	152,692,989	156,483,659	
Add: Guarantee service fee received from borrowers	837,446,557	1,147,827,202	1,985,273,759	
Less: Compensation paid to financial institutional cooperators	669,908,398	734,566,922	1,404,475,320	
Balance at December 31, 2021	—	565,953,269	565,953,269	
Potential maximum undiscounted amount payable (Remaining estimated payment to financial institutional cooperators based on the pre-agreed Cap at December 31, 2021)	—	1,192,450,091	1,192,450,091	
Changes in fair value related to balance outstanding at December 31, 2021	—	110,763,906	110,763,906	
	For loans facilitated in 2021 RMB	For loans facilitated in 2022 RMB	Total RMB	Total USD
Year ended December 31, 2022				
Balance at December 31, 2021	565,953,269	—	565,953,269	82,055,511
Estimated payment to financial institutional cooperators based on the pre-agreed Cap (1)	—	100,633,097	100,633,097	14,590,428
Less: Initially estimated net guarantee service fee to be collected (2)	—	93,954,209	93,954,209	13,622,080
Add : Subsequent changes in estimated net guarantee service fee to be collected for outstanding loans (3)	(129,190,421)	601,001	(128,589,420)	(18,643,714)
Change in fair value of financial guarantee derivative	(129,190,421)	7,279,889	(121,910,532)	(17,675,366)
Add: Guarantee service fee received from borrowers	646,183,355	107,060,087	753,243,442	109,210,034
Less: Compensation paid to financial institutional cooperators	998,298,062	6,449,582	1,004,747,644	145,674,715
Less: Compensation payable to financial institutional cooperators (4)	84,648,141	—	84,648,141	12,272,827
Balance at December 31, 2022	—	107,890,394	107,890,394	15,642,637
Potential maximum undiscounted amount payable (Remaining estimated payment to financial institutional cooperators based on the pre-agreed Cap at December 31, 2022)	—	94,183,515	94,183,515	13,655,326
Changes in fair value related to balance outstanding at December 31, 2022	—	4,719,727	4,719,727	684,296

Note:

(1) Amount represents estimated payment to financial institutional cooperators which is the aggregated amount of guarantee fees, which would be the amount of loan principle multiplied by annualized guarantee fee ratio. The obligation is not influenced by default and early repayment of borrowers.

(2) Amount represents estimated guarantee service fees to be collected for loans newly facilitated during each vintage period according to the guarantee service agreement with the borrowers, net of estimated defaults and prepayments.

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(3) Amount represents the subsequent adjustment to update the estimated net guarantee service fees to be collected for all outstanding loans as a result of changes in estimated default or prepayment rates.

(4) Amount represents the compensaion payable to financial institutional cooperators. See Note.11 Accrued expenses and other current liabilities.

The change in fair value of financial guarantee derivative primarily relates the Group's estimated exposure in relation to the loans newly facilitated during the corresponding period, as the Group is obligated to compensate financial institutional cooperators under the guarantee arrangement based on the contractual guarantee fees charged to borrowers across the entire portfolio subject to a pre-agreed Cap rather than the actual guarantee fees collected from the borrowers. The change in fair value amount equals to the sum of (i) the portion of amounts obligated to pay to financial institutional cooperators that are not expected to be collected from the borrowers due to the estimated default or prepayment and (ii) fair value gain realized as a result of the release of guarantee obligations. The derivative is increased by the guarantee fees collected from the borrowers upon receipt as the Group expects all the fees to be ultimately paid to financial institutional cooperators. When the payments are made to financial institutional cooperators, the derivative is reduced by the corresponding amount. The total loan products related to guarantee derivatives facilitated during the years ended December 31, 2021 and 2022 were RMB25,229,094,745 and RMB2,167,354,119 (US\$ 314,236,809), respectively.

As of December 31, 2021 and 2022, financial guarantee derivatives related to certain financial institutional cooperators has an asset position of RMB11,816,799 and nil respectively, primarily due to the time lag between the payments to those financial institutional cooperators and the collection of monthly guarantee service fees from borrowers. As of December 31, 2021, the cumulative monthly guarantee service fees collected from borrowers was less than the cumulative amount paid to those financial institutional cooperators. However, the total amount paid to those financial institutional cooperators was still within the pre-agreed Cap. The excess had been expected to be fully collected from the borrowers during the remaining term of the underlying loans. As of December 31, 2021 and 2022, financial guarantee derivatives related to certain financial institutional cooperators has a liability position of and RMB565,953,269 and RMB107,890,394 (US\$15,642,637). As of December 31, 2021 and 2022, the maximum potential undiscounted future payment the Group would be required to make is RMB1,285,566,707 and RMB94,183,515 (US\$13,655,326) which also reflects the maximum potential payment to financial institutional cooperators based on the pre-agreed Cap.

The following table represents the outstanding loan balance, remaining weighted average contractual term and estimated default rate of the outstanding loans as of December 31, 2021 and 2022, respectively.

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	As of December 31, 2022 US\$
Outstanding loan balance	9,877,178,724	1,405,147,876	203,727,292
Remaining weighted average contractual term (Month)	6.76	1.93	1.93
Net cumulative expected loss rates (1)	7.74 %	7.23 %	7.23 %

(1) Represent the net of default rate, prepayment rate and collection rate.

Loans at fair value and Payable to investors at fair value

The Group has elected the fair value option for the loan assets and liabilities of the Consolidated Trusts that formed before December 31, 2021, which otherwise would not have been carried at fair value. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition.

As the Group's loans and payable to investors in the Consolidated Trusts do not trade in an active market with readily observable prices, the Group uses significant unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. At December 31, 2021 and 2022, the discounted cash flow methodology is used to estimate the fair value of loans and payables to investors.

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As of December 31, 2021 and 2022, the significant unobservable inputs used in the fair value measurement of the loans and payables to investors of the Consolidated Trusts included the discount rate and net accumulative expected loss. These inputs in isolation can cause significant increases or decreases in fair value. Increases or decrease in the discount rate can significantly impact the fair value results. The discount rate is determined based on the market rates.

Significant Unobservable Inputs

Financial Instrument	Unobservable Input	December 31, 2021 Range of Inputs Weighted-Average	December 31, 2022 Range of Inputs Weighted-Average
Loans and payable to investors at fair value	Discount rates	6.46 %	6.48 %
	Net cumulative expected loss rates (1)	5.92 %	5.94 %

(1) Represents the net of default rate, prepayment rate and collection rate, expressed as a percentage of the loan volume.

The following table presents additional information about Level 3 loans and payable to investors measured at fair value on a recurring basis for the years ended December 31, 2021 and 2022. Changes in fair value of loans and payable to investors are reported net as “Fair value adjustments related to Consolidated Trusts” in the consolidated statements of comprehensive income(loss).

