

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2020

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-38230

Qudian Inc.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

Tower A, AVIC Zijin Plaza
Siming District, Xiamen
Fujian Province 361000,
People's Republic of China

(Address of principal executive offices)

Min Luo, Chairman and Chief Executive Officer

Telephone: telephone: +86-592-5911580

Email: ir@qudian.com

At the address of the Company set forth above

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American Depositary Shares, each representing one Class A ordinary share Class A Ordinary Shares, par value US\$0.0001 per share*	QD	New York Stock Exchange

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

Securities registered or to be registered pursuant to Section 12(g)

None
(Title of Class)

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

None
(Title of Class)

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

189,514,026 Class A ordinary shares
63,491,172 Class B ordinary shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

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

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

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

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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

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

- “active borrowers” are to borrowers who have drawn down credit in the specified period;
- “ADSs” are to our American depositary shares, each of which represents one Class A ordinary share, and “ADRs” are to the American depositary receipts that evidence our ADSs;
- “amount of transactions” are to the aggregate principal amount of credit drawdowns that are provided to borrowers in the specified period, which are comprised of (i) credit drawdowns that are facilitated under our loan book business and (ii) credit drawdowns that are facilitated under our transaction services business;
- “Ant Financial” are to Ant Small and Micro Financial Services Group Co., Ltd., a company organized under the laws of the PRC, and its affiliates;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan, the Hong Kong Special Administrative Region and the Macao Special Administrative Region;
- “D1 delinquency rate” are to the balance of the total amount of principal and financing service fees that became overdue as of a specified date, divided by the total amount of principal and financing services fees that was due for repayment as of such date, in each case with respect to our loan book business and transaction services business;
- “loan book business” are to our business of offering small credit products to consumers; the relevant transactions may be funded by our institutional funding partners or our own capital, and we undertake credit risk for such transactions;
- “M1+ delinquency coverage ratio” are to the balance of allowance for principal and financing service fee receivables at the end of a period, divided by the total balance of outstanding principal for on-balance sheet transactions for which any installment payment was more than 30 calendar days past due as of the end of such period;
- “M1+ delinquency rate by vintage” are to the total outstanding principal balance of the transactions of a vintage for which any repayment is overdue for more than 30 days, divided by the total initial principal of the transactions facilitated in such vintage;
- “new borrowers” are to borrowers who drew down credit for the first time from our platform; new borrowers who have made at least two drawdowns in the relevant period are also counted as repeat borrowers;
- “number of transactions” are to the number of credit drawdowns facilitated by us to borrowers, which are comprised of (i) credit drawdowns that are facilitated under our loan book business and (ii) credit drawdowns that are facilitated under our transaction services business;
- “off-balance sheet transactions” are to credit drawdowns under our loan book business that are not recorded on our balance sheets; we bear credit risk for such transactions;
- “on-balance sheet transactions” are to credit drawdowns under our loan book business that are recorded on our balance sheets;
- “outstanding borrowers” are to borrowers who have outstanding loans under either the loan book business or the transaction services business as of a specified date;
- “provision ratio” are to the amount of provision for loan principal and financing service fee receivables incurred during a period as a percentage of the total amount of on-balance sheet transactions facilitated during such period;

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- “P2P platforms” are to financial information intermediaries that are engaged in lending information business and directly provide peers, which can be natural persons, legal persons or other organizations, with lending information services;
- “Qudian marketplace” are to our online marketplace where consumers purchase merchandise offered by third-party merchandise suppliers with our merchandise credit products;
- “registered users” are to individuals who have registered with us;
- “repeat borrowers” are to active borrowers in the specified period who have made at least two drawdowns since such borrowers’ registration with us until the end of the specified period;
- “RMB” or “Renminbi” are to the legal currency of China;
- “small credit products” are to cash or merchandise credit products that are less than RMB5,000 in amount;
- “transaction services business” are to our business of offering loan recommendation and referral services to third-party financial service providers; we assume no credit risk for the transactions facilitated under the transaction services business;
- “transactions” are to borrowers’ credit drawdowns from our platform;
- “US\$,” “U.S. dollars,” or “dollars” are to the legal currency of the United States;
- “vintage” are to the on-balance sheet transactions and off-balance sheet transactions facilitated under the loan book business during a specified time period; and
- “we,” “us,” “our company” and “our” are to Qudian Inc., its subsidiaries, its consolidated VIEs and/or their respective subsidiaries, as the context requires.

The translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.525 to US\$1.00, the exchange rates set forth in the H. 10 statistical release of the Federal Reserve Board on December 31, 2020. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. On March 31, 2021, the noon buying rate for Renminbi was RMB 6.5518 to US\$1.00.

FORWARD-LOOKING INFORMATION

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

- our goal and strategies;
- our expansion plans;
- our future business development, financial condition and results of operations;
- our expectations regarding demand for, and market acceptance of, our credit products and services;
- our expectations regarding keeping and strengthening our relationships with borrowers, institutional funding partners, merchandise suppliers and other parties we collaborate with; and
- general economic and business conditions.

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

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

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Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The following selected consolidated statements of operations for the years ended December 31, 2018, 2019 and 2020 and selected consolidated balance sheets as of December 31, 2019 and 2020 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The following selected consolidated statements of operations for the years ended December 31, 2016 and 2017 and selected consolidated balance sheets as of December 31, 2016, 2017 and 2018 have been derived from our audited consolidated financial statements not included in this annual report.

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

	Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for share and per share data)						
Condensed Consolidated Statement of Operations Data:						
Revenues						
Financing income	1,271,456	3,642,184	3,535,276	3,510,055	2,102,665	322,248
Sales commission fee	126,693	797,167	307,492	356,812	80,992	12,413
Sales income	—	26,083	2,174,789	431,946	610,793	93,608
Penalty fees	22,943	7,922	28,013	44,354	72,235	11,070
Guarantee income	—	—	—	—	826,198	126,620
Loan facilitation income and other related income	21,754	302,010	1,646,773	2,297,413	131,633	20,174
Transaction services fee and other related income	—	—	—	2,199,464	(136,542)	(20,926)
Total revenues	1,442,846	4,775,366	7,692,343	8,840,044	3,687,974	565,207
Cost of revenues						
Cost of goods sold	—	(23,895)	(2,003,642)	(366,015)	(645,083)	(98,864)
Cost of other revenues	(267,862)	(856,951)	(731,786)	(535,773)	(217,271)	(33,298)
Total cost of revenues	(267,862)	(880,846)	(2,735,428)	(901,788)	(862,354)	(132,162)

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	Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)					
Operating expenses(1)						
Sales and marketing	(182,458)	(431,749)	(540,551)	(280,616)	(293,282)	(44,947)
General and administrative	(108,786)	(183,674)	(255,867)	(286,059)	(285,905)	(43,817)
Research and development	(52,275)	(153,258)	(199,560)	(204,781)	(170,691)	(26,160)
Changes in guarantee liabilities and risk assurance liabilities	(861)	(150,152)	(116,593)	(1,143,427)	87,894	13,470
Provision for receivables and other assets	(132,176)	(605,164)	(1,178,723)	(2,283,126)	(1,641,362)	(251,550)
Total operating expenses	(476,556)	(1,523,997)	(2,291,294)	(4,198,009)	(2,303,346)	(353,004)
Other operating income	14,646	50,703	23,748	108,508	343,324	52,617
Income from operations	713,074	2,421,226	2,689,369	3,848,755	865,598	132,659
Interest and investment income, net	6,663	24,887	47,060	24,292	708,251	108,544
Loss from equity method investments	(4,805)	(20,676)	(11,319)	(3,420)	(370,039)	(56,711)
Foreign exchange gain/(loss), net	(9,651)	(7,177)	(90,771)	6,635	(107)	(16)
Other income	47	2,108	15,231	24,583	26,358	4,040
Other expenses	(1,834)	(363)	(522)	(10,323)	(9,263)	(1,420)
Net income before income taxes	703,493	2,420,005	2,649,047	3,890,522	1,220,798	187,095
Income tax expenses	(126,840)	(255,546)	(157,731)	(626,234)	(261,979)	(40,150)
Net income	576,653	2,164,459	2,491,316	3,264,288	958,819	146,945
Net Income attributable to Qudian Inc.'s shareholders	576,653	2,164,459	2,491,316	3,264,288	958,819	146,945
Earnings per share for Class A and Class B ordinary shares						
— Basic	7.27	17.13	7.82	11.72	3.78	0.58
Earnings per share for Class A and Class B ordinary shares						
— Diluted	1.90	7.09	7.74	10.94	3.59	0.55
Earnings per ADS (1 Class A ordinary shares equals 1 ADSs)						
— Basic		17.13	7.82	11.72	3.78	0.58
Earnings per ADS (1 Class A ordinary shares equals 1 ADSs)						
— Diluted		7.09	7.74	10.94	3.59	0.55
Weighted average number of Class A and Class B ordinary shares outstanding						
— Basic	79,305,191	126,390,196	318,685,836	278,531,382	253,658,448	253,658,448