RMB

	Balance at December 31, 2020	Origination of loan principal	Collection of principal	Reinvestment of principal	Change in fair value	Balance at December 31, 2021	Changes in fair value related to balance outstanding at December 31, 2021
Xiaoying Credit Loan	1,585,731,888	422,081,700	(3,427,158,051)	1,816,290,599	(7,266,784)	389,679,352	(2,234,954)

RMB

	Balance at December 31, 2021	Origination of loan principal	Collection of principal	Reinvestment of principal	Change in fair value	Balance at December 31, 2022	Changes in fair value related to balance outstanding at December 31, 2022
Xiaoying Credit Loan	389,679,352	99,000,000	(1,089,274,133)	727,042,700	(6,168,307)	120,279,612	(8,403,261)

USD

	Balance at December 31, 2021	Origination of loan principal	Collection of principal	Reinvestment of principal	Change in fair value	Balance at December 31, 2022	Changes in fair value related to balance outstanding at December 31, 2022
Xiaoying Credit Loan	56,498,194	14,353,651	(157,929,904)	105,411,283	(894,320)	17,438,904	(1,218,358)

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	Payable to investors at fair value of the Consolidated Trusts
	RMB
Balance at December 31, 2020	1,914,183,650
Initial contribution	454,490,000
Principal payment	(1,905,959,250)
Changes in fair value	—
Balance at December 31, 2021	462,714,400
Changes in fair value related to balance outstanding at December 31, 2021	—

	Payable to investors at fair value of the Consolidated Trusts	
	RMB	US\$
Balance at December 31, 2021	462,714,400	67,087,282
Initial contribution	98,800,000	14,324,653
Principal payment	(420,225,590)	(60,926,983)
Changes in fair value	—	—
Balance at December 31, 2022	141,288,810	20,484,952
Changes in fair value related to balance outstanding at December 31, 2022	—	—

The unpaid balance of loans at fair value as of December 31, 2021 and 2022 were RMB391,914,306 and RMB128,682,873 (US\$18,657,262). The difference between the aggregate fair value and unpaid principal balance for loans at fair value is primarily attributable to the credit risk associated with the loan collections and time value of money, amounted to RMB2,234,954 and RMB8,403,261 (US\$1,218,358) as of December 31, 2021 and 2022, respectively.

The unpaid balance of payable to investors as of December 31, 2021 and 2022 were RMB462,714,400 and RMB141,288,810 (US\$20,484,952). The difference between the aggregate fair value and unpaid principal balance for payable to investors at fair value is primarily due to the time value of money, amounted nil and nil respectively as of December 31, 2021 and 2022.

The difference between the aggregate fair value and unpaid principal balance for both loans at fair value and payable to investors at fair value was recorded in “Fair value adjustments related to Consolidated Trusts” in the consolidated statements of comprehensive income(loss).

Financial investments

Financial investment measured at fair value represents the investment in one VC fund, which is a open-ended fund with most underlying investments measured at fair value. The Group uses the statement with approximate fair value of the VC fund to measure fair value of the investment, which is categorized in the level 3 valuation hierarchy.

Financial Instruments Not Recorded at Fair Value

Financial instruments, including cash and cash equivalents, accounts receivable and contract assets, other payable and short-term borrowings. The carrying values of cash and cash equivalents, accounts receivable and contract assets, other payable and short-term borrowings approximate their fair value reported in the consolidated balance sheets due to the short-term nature of these assets and liabilities.

4. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Earnings rights associated with loan assets(1)	99,235,400	—	—
Prepaid expenses(2)	19,325,954	22,102,763	3,204,599
Input VAT to be deducted	63,867,418	20,676,758	2,997,848
Interest receivable of Consolidated Trusts	7,889,836	1,839,865	266,755
Dividend receivable(3)	15,000,000	15,000,000	2,174,796
Advance to employee	1,205,085	410,339	59,494
Others	6,603,785	11,052,616	1,602,479
Total prepaid expenses and other current assets	213,127,478	71,082,341	10,305,971

(1) In 2019, the Group purchased earnings rights of two loan assets from a related party without recourse (Note 13). The principal of the two underlying loans amounted to RMB100 million and RMB280 million, respectively. Based on the earnings right transfer agreement, the Group obtains the contractual right to receive principal and interest payments of the underlying loans through the transfer of earnings rights from Jiangxi Ruijing and is obligated legally to absorb the credit risk. Therefore, the Group recognized the earning rights as other receivable under “Prepaid expenses and other current assets”. The remaining loans had been fully repaid in 2022.

The Group assesses the allowance for credit losses for the earnings rights of loan assets in accordance with ASC 326, taking reference with the credit ratings of the corresponding loan borrowers and applying the probability of default rates, based on the mapping of probability of default rates and external credit ratings.

The following table presents the movement of the allowances for the credit losses for earnings rights associated with the loan assets:

	As of December 31, 2020 RMB	Reversal of provision of credit losses for earnings rights associated with the loan assets RMB	As of December 31, 2021 RMB
Total	1,987,960	(1,223,360)	764,600
	As of December 31, 2021 RMB	Reversal of provision of credit losses for earnings rights associated with the loan assets RMB	As of December 31, 2022 RMB
Total	764,600	(764,600)	—
	As of December 31, 2021 US\$	Reversal of provision of credit losses for earnings rights associated with the loan assets US\$	As of December 31, 2022 US\$

Total		110,857	(110,857)	—
(2)	Prepaid expenses mainly relate to prepaid service fee to the Group's service providers.			
(3)	The amount represents dividend receivable from the nominal shareholder of Jiangxi Ruijing.			

5. Deposits to institutional cooperators, net

The following table presents the deposits to cooperators as of December 31, 2021 and 2022, respectively:

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Deposits to cooperators	1,502,433,446	1,773,640,000	257,153,627
Provision for credit losses on deposits to institutional cooperators	(2,026,696)	(3,322,575)	(481,728)
Deposits to cooperators, net	1,500,406,750	1,770,317,425	256,671,899

Deposits to cooperators relate to the pledged cash to the Group's financial institutional cooperators and the amount of deposit is separately agreed with each institutional cooperator. In 2020, to maintain the collaborative relationship with one of its institutional cooperator and to avoid any material adverse impact on the Group's current business model and future transaction cost, the Group used deposits amounting to RMB970,000,000 to compensate for such institutional cooperator's loss for the amount it had paid under investors' or institutional funding partners' claims arising from borrowers' default to repay loans. The Group also assumed the right of subrogation and related rights against the defaulting borrowers, which were sold to a third party with the consideration of RMB10,000,000. The Group has recognized above loss of RMB960,000,000 as impairment of the deposits and has also provided an allowance for the potential losses of the remaining deposits, taking into account the underlying assets' credit quality.

As of 31 December, 2021 and 2022, the allowance of deposits to cooperators was RMB2,026,696 and RMB3,322,575 (US\$481,728), respectively.

The following table presents the movement of the provision for deposits to institutional cooperators:

	As of December 31, 2020 RMB	Reversal of provision for credit losses on deposits to institutional cooperators RMB	Charge-off for deposits to institutional cooperators RMB	As of December 31, 2021 RMB
Deposits to institutional cooperators	10,318,117	(8,291,421)	—	2,026,696
	As of December 31, 2021 RMB	Provision for credit losses on deposits to institutional cooperators RMB	Charge-off for deposits to institutional cooperators RMB	As of December 31, 2022 RMB
Deposits to institutional cooperators	2,026,696	1,295,879	—	3,322,575
	As of December 31, 2021 US\$	Provision for credit losses on deposits to institutional cooperators US\$	Charge-off for deposits to institutional cooperators US\$	As of December 31, 2022 US\$
Deposits to institutional cooperators	293,843	187,885	—	481,728

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6. Property and equipment, net

Property and equipment, net consists of the following:

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Computer and transmission equipment	19,521,668	22,569,837	3,272,319
Furniture and office equipment	2,781,360	2,820,000	408,862
Leasehold improvements	22,803,702	23,707,764	3,437,302
Motor vehicles	816,103	816,103	118,324
Total property and equipment	45,922,833	49,913,704	7,236,807
Accumulated depreciation	(39,734,571)	(44,052,344)	(6,386,990)
Property and equipment, net	6,188,262	5,861,360	849,817

Depreciation expense was RMB10,114,779, RMB6,215,253 and RMB4,393,055 (US\$636,933) for the years ended December 31, 2020, 2021 and 2022, respectively. Disposal of property and equipment resulted in a loss of RMB59,213 for the year ended December 31, 2020, but gains of RMB180,537 and RMB2,678 (US\$388) in the year ended December 31, 2021 and 2022, respectively.