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	Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)					
Weighted average number of Class A and Class B ordinary shares outstanding						
— Diluted	303,778,745	305,221,444	321,955,142	300,457,711	274,333,161	274,333,161
Other comprehensive (loss)/income:						
Foreign currency translation adjustment	—	(77,947)	33,089	31,893	(38,455)	(5,893)
Total comprehensive income	576,653	2,086,512	2,524,405	3,296,181	920,364	141,052
Total comprehensive income attributable to Qudian Inc.'s shareholders	576,653	2,086,512	2,524,405	3,296,181	920,364	141,052

(1) Share-based compensation expenses are allocated in operating expenses as follows:

	Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Sales and marketing	690	1,891	5,641	4,482	1,912	293
General and administrative	18,986	42,849	38,587	74,312	40,895	6,267
Research and development	2,457	19,316	13,753	8,505	2,827	433
Total share-based compensation expenses	22,134	64,056	57,981	87,299	45,634	6,994

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	As of December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Summary Consolidated Balance Sheets:						
Cash and cash equivalents	785,770	6,832,306	2,501,188	2,860,938	1,537,558	235,641
Restricted cash and cash equivalent	—	2,252,646	339,827	1,257,649	135,404	20,752
Time deposits	—	—	—	231,132	—	—
Short-term amounts due from related parties(1)	585,906	551,215	2	—	—	—
Short-term investments	—	—	—	—	5,042,314	772,768
Short-term loan principal and financing service fee receivables, net	4,826,791	8,758,545	8,417,821	7,894,697	3,940,461	603,902
Short-term finance lease receivables, net	—	8,508	508,647	398,256	179,613	27,527
Short-term contract assets	—	—	903,436	2,741,914	92,813	14,224
Long-term loan principal and financing service fee receivables	87,822	—	665,653	424	—	—
Long-term finance lease receivables, net	—	17,900	649,243	239,697	28,771	4,409
Long-term contract assets	—	—	15,597	273,597	23,094	3,539
Total assets	7,117,599	19,380,416	16,253,375	18,361,604	13,398,032	2,053,338
Short-term borrowings and interest payables	4,183,231	7,979,415	3,860,441	1,049,570	—	—
Long-term borrowings and interest payables	76,052	510,024	413,400	—	102,415	15,696
Convertible senior notes	—	—	—	2,339,552	822,005	125,978
Total liabilities	4,604,010	9,840,049	5,432,762	6,437,552	1,488,188	228,075
Total mezzanine equity	5,943,978	—	—	—	—	—
Non-controlling interest	—	—	—	—	10,000	1,533
Total Qudian Inc. shareholders' equity / (deficit)	(3,430,389)	9,540,367	10,820,613	11,924,052	11,899,844	1,823,730
Total shareholders' equity / (deficit)	(3,430,389)	9,540,367	10,820,613	11,924,052	11,909,844	1,825,263

(1) Includes RMB404.6 million and RMB549.8 million deposited in our Alipay accounts as of December 31, 2016 and 2017. Such amount is unrestricted as to withdrawal and use and readily available to us on demand.

Non-GAAP Measure

Adjusted Net Income

We use adjusted net income, a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes. We believe that adjusted net income help identify underlying trends in our business by excluding the impact of (i) share-based compensation expenses, which are non-cash charges, and (ii) convertible senior notes buyback income, which is non-cash and non-recurring. We believe that adjusted net income provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

	For the year ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Adjusted net income(1)	598,787	2,228,515	2,549,297	3,351,587	382,344	58,597

(1) Adjusted net income is defined as net income excluding share-based compensation expenses and convertible senior notes buyback income.

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Adjusted net income is not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. This non-GAAP financial measure has limitations as analytical tools, and when assessing our operating performance, cash flows or our liquidity, investors should not consider them in isolation, or as a substitute for net income, cash flows provided by operating activities or other consolidated statements of operation and cash flow data prepared in accordance with U.S. GAAP.