7. Intangible assets, net

Intangible assets, net consists of the following:

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$	Weighted Average Remaining Amortization Period in Years
Licenses (1)	26,600,000	26,600,000	3,856,637	Indefinite
Software and others	16,735,406	18,721,601	2,714,377	3.10
Accumulated amortization	(6,518,422)	(8,771,679)	(1,271,773)	
Intangible assets, net	36,816,984	36,549,922	5,299,241	

(1) The Group acquired an insurance broker license at a cost of RMB26,000,000 during 2018 and further acquired an insurance sale on line license at a cost of RMB600,000.

Amortization expenses were RMB1,800,749, RMB1,920,299 and RMB2,253,257 (US\$326,692) for the years ended December 31, 2020, 2021 and 2022, respectively. The Group expects to record amortization expenses of RMB2,047,902 (US\$296,918), RMB1,809,903 (US\$262,411), RMB1,555,065 (US\$225,463), RMB1,487,874 (US\$215,722) and RMB1,231,114 (US\$178,495) for the years ending December 31, 2023, 2024, 2025, 2026 and 2027 respectively.

8. Short-term borrowings

In March 2021, the Group set up a six-month loan amounting to RMB100,000,000 and repaid with interest amounting to RMB1,715,417 in August 2021.

As of December 31, 2021, out of the secured one-year borrowings, RMB166,500,000 were secured by restricted cash of US\$29,050,000. The loan had been fully repaid during the year of 2022.

In August and September 2022, the Group set up a one-year and a six-month unsecured loan amounting to RMB50,208,800 and RMB 20,000,000, respectively.

The weighted average interest rate for the outstanding short-term borrowings was approximately 3.17% and 5.71% per annum as of December 31, 2021 and 2022, respectively.

9. Financial investments

Investment in Dragonfly Ventures II Feeder, L.P. and IOSG Fund II LP were both made in the year 2021 in the form of limited partnership at RMB63,726,000 and RMB19,117,800, respectively. Given the fact that the Group does have influence on those VC funds, the equity method of accounting was used. Given that there is generally a time lag of one quarter for the VC funds to provide the most recent financial statements, the Group used the VC funds' financial statements as of September 30, 2021 and 2022 to process the equity method under ASC 323 for the year end December 31, 2021 and 2022, respectively. As of December 31, 2021 and 2022, there were no differences between the amount at which these VC funds were carried and the amount of the underlying equities in net assets.

The table below summarizes the carrying value of investments in VC funds measured at equity method in the form of partnership measured at equity method as of December 31, 2021 and 2022:

	Ownership	As of December 31, 2021	As of December 31,	
	%	RMB	2022	2022
			RMB	US\$
Investment in Dragonfly Ventures II Feeder, L.P.	5.73 %	63,726,000	94,890,623	13,757,847
Investment in IOSG Fund II LP	3.00 %	19,117,800	26,075,024	3,780,523
Total		82,843,800	120,965,647	17,538,370

The table below summarizes the combined financial information for the VC funds as above as of the nine months ended September 30, 2021 and 2022:

	As of September 30, 2021	As of September 30,	
	RMB	2022	2022
		RMB	US\$
Assets:			
Cash and cash equivalents	659,577,667	357,201,450	51,789,342
Investments	2,982,174,973	2,128,097,512	308,545,136
Other current or non-current assets	445,006,612	3,875,916	561,955
Total assets	4,086,759,252	2,489,174,878	360,896,433
Liabilities:			
Payable and accruals	4,123,550	1,701,215	246,653
Investment payable	574	2,461,245	356,847
Total liabilities	4,124,124	4,162,460	603,500
	Nine months ended September 30, 2021	Nine months ended September 30,	
	RMB	2022	2022
		RMB	US\$
Net investment income	11,711,704	24,930,729	3,614,616
Net realized gain on investments	5,247,804	84,080,855	12,190,578
Net unrealized gain (loss) on investments	1,505,164,526	(1,520,805,915)	(220,496,131)
Net income (loss)	1,522,124,034	(1,162,642,437)	(168,567,308)

During the year ended December 31, 2022, the Group invested an aggregate amount of RMB69,646,000 (US\$10,097,721) in two VC funds, in the form of partnership and zero coupon convertible note. These VC funds were measured at the cost minus impairment because readily determinable fair value is not available. During the year ended December 31, 2022, these VC funds totally impaired by RMB8,874,750 (US\$1,286,718), and there was no any upward adjustment, redemption nor disposal of investment. And the Group did not become aware of any observable price changes accounted for.

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The table below summarizes investments measured at cost minus impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer as of December 31, 2022:

	As of December 31,	
	2022	2022
	RMB	US\$
Opening balance	—	—
Contribution	69,646,000	10,097,721
Upward adjustment	—	—
Downward adjustment	—	—
Impairment	(8,874,750)	(1,286,718)
Exchange differences	169,000	24,503
Ending Balance	60,940,250	8,835,506

During the year ended December 31, 2022, the Group invested an aggregate amount of RMB20,893,800 (US\$3,029,316) in one VC fund in the form of partnership. The VC fund investment was measured at fair value. During the year ended December 31, 2022, a decrease of fair value change at the amount of RMB9,525,822 (US\$1,381,114) was recognized in consolidated statements of comprehensive income.

The table below summarizes investments in VC funds in the form of partnership measured at fair value as of December 31, 2022:

	As of December 31,	
	2022	2022
	RMB	US\$
Opening balance	—	—
Contribution	20,893,800	3,029,316
Fair value adjustment	(9,525,822)	(1,381,114)
Exchange differences	(654,025)	(94,825)
Ending Balance	10,713,953	1,553,377

10. Long-term investments

During the year ended December 31, 2017, the Group invested RMB15,000,000 in cash for 10% of the equity interest of Nanjing Ruanshi Inforamtion Technology Co., Ltd., a private company which mainly operates computer services, advisory and car leasing & financing. The significant influence can be given by the Group as the Group has its representation on the board and thus equity method was applied. As the investee was unable to sustain an earnings capacity that would justify the carrying amount of the investment, the Group fully impaired the investment amounting to RMB12,538,280 and considered that such impairment is other than temporary in 2019.

In 2017, the Group also invested RMB40,000,000 in cash of equity interests of Guangzhou Rennuo Network Technology Co., Ltd. through nominee arrangement where the Group obtained all shareholder rights associated with the 40% equity holdings through contractual agreements with the nominal shareholder as the Group currently does not meet certain regulatory requirements to directly invest in such investee company. As the Group has significant influence over the private entity through its representation on the board, the investment was accounted for using the equity method. During the year ended December 31, 2021 and 2022, the Group has collected its capital contribution of RMB40,000,000 and an investment income of RMB2,926,504 from the investee company, and the investee company had been winded up subsequently in 2022.

During the year ended December 31, 2018, the Group invested RMB225,000,000 in cash for 15% equity interest of Jiangxi Ruijing Financial Asset Management Co., Ltd. ("Jiangxi Ruijing"), a PRC based asset management company through a nominee arrangement where the Group obtained all shareholder rights associated with the 15% equity holdings through contractual agreements with the nominal shareholder. Given that the Group has the ability to significantly influence Jiangxi Ruijing, the equity method of accounting was used.

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During the year ended December 31, 2020, the Group invested RMB3,500,000 in cash for 20% equity interest of Shenzhen Zuopeng Digital Technology Co., Ltd., a PRC based digital system service company, whereas the Group obtained less than 17% of the voting power of the investee. Given that the Group does not have the ability to exercise significant influence over investments, the cost method of accounting was used. During the year ended December 31, 2022, the Group disposed all of its beneficial interest at cost and further received an investment income of RMB425,843 from the investee.

During the year ended December 31, 2021, the Group invested RMB315,000,000 in cash for 45% equity interest of Shenyang Tianxinhao Technology Limited, a PRC based software and information technology services company. As stated in the shareholder agreement, the historical assets (which refer to assets other than equity of Newup Bank of Liaoning, same below), claims or debts and other actual or potential profits or losses, which are generated before the closing date or after the closing date but attributable to reasons before the closing date, as described in the agreement, shall be enjoyed and borne by the original shareholder, the Group will not bear any historical assets, claims or debts set forth. The significant influence can be given by the Group as the Group has its representation on the board and thus equity method was applied. The difference between the amount at which the long-term investment was carried and the amount of the underlying equities in net assets amounting to RMB74,940,264 and RM48,074,531 as of December 31, 2021 and 2022, respectively. The Group impaired the investment amounting to RMB26,865,733 during the year of 2022 and considered that such impairment is other than temporary.

The following table presents the summary combined financial information for the investee companies as of and for the years ended December 31, 2021 and 2022.

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Assets:			
Cash and cash equivalents	327,483,767	274,926,779	39,860,636
Financial investments	4,291,549,384	2,952,624,941	428,090,376
Prepaid expenses and other current assets, net	1,331,030,237	454,270,439	65,863,023
Long-term investments	538,864,786	416,823,932	60,433,789
Other non-current assets	29,069,461	1,845,308,140	267,544,531
Total assets	6,517,997,635	5,943,954,231	861,792,355
Liabilities:			
Short-term borrowings	136,611,562	38,711,000	5,612,567
Accrued expenses and other current liabilities	742,552,522	2,772,708,125	402,004,890
Long-term borrowings	2,611,819,014	926,420,194	134,318,302
Other non-current liabilities	5,738,967	1,376,249	199,537
Total liabilities	3,496,722,065	3,739,215,568	542,135,296
	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB	2022 US\$
Net revenues	315,420,375	336,391,921	48,772,244
Net income (loss)	123,545,201	(170,276,127)	(24,687,718)

11. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Fund attributable to institutional funding partners (1)	68,931,284	46,633,508	6,761,223
Accrued interest payable of Consolidated Trusts	1,219,993	12,268,000	1,778,693
Professional fee payable	25,874,860	33,280,944	4,825,283
Commission fee payable(2)	81,862,576	182,821,417	26,506,614
Compensation payable to financial institutional cooperators	—	84,648,141	12,272,827
Transaction cost payable(3)	35,675,881	58,223,896	8,441,671
Insurance fee payable(4)	14,360,705	340,282	49,336
Lease liabilities	12,331,166	11,304,693	1,639,026
Other accrued expenses	28,710,085	46,513,652	6,743,847
Total accrued expenses and other current liabilities	268,966,550	476,034,533	69,018,520

(1) Fund attributable to institutional funding partners relate to the principal and interest collected on behalf of the institutional funding partners but have not yet been passed onto them as of December 31, 2021 and 2022.

(2) Commission fee payable relates to the commission fees payable to channel partners who introduce borrowers to the platform of the Group. The commission is typically determined based on the volume of traffic introduced, regardless of whether the introduced traffic becomes a borrower or investor on the Group's platform.

(3) Transaction cost payable mainly includes payables to external suppliers for credit assessment service, payment processing services, and fees payable to collection agencies.

(4) Insurance fee payable relates to the insurance fees payable to external insurance company who provides credit insurance to investors or institutional funding partners.

12. Guarantee liabilities

The movement of guarantee liabilities during the years ended December 31, 2020, 2021 and 2022 are as follows:

RMB

	As of January 1, 2020	Adoption of ASU 2016-13	Provision at the inception of new loans	Net payout(1)	Released on expiration	Contingent liability	As of December 31, 2020
Xiaoying Credit Loan	9,886,957	168,385	—	9,192,069	(14,162,703)	55,034	5,139,742
Xiaoying Housing Loan	129,996	2,214	—	42,660	(174,870)	—	—
Internet Channel	7,458,350	127,023	—	(3,761,403)	—	825,914	4,649,884
Total	17,475,303	297,622	—	5,473,326	(14,337,573)	880,948	9,789,626

RMB

As of	Provision at	Reversal of provision for	As of
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	January 1,	the inception		Released on	contingent	December 31,
	2021	of new loans	Net payout(1)	expiration	liability	2021
Xiaoying Credit Loan	5,139,742	—	7,821,975	(12,961,717)	—	—
Internet Channel	4,649,884	—	(4,625,600)	—	(24,284)	—
Total	9,789,626	—	3,196,375	(12,961,717)	(24,284)	—

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RMB

	As of January 1, 2022	Provision at the inception of new loans	Net payout(1)	Released on expiration	Reversal of provision for contingent liability	As of December 31, 2022
Xiaoying Credit Loan	—	—	2,011,850	(2,011,850)	—	—
Internet Channel	—	—	14,000,000	—	(14,000,000)	—
Total	—	—	16,011,850	(2,011,850)	(14,000,000)	—

USD

	As of January 1, 2022	Provision at the inception of new loans	Net payout (1)	Released on expiration	Reversal of provision for contingent liability	As of December 31, 2022
Xiaoying Credit Loan	—	—	291,691	(291,691)	—	—
Internet Channel	—	—	2,029,809	—	(2,029,809)	—
Total	—	—	2,321,500	(291,691)	(2,029,809)	—

(1) Net payouts represent the amount paid to investors upon borrowers' default net of the amount subsequently collected from the borrower if they paid back the loan.

The maximum potential undiscounted future payment was nil and nil as of December 31, 2021 and 2022.

13. Related party balances and transactions

In 2019, the Group purchased earnings rights of two loans from Jiangxi Ruijing. The considerations paid amounted to RMB100,000,000 and RMB280,000,000, respectively, which equal to the principal amounts of the underlying loans. In 2020, earnings right of the former loan had been fully repaid. Earnings right of the latter loan had been partially repaid by RMB20,000,000 and RMB160,000,000 in 2020 and 2021, respectively, and the remaining RMB100,000,000 had been fully repaid in January 2022. (Note 4(1)). The associated interest income amounted to RMB28,774,549, RMB17,269,246 and RMB412,341 (US\$59,784) in 2020, 2021 and 2022, respectively.

In 2021, the Group entered into agreements with a financing guarantee company, which is a wholly-owned subsidiary of our equity investee obtained in 2020 and disposed in 2022. The equity investee is controlled by the Group's senior management's family member. This financing guarantee company provides guarantee service for an identified portfolio of loans the Group facilitated and charges borrowers a guarantee fee, a portion of which will be subsequently paid to the Group as the service fee for the intermediary service the Group provided. During the year of 2021 and 2022, this financing guarantee company provided guarantee service for 5.9% and 29.6% of the total loans the Group facilitated and provided. The Group recognized total net revenue of RMB78,801,582 and RMB542,719,679 (US\$78,686,957) during the years of 2021 and 2022 in connection with the service fees of facilitation service for loans that covered by this financing guarantee company. As of December 31, 2021 and 2022, contract assets balance amounted to RMB66,761,250 and RMB313,992,225 (US\$45,524,593), respectively.