We mitigate these limitations by reconciling the non-GAAP financial measure to the most comparable U.S. GAAP performance measure, all of which should be considered when evaluating our performance.

The following table reconciles our adjusted net income in the years presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, which is net income:

	For the year ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Net income	576,653	2,164,459	2,491,316	3,264,288	958,819	146,945
Add: share-based compensation expenses	22,134	64,056	57,981	87,299	45,634	6,994
Less: Convertible senior notes buyback income	—	—	—	—	622,109	95,342
Adjusted net income	598,787	2,228,515	2,549,297	3,351,587	382,344	58,597

Exchange Rate Information

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 RMB6.525 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2020. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. 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.

A. Capitalization and Indebtedness

Not Applicable.

B. Reasons for the Offer and Use of Proceeds

Not Applicable.

C. Risk Factors Risks Related to Our Business and Industry

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

The online consumer finance market in the PRC is new and may not develop as expected. The regulatory framework for this market is also evolving and may remain uncertain for the foreseeable future. See “— The laws and regulations governing the online consumer finance industry in the PRC are still at a nascent stage and subject to further change and interpretation. If our business practices or the business practices of our institutional funding partners are deemed to violate any PRC laws or regulations, our business, financial condition, results of operations and prospects would be materially and adversely affected.” Prospective borrowers may not be familiar

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with this market and may have difficulty distinguishing our platform from those of our competitors, both online and offline. Convincing prospective borrowers of the value of our platform is critical to increasing the amount of transactions to borrowers and to the success of our business.

We launched our business in 2014 and have a limited operating history. We have limited experience in most aspects of our business operation, such as credit product offerings, data-driven credit assessment and the development of long-term relationships with borrowers, institutional funding partners and merchandise suppliers.

In addition, we have limited experience in serving our current target borrower base. In November 2015, we shifted our focus from college students to young consumers in general, a more diverse customer base for whom traditional credit data is often unavailable. Through our technology platform, we operate (i) a loan book business, whereby we offer small credit products to consumers and undertake the related credit risk, and (ii) a transaction services business, whereby we offer loan recommendation and referral services to third-party financial service providers and assume no credit risk. We evaluate and approve prospective borrowers' credit applications submitted online, and we currently rely on institutional funding partners and trusts established in collaboration with trust companies to fund such credit drawdowns. In the second half of 2018, we launched an open platform for transaction services business. As our business develops or in response to competition, we may continue to introduce new credit products and services, make adjustments to our existing credit products and services, make adjustments to our business operation in general, or look for other business opportunities in the market. For example, we may implement more stringent credit approval standards to reduce the delinquency rates of transactions facilitated by us, which may negatively affect the growth of our business. We will also seek to expand the base of prospective borrowers that we serve, which may result in higher delinquency rates of transactions facilitated by us. In addition, we rely on our institutional funding partners to fund the credit that we facilitate. Our ability to continuously attract low-cost funding sources is also critical to our business. Any significant change to our business model not achieving expected results may have a material and adverse impact on our financial condition and results of operations. It is therefore difficult to effectively assess our future prospects.

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

- offer personalized and competitive credit products;
- increase the utilization of our credit products by existing borrowers as well as new borrowers;
- offer attractive financing service fees while driving the growth and profitability of our business;
- maintain low delinquency rates of transactions facilitated by us;
- develop sufficient, diversified, cost-efficient and reputable institutional funding sources;
- maintain and enhance our relationships with our other business partners, including merchandise suppliers and financial service providers that participate on our open platform;
- continue to 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.

We have faced significant challenges recently, and our business, results of operations and financial condition have been adversely affected by these challenges.