As of December 31, 2021 and 2022, dividend receivable of RMB15,000,000 and RMB15,000,000 (US\$2,174,796) will be subsequently collected from the nominal shareholder of Jiangxi Ruijing, the nominal shareholder is controlled by Mr. Yue (Justin) Tang.

In 2021, the Group provided a loan of RMB150,000,000 to an associate of the Group, Shenyang Tianxin hao Technology Limited, and the monthly interest rate applied is 0.5%. The loan had been fully repaid during the year of 2021. The associated interest income amounted to RMB750,000 in 2021.

In 2022, the Group entered into agreements with Newup Bank of Liaoning ("Newup Bank"), according to which the Group charged service fees directly from Newup Bank for the intermediary service the Group provided. The Group recognized total net revenue of RMB13,100,669 (US\$1,899,419) during the year of 2022 in connection with the service fees of facilitation service for loans. As of December 31, 2022, contract assets balance amounted to RMB13,886,710 (US\$2,013,384).

14. Income taxes

Cayman Islands

X Financial is a company 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.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, YZT (HK) Limited, a subsidiary of the Group located in Hong Kong, is subject to 16.5% income tax on its taxable income generated from operations in Hong Kong. No income tax expense for this entity has been recognized in the consolidated financial statements as it has no assessable income for the years ended December 31, 2020, 2021 and 2022.

PRC

Under the PRC Enterprise Income Tax Law (the “EIT Law”), the Company’s subsidiaries, VIEs and subsidiaries of the VIEs established in the PRC are subject to an income tax rate of 25% for the years presented. As stipulated by the Taxation Law of the PRC, entities founded in certain industrial cooperation zones can be subject to a reduced enterprise income tax rate of 15%. One VIE in Shenzhen was a qualified enterprise eligible to enjoy the preferential income tax rate of 15% from 2020 to 2022. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of a two-year exemption starting from the first profit-making year and 50% reduction for the subsequent three years. One subsidiary was recognized as a software enterprise and thereby entitled to a full exemption from EIT in 2017 and 2018, and a 50% reduction from 2019 to 2021. In 2022, the software enterprise qualified as “high and new technology enterprise” (“HNTE”) under the EIT Law and was entitled to a preferential income tax rate of 15% from 2022 to 2025.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group’s overall operations, and more specifically, with regard to its tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income Tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, 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 legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes and, therefore, has not recorded an unrecognized tax benefit for this tax position. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to PRC income taxes, at a statutory income tax rate of 25%.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if an underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. Tax years from 2015 to the current years for the Group’s PRC subsidiaries are subject to examination of the PRC tax authorities.

Current tax expense (benefit) and deferred tax expense (benefit), which are substantially all attributable to the Company’s PRC subsidiaries, VIEs and subsidiaries of the VIEs, are as follows:

	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB US\$	
Current tax expense (benefit)	(157,326,719)	35,315,597	193,768,237	28,093,754
Deferred tax expense (benefit)	(142,551,916)	333,420,104	195,589,376	28,357,794
Total income tax expense (benefit)	(299,878,635)	368,735,701	389,357,613	56,451,548

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Income (loss) before income taxes and gain (loss) from equity affiliates for different jurisdictions is shown as follows:

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	
	RMB	RMB	RMB	US\$
Cayman Islands	(15,160,941)	(6,463,771)	(5,585,777)	(809,862)
Hong Kong entities	911,529	948,973	12,667,827	1,836,662
PRC entities	(1,587,284,724)	1,196,315,182	1,216,374,240	176,357,688
Total	(1,601,534,136)	1,190,800,384	1,223,456,290	177,384,488

A reconciliation between income tax expense computed by applying the PRC income tax rate of 25%, the income tax jurisdiction where the Group has substantially all of its operations, to income (loss) before income taxes and gain (loss) from equity in affiliates and the reported amount of income tax expense (benefit) is as follows:

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	
	RMB	RMB	RMB	US\$
Expected income tax at PRC income tax rate	(400,383,534)	297,700,096	305,864,072	44,346,122
Other expenses not deductible for income tax purposes	26,628,325	24,325,078	4,399,168	637,819
Share based compensation expense not deductible for income tax purposes	20,035,035	22,108,693	13,384,454	1,940,563
Effect of tax holiday and preferential tax rate(1)	2,160,562	(25,716,398)	(15,977,099)	(2,316,462)
Effect of different tax rate of subsidiary operation in other jurisdictions	3,712,755	1,535,280	319,679	46,349
Effect of change in tax rate	(1,547,465)	—	—	—
Research and development tax deduction	—	(14,040,027)	(16,996,590)	(2,464,274)
Unrecognized tax benefits for prior years' transfer pricing arrangement	32,092,388	(22,239,451)	—	—
Change in valuation allowance	9,155,075	99,384,200	101,490,352	14,714,718
Others	8,268,224	(14,321,770)	(3,126,423)	(453,287)
Total	(299,878,635)	368,735,701	389,357,613	56,451,548

(1) The aggregate amount and per share effect of the tax holiday and preferential tax rate are as follows:

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	
	RMB	RMB	RMB	US\$
The aggregate amount income tax benefit (expense) of the tax holiday and preferential tax rate	(2,160,562)	25,716,398	15,977,099	2,316,462
The aggregate effect on basic and diluted net income per share:				
—Basic	(0.01)	0.08	0.05	0.01
—Diluted	(0.01)	0.08	0.05	0.01

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The tax effects of temporary differences and carry forwards that give rise to the deferred tax balances at December 31, 2021 and 2022 are as follows:

	<u>As of December 31,</u> <u>2021</u> <u>RMB</u>	<u>As of December 31,</u> <u>2022</u> <u>RMB</u>	<u>2022</u> <u>US\$</u>
Deferred tax assets:			
Long-term investments	5,325,000	16,326,280	2,367,088
Accrued expenses (1)	36,045,445	29,057,965	4,213,009
Accounts receivable and contract assets	28,982,373	5,683,849	824,081
Guarantee liabilities	1,017,108	—	—
Financial guarantee derivatives	199,865,748	165,452,224	23,988,318
Loan receivable from Xiaoying Housing Loans	16,456,881	14,940,336	2,166,145
Loans receivable from Xiaoying Credit Loans and other loans	79,578,524	106,663,862	15,464,806
Operating loss carryforwards	43,644,917	45,784,681	6,638,155
Earnings rights associated with loan assets	191,150	—	—
Deposits to institutional cooperators	506,674	830,644	120,432
Investment in Consolidated Trusts	11,509,170	—	—
Lease liabilities	6,599,483	16,004,767	2,320,473
Total deferred tax assets	429,722,473	400,744,608	58,102,507
Valuation allowance	(113,394,230)	(214,884,582)	(31,155,336)
Total deferred tax assets, net of valuation allowance	316,328,243	185,860,026	26,947,171
Deferred tax liabilities:			
Property and equipment	488,150	986,598	143,043
Long-term investments	4,142,756	—	—
Right-of-use assets	6,299,837	15,672,062	2,272,235
Investment in Consolidated Trusts	—	25,188,918	3,652,050
Investment in Consolidated Partnerships	30,528,966	56,305,689	8,163,558
Total deferred tax liabilities	41,459,709	98,153,267	14,230,886

(1) Accrued expenses included advertising carryforwards arising from the operation of the Group's PRC subsidiaries, amounting to RMB17,835,858 and RMB15,428,899 (US\$2,236,980) as of December 31, 2021 and 2022, respectively. Under PRC tax rules, advertising expenses carryforwards will be carried forward indefinitely. The residual amount of accrued expense is accrued expenses of origination and servicing.

On January 1, 2020, the Group adopted the ASC 326. The transition adjustment included an income tax benefit of RMB5.75 million allocated directly to retained earnings, which increased deferred tax assets by a corresponding amount.

Movement of the valuation allowance is as follows:

	<u>As of</u> <u>December 31,</u> <u>2021</u> <u>RMB</u>	<u>As of December 31,</u> <u>2022</u> <u>RMB</u>	<u>2022</u> <u>US\$</u>
Balance as of January 1	(14,010,030)	(113,394,230)	(16,440,618)
Addition	(99,384,200)	(101,490,352)	(14,714,718)
Balance as of December 31	(113,394,230)	(214,884,582)	(31,155,336)

The Company operates through its subsidiaries, VIEs and subsidiaries of the VIEs. The valuation allowance is considered on an individual entity basis.

As of December 31, 2021 and 2022, the Company had operating loss carryforwards of RMB207,062,455 and RMB221,205,324 (US\$32,071,757) respectively from its subsidiaries, VIEs and subsidiaries of the VIEs registered in the PRC. The net operating loss will expire in years 2023 to 2027, if not utilized.

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The tax benefit, net of valuation allowance, recognized during the years ended December 31, 2021 and 2022 due to the generation of net operating losses that can be carried forward to future years amounted to RMB25,408,164 and RMB805,389 (US\$116,770), respectively. The tax benefit realized during the year ended December 31, 2021 and 2022 from the utilization of carryforwards amounted to RMB196,077,136 and RMB3,927,259 (US\$569,399) respectively. During the year ended December 31, 2021 and 2022, the Company recognized a deferred tax expense of RMB103,563,700 and RMB64,339,165 (US\$9,328,302) respectively for an increase in a valuation allowance as a result of a change in judgment about the ability of a subsidiary to utilize a beginning-of-the-year deferred tax asset in future years.

The Group assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. The ultimate realization of deferred tax assets is dependent upon its ability to generate sufficient future taxable income within the carryforward periods provided for in the tax law and during the periods in which the temporary differences become deductible. When assessing the realization of deferred tax assets, the Group has considered possible sources of taxable income including (i) future reversals of existing taxable temporary differences, (ii) future taxable income exclusive of reversing temporary differences and carryforwards, including consideration of specific known trend of profits expected to be reflected within the industry, (iii) taxable income in prior carryback years and (iv) tax-planning strategies. On the basis of this evaluation, as of December 31, 2021 and 2022 a valuation allowance of RMB113,394,230 and RMB214,884,582 (US\$31,155,336) was recorded respectively to reduce the deferred tax assets to the amount that is not more likely than not to be realized. The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Group's projections for growth.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs"), are subject to a 10% withholding income tax. In addition, under tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Company has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely. Management has asserted it intends to indefinitely reinvest the undistributed earnings of the subsidiaries located in the PRC. As of December 31, 2022, the FIE of the Group had cumulative profits of RMB3,070,106,819 (US\$445,123,647). The related unrecognized deferred tax liabilities were RMB307,010,682 (US\$44,512,365) as of December 31, 2022 based on a 10% tax rate.

A deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amounts, including those differences attributable to a more than 50% interest in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Group accrued deferred tax liabilities on the earnings of the VIEs of nil and nil as of December 31, 2021 and 2022.

Unrecognized tax benefits

A roll-forward of unrecognized tax benefits is as follows:

	<u>Year ended December 31,</u>	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2022</u>	<u>2022</u>
	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
Balance at beginning of the year	159,483,176	38,610,367	5,597,977
Additions for tax positions taken in current year	19,087,010	2,349,049	340,580
Reductions for tax positions taken in prior years	(139,959,819)	(28,757,431)	(4,169,436)
Settlements	—	(9,852,936)	(1,428,541)
Balance at end of the year	38,610,367	2,349,049	340,580

The accrued interest and penalties related to income taxes as of December 31, 2021 and 2022 is set forth below:

<u>Year ended December 31,</u>	<u>Year ended December 31,</u>
<u>2021</u>	<u>2022</u>
<u>RMB</u>	<u>US\$</u>

Accrued interest and penalties	1,154,145	2,000,970	290,113
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As of December 31, 2021 and 2022, the Group's unrecognized tax benefits consisted of: 1) RMB28,757,431 and RMB 2,349,049(US\$340,580) arising from impairment losses and charge-offs of accounts receivable and contract assets; and 2) RMB9,852,936 and nil arising from prior years' transfer pricing arrangement.

As of December 31, 2021 and 2022, none of the unrecognized tax benefit balance, if recognized upon examination settlement or statute expiration, would affect the effective tax rate.

For the year ended December 31, 2021, the decrease of accrued interest and penalties related to income taxes was RMB10,731,479, which was recorded as part of the income tax expense in the consolidated financial statements. For the year ended December 31, 2022, the increase of accrued interest and penalties related to income taxes was RMB846,825(US\$122,778), which was recorded as part of the income tax expense in the consolidated financial statements.

15. Net income (loss) per share and net income (loss) attributable to common stockholders

The following table details the computation of the basic and diluted net income (loss) per share:

	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB US\$	
Net income (loss) attributable to X Financial	(1,308,502,575)	825,407,023	811,996,439	117,728,417
Shares (denominator):				
Weighted average number of ordinary shares used in computing basic EPS	321,236,089	329,230,273	316,444,826	316,444,826
Basic net income (loss) per share	(4.07)	2.51	2.57	0.37
Diluted effects of stock options and RSUs	—	7,650,809	5,958,561	5,958,561
Weighted average number of ordinary shares used in computing diluted EPS	321,236,089	336,881,082	322,403,387	322,403,387
Diluted net income (loss) per share	(4.07)	2.45	2.52	0.37

Diluted income (loss) per share do not include the following instruments as their inclusion would have been anti-dilutive:

	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022
Stock options	52,198,603	32,139,614	29,293,014
Restricted stocks units	6,285,294	27,100,812	21,398,126

16. Share-based compensation

Share options

On January 25, 2015, the Board of Directors of X Financial approved the Share Incentive Plan for the purpose of providing incentives and rewards to employees and executives who contribute to the success of the Company's operations, and granted 13,843,645 of stock options. On June 29, 2015, May 3, 2016, October 11, 2017, April 30, 2018, October 31, 2018 and April 30, 2019, the Board of Directors of X Financial granted 630,000, 7,425,000, 16,616,000, 841,054, 475,000 and 155,000 stock options respectively to certain employees, directors and officers. The stock options shall expire 10 years from the date of grant and vest over a period from three to four years.

On May 9, 2018, the Board of Directors of X Financial granted 40,000,000 share options to certain senior management. The exercise price was the offering price per share of the Group's IPO which was US\$4.75, and were eligible to vest, in whole or in part, when both the market capitalization milestone as well as the targeted adjusted net earnings were achieved subsequent to the IPO. The Company determined the service inception date to be May 9, 2018 and the grant date to be the date of the IPO.

On November 10, 2021, the board of directors of X Financial decided to cancel 9,429,984 of unvested share options granted to certain senior management.

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The Company used the Binomial model to estimate the fair value of the options granted on the respective grant dates with assistance from independent valuation firms. The fair value per option was estimated at the date of grant using the assumptions. The weighted-average grant date fair value of the options for the years ended December 31, 2020, 2021 and 2022 were RMB9.99, RMB9.58 and RMB9.87 per share respectively

	January 25, 2015 RMB	June 29, 2015 RMB	May 3, 2016 RMB	October 11, 2017 RMB	April 30, 2018 RMB	May 9, 2018 RMB	October 31, 2018 RMB	April 30, 2019 RMB
Fair value of underlying ordinary shares	4.91	9.66	16.98	30.29	41.33	38.14	26.74	16.65
Exercise Price	0.27	0.27	0.27 - 10.71	0.27 - 27.02	25.42	30.27	27.93	31.96
Expected Volatility per annum ("p.a.")	43.00 %	38.00 %	42.00 %	38.60 %	45.47 %	39.3 %	43.90 %	30.15 %
Risk-Free Rate (p.a.)	1.81 %	2.33 %	1.81 %	2.35 %	2.96 %	2.94 %	3.15 %	2.97 %
Exercise Multiple	2.5	2.5	2.5	2.5	2.5	5.58-38.33	2.5	NIL
Dividend Yield (p.a.)	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Time to Maturity (Years)	10	10	10	10	10	5	10	10

The risk-free rate of interest is based on the yield curve of government bonds in the PRC as of valuation date. The expected volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. Prior to the IPO, the fair value of the ordinary shares was through a retrospective valuation as at each grant date, which used management's best estimate for projected cash flows as of the valuation date with the assistance of an independent third-party appraiser. Subsequent to the IPO, the fair value of ordinary shares was determined by observable market price.

A summary of option activity during the year ended December 31, 2022 is presented below:

	Number of Options	Exercise Price RMB	Remaining Contractual	Intrinsic value of options RMB
Outstanding, as of January 1, 2022	38,748,533	0.27-31.96	3.07-7.33	20,378,161
Granted	—	—	—	—
Exercised	123,602	0.27	—	—
Forfeited/Cancelled	2,846,600	10.71-30.27	—	—
Outstanding, as of December 31, 2022	35,778,331	0.27-31.96	2.07-6.33	20,744,096
Vested and expected to vest as of December 31, 2022	35,778,331	0.27-31.96	2.07-6.33	20,744,096
Exercisable as of December 31, 2022	10,218,315	0.27-31.96	2.07-6.33	20,744,096

The Group recognized the compensation cost for the stock options on a straight-line basis.

For the years ended December 31, 2020, 2021 and 2022 the Group recorded compensation expenses of RMB70,588,710, RMB71,849,299 and RMB10,740,648 (US\$1,557,248) respectively for the stock options granted to the Group's employees. The Group allocated share-based compensation expense for share option as follows:

	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022 RMB	Year ended December 31, 2022 US\$
Origination and servicing	35,885,086	21,345,909	905,756	131,322
General and administrative	32,794,113	48,655,490	9,340,416	1,354,234
Sales and marketing	1,909,511	1,847,900	494,476	71,692

As of December 31, 2020, 2021 and 2022, there were RMB85,785,176, RMB11,094,017 and RMB619,557 (US\$89,827) respectively of total unrecognized compensation expense related to unvested stock options granted. As of December 31, 2022 that cost is expected to be recognized over a weighted-average period of 0.35 years.

There were no income tax benefits recognized for the year ended December 31, 2020, 2021 and 2022 for share options.

Restricted stocks unit

On April 15, 2019, the Board of Directors of X Financial granted 150,000 of restricted stock units to certain directors. The restricted stock units shall vest over a period from two to three years. The restricted stock units have no expiration period. On November 20, 2019, the Board of Directors of X Financial granted 1,789,400 of restricted stock units to certain employees. On January 21, April 30, October 31, 2020, the Board of Directors of X Financial granted 4,600,000, 673,300 and 550,000 of restricted stock units to certain employees, respectively. The restricted stocks shall expire 10 years from the date of grant and vest over a period from three to four years. On November 10, 2021, the Board of Directors of X Financial granted 26,657,998 of restricted stock units to certain senior managements and employees. The restricted stock units shall expire 10 years from the date of grant and vest over a period from three to four years. On March 3, 2022, the Board of Directors of X Financial granted 810,000 restricted stock units to certain directors. The restricted stock units shall vest over a period of three years.

On August 13, 2019 and November 20, 2019, the Board of Directors decided to cancel 1,500,000 and 250,000 of unvested options of certain senior managements and concurrently granted 1,500,000 and 250,000 of restricted stock units as replacement awards to the senior managements. The incremental compensation expenses of RMB360,592 (US\$52,281) 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.

A summary of restricted share units activity during the year ended December 31, 2022 is presented below:

	Number of Restricted Shares	Weighted-Average Grant-Date Fair Value RMB
Outstanding, as of January 1, 2022	32,415,615	5.18
Granted	810,000	3.17
Vested	9,620,748	5.49
Forfeited	1,698,414	5.25
Outstanding, as of December 31, 2022	21,906,453	4.96

For the year ended December 31, 2020, 2021 and 2022, the Group recorded compensation expenses of RMB9,551,428, RMB16,585,473 and RMB42,797,167 (US\$6,205,006) respectively for the restricted shares granted to the Group's directors and employees. The Group allocated share-based compensation expense for restricted share as follows:

	Year ended December 31, 2020 RMB	Year ended December 31, 2021 RMB	Year ended December 31, 2022	
			RMB	US\$
Origination and servicing	6,173,735	10,819,642	26,040,888	3,775,574
General and administrative	3,064,908	5,321,620	16,743,484	2,427,577
Sales and marketing	312,785	444,211	12,795	1,855

As of December 31, 2020, 2021 and 2022, there was RMB33,499,672, RMB141,127,667 and RMB102,650,058 (US\$14,882,859) respectively of total unrecognized compensation expense related to unvested restricted shares granted. As of December 31, 2022, the cost is expected to be recognized over a weighted-average period of 2.73 years.

There were no income tax benefits recognized for the year ended December 31, 2020, 2021 and 2022 for restricted stocks unit.

17. Statutory reserves and restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the VIEs and subsidiaries of the VIEs incorporated in PRC only out of their retained earnings, if any, as determined in

accordance with PRC accounting standards and regulations. The consolidated results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

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Under PRC law, the Company's subsidiaries, VIEs and the subsidiaries of the VIEs located in the PRC (collectively referred as the "PRC entities") are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The PRC entities are required to allocate at least 10% of their after tax profits on an individual company basis as determined under PRC accounting standards to the statutory reserve and has the right to discontinue allocations to the statutory reserve if such reserve has reached 50% of registered capital on an individual company basis. In addition, the registered capital of the PRC entities is also restricted.

Amounts restricted that include paid-in capital, additional paid-in capital and statutory reserve funds, as determined pursuant to PRC GAAP, are RMB 4,531,337,021 and RMB4,644,526,736 (US\$673,393,078) as of December 31, 2021 and 2022 respectively

18. Commitments and contingencies

Operating lease as lessee

As disclosed in Note 2, the Group has adopted ASC Topic 842 on 1 January, 2019. Current and non-current portions of lease liabilities have been recorded as "Accrued expenses and other current liabilities" and "Other non-current liabilities" in the balance sheet as at December 31, 2021 and 2022, except for short-term leases.

Financial investments

In 2022, the Group committed to invest US\$10,000,000 in a VC fund and US\$5,000,000 had been made during the year ended December 31, 2022. As of the date of this annual report, the remaining capital contribution had not yet been made by the Group.

Short-term borrowings

As of December 31, 2022, the Group had short-term borrowings amounting to RMB70,208,800, such borrowings will be repaid with interests amounting to RMB1,729,327 in 2023. Interest payments are calculated using the interest rate as of December 31, 2022.

Contingencies

On November 26, 2019, a putative class action complaint captioned Shivakumar Ningappa v. X Financial, et al., No. 657033/2019, was filed in the Supreme Court of the State of New York, New York County against the Group, certain of officers and directors, and the underwriters of initial public offering, asserting violations of the Securities Act of 1933 based on the Group's September 2018 initial public offering. Two additional lawsuits were subsequently filed in the same court, containing substantially identical allegations. On February 5, 2020, all three lawsuits were consolidated under the caption "In re X Financial Securities Litigation," No. 657033/2019, and a consolidated amended complaint (the "CAC") was filed on February 14, 2020. On May 11, 2020, the Group filed a motion to dismiss the CAC in its entirety. On February 8, 2022, the matter was reassigned to a new judge. Following such reassignment, oral argument on Defendants' motion to dismiss was scheduled for July 12, 2022. On November 1, 2022, Supreme Court of the State of New York ordered that the motions to dismiss are granted.

On December 9, 2019 a putative class action complaint captioned Xiangdong Chen v. X Financial, et al., No. 19-cv-06908-KAM-SJB, was filed in the Eastern District of New York against the Group and certain officers and directors, asserting violations of the Securities Act of 1933 based on the Group's September 2018 initial public offering. The lead plaintiff filed an amended complaint (the "AC") on July 13, 2020. The Group filed a motion to dismiss the AC on December 7, 2020. The court has referred the motion to the magistrate judge for a report and recommendation. On December 9, 2021, the magistrate judge issued a report and recommendation (the "R&R") concluding that Defendants' motion to dismiss the Federal Action should be granted in full. The magistrate judge determined that all claims under the Securities Act of 1933 were time-barred by the applicable one-year statute of limitations and should be dismissed with prejudice, while the claims under the Securities Exchange Act of 1934 failed for deficient allegations of fraudulent scienter and should be dismissed with leave to replead. The lead plaintiff in the Federal Action timely filed objections to the R&R on December 23, 2021, and Defendants submitted a response to plaintiff's objections on January 6, 2022. On March 13, 2022, presiding District Judge issued a memorandum and order overruling plaintiffs' objections, adopting the R&R in full, dismissing the Securities Act claims without leave to replead, and dismissing the Exchange Act claims with leave to file a further amended complaint within 30 days. On April 12, 2022, plaintiffs voluntarily dismiss the above-captioned action, with prejudice, as to all defendants.

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not have any pending legal or administrative proceeding to which the Group is a party that will have a material effect on its business or financial condition.

19. Subsequent events

In January, February, March and April 2023, the Group have set up one-year loans amounting to RMB255,000,000, RMB10,000,000, RMB47,500,000 and RMB200,000,000, respectively, which apply a fixed rate of 4.0%, 5.5%, 4.25% and 8.0%, respectively.

In March 2023, the Group set up a nine-month loan amounting to RMB100,000,000, which applies a fixed rate of 8.0%.

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
BALANCE SHEETS
(in Renminbi “RMB”, except share and per share data)

	As of December 31, 2021 RMB	As of December 31, 2022 RMB	2022 US\$
Assets:			
Cash and cash equivalents	4,771,477	14,280,138	2,070,425
Prepaid expenses and other current assets	371,460	426,398	61,823
Amount due from subsidiaries and VIEs	1,077,449,147	1,024,111,805	148,482,254
Investments in subsidiaries and VIEs	2,899,792,086	3,717,374,302	538,968,611
Total assets	3,982,384,170	4,756,192,643	689,583,113
Liabilities:			
Accrued expenses and other current liabilities	5,489,209	2,937,951	425,963
Total liabilities	5,489,209	2,937,951	425,963
Equity:			
Common shares	206,793	206,793	29,982
Treasury stock	—	(124,596,781)	(18,064,835)
Additional paid-in capital	3,159,522,737	3,191,193,773	462,679,606
Retained earnings	810,855,877	1,622,852,316	235,291,468
Accumulated other comprehensive income	6,309,554	63,598,591	9,220,929
Total equity	3,976,894,961	4,753,254,692	689,157,150
Total liabilities and equity	3,982,384,170	4,756,192,643	689,583,113

CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in Renminbi “RMB”, except share and per share data)

	Year ended December 31,	Year ended December 31,	Year ended December 31,	
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
General and administrative expenses	(18,494,095)	(9,577,576)	(8,739,084)	(1,267,048)
Interest income	4,416	590	1,518	220
Equity in profit (loss) of subsidiaries and VIEs	(1,293,341,634)	831,870,794	817,582,216	118,538,279
Other income, net	3,328,738	3,113,215	3,151,789	456,966
Net income (loss)	(1,308,502,575)	825,407,023	811,996,439	117,728,417
Other comprehensive income (loss)	(46,041,729)	(14,749,519)	57,289,037	8,306,130
Comprehensive income (loss)	(1,354,544,304)	810,657,504	869,285,476	126,034,547

CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENT OF CASH FLOWS

(in Renminbi “RMB”, except share and per share data)

	Year ended December 31,	Year ended December 31,	Year ended December 31,	
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
Net cash by used in operating activities	(14,708,389)	(8,630,238)	(9,559,741)	(1,386,032)
Received from subsidiaries and VIEs	6,818,106	4,545,040	164,707,863	23,880,395
Net cash provided by investing activities	6,818,106	4,545,040	164,707,863	23,880,395
Contribution from shareholders	543,594	2,959,511	277,342	40,211
Repurchase of common shares	—	—	(146,740,902)	(21,275,431)
Net cash provided by (used in) financing activities	543,594	2,959,511	(146,463,560)	(21,235,220)
Effect of foreign exchange rate changes	(663,453)	(144,484)	824,099	119,483
Net increase (decrease) in cash and cash equivalents	(8,010,142)	(1,270,171)	9,508,661	1,378,626
Cash and cash equivalents, beginning of year	14,051,790	6,041,648	4,771,477	691,799
Cash and cash equivalents, end of year	6,041,648	4,771,477	14,280,138	2,070,425

SCHEDULE I—NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

1. Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same date and for the same period for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.
2. The condensed financial information has been prepared using the same accounting policies as set out in the consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries and VIEs. For the parent company, the Company records its investments in subsidiaries and VIEs under the equity method of accounting as prescribed in ASC 323, Investments—Equity Method and Joint Ventures. Such investments are presented on the Condensed Balance Sheet as “Investments in subsidiaries and VIEs” and the subsidiaries and VIEs’ profit or loss as “Equity in profit (loss) of subsidiaries and VIEs” on the Condensed Statements of Comprehensive Income (loss). Ordinarily under the equity, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this Schedule I, the parent company has continued to reflect its share, based on its proportionate interest, of the losses of subsidiaries and VIE regardless of the carrying value of the investment even though the parent company is not obligated to provide continuing support or fund losses.
3. For the years ended December 31, 2020, 2021 and 2022, except as disclosed in Note 18, there were no material contingencies, significant provisions of long-term obligations, guarantees of the Company.
4. Translations of balances in the additional financial information of Parent Company—Financial Statements Schedule I from RMB into US\$ as of and for the year ended December 31, 2022 are solely for the convenience of the readers and were calculated at the rate of US\$1.00= RMB6.8972, as set forth in H.10 statistical release of the Federal Reserve Board on December 31, 2022. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on December 31, 2022, or at any other rate.