China's online consumer finance industry was affected by several regulatory developments in the fourth quarter of 2019, including further restrictions on loan collection practices, more stringent user data privacy rules and the requirements for P2P lending platforms to orderly exit their P2P businesses. These regulatory developments have reduced the availability of funding for consumer credit and driven up delinquency rates across the online consumer finance industry, including our loan portfolio. Our D1 delinquency rate, a more real-time representation of our portfolio asset quality, rose to around 13% as of the end of the fourth quarter of 2019, from around 10% as of the end of the previous quarter. To better protect our company and our institutional funding partners from these industry headwinds, we implemented significantly stricter standards for credit approvals and decreased reliance on certain third-party data providers who previously provided information we used in evaluating prospective borrowers. Accordingly, the amounts of transactions we facilitated under our loan book business and transaction services business decreased by 36.2% and 19.7%, respectively, in the fourth quarter of 2019 as compared with the amounts in the preceding quarter. As a result of our revenue recognition policy under ASC606, the decrease in transaction volumes in the fourth quarter of 2019 had a more pronounced impact on our revenue for such quarter. According to ASC606, the major portion of revenue from the loan facilitation process is recognized at the time we successfully match borrowers and institutional funding partners. As such, our loan facilitation income and other related income decreased by 21.1% to RMB460.0 million in the fourth quarter of 2019 as compared to that in the third quarter in 2019. Furthermore, we recognized significant amounts of changes in guarantee liabilities and risk assurance liabilities and provision for receivables and other assets for the fourth quarter of 2019 due to the rise in delinquency rates, which adversely affected net income for such quarter. In the fourth quarter of 2019, we recognized changes in guarantee liabilities and risk assurance liabilities of RMB735.7 million and provision for receivables and other assets of RMB707.2 million, as compared to changes in guarantee liabilities and risk assurance liabilities of RMB328.6 million and provision for receivables and other assets of RMB691.1 million in the third quarter of 2019.

Starting in January 2020, the outbreak of COVID-19 coronavirus has significantly impacted the Chinese economy. The government measures designed to control the spread of the virus have also resulted in a decline in economic activities in China. The pandemic has exacerbated the already existing challenges in the consumer credit sector. The decrease in consumer spending and the rise in unemployment rates contributed to a further decrease in the amount of transactions we facilitate and a rise in delinquency rates in the outstanding transactions. The amounts of transactions we facilitated under our loan book business and transaction services business decreased by 52.8% and 68.0%, respectively, in the first quarter of 2020 as compared with the amounts in the preceding quarter. Our D1 delinquency rate was approximately 21% as of the end of the first quarter of 2020.

In response to the challenging market for our credit business, we have implemented more stringent credit approval standards to protect our net assets. The amount of transactions we facilitated under our loan book business decreased by 69.8% in 2020, as compared with the amount in 2019. Meanwhile, as some of our institutional funding partners have also tightened their credit approval standards, the amount of transactions we facilitated under our transaction services business decreased by 83.0% in 2020, as compared with the amount in 2019. As a result of the decreases in transaction activities on our platform, our total revenues decreased by 58.3% year-on-year to RMB3,688.0 million (US\$565.2 million) in 2020, and our net income decreased by 70.6% year-on-year to RMB958.8 million (US\$146.9 million) in 2020.

The COVID-19 coronavirus outbreak and regulatory developments in the online consumer finance industry may continue to adversely affect our business, results of operations and financial condition in 2021. The extent of such impact will depend largely on future developments, which are highly uncertain. We will continue to mitigate our risk exposure to the consumer credit market by implementing stringent credit approval standards.

If we are unable to retain existing borrowers or attract new borrowers, or if we are unable to monetize our large user base, our business and results of operations may be adversely affected.

We seek to retain existing borrowers and attract additional creditworthy borrowers, which may be affected by several factors, including our brand recognition and reputation, the financing terms offered to borrowers, our efficiency in engaging prospective borrowers, our ability to convert registered users to borrowers, utilization of the credit we approve, the effectiveness of our credit assessment model and risk management system, our ability to secure sufficient and cost-efficient funding, borrower experience, the PRC regulatory environment governing our industry and the macroeconomic environment. In the past few years, the number of outstanding borrowers has fluctuated and our outstanding borrowers only represented a small percentage of our total registered users. The number of outstanding borrowers, including both loan book business and transaction services business, was 5.3 million, 6.1 million and 3.5 million as of December 31, 2018, 2019 and 2020, respectively. Outstanding borrowers represented 7%, 8% and 4% of total registered users as of December 31, 2018, 2019 and 2020, respectively. We cannot assure you that the numbers of outstanding borrowers will not decrease in the future.

In response to general economic conditions, we have imposed more stringent credit approval standards to ensure the quality of the transactions we facilitate, which have resulted in decreases in the amount of transactions facilitated to borrowers and our revenues. If we continue to maintain such stringent credit approval standards, we may experience further decreases in the amount of transactions and revenues. On the other hand, if we start to expand our borrower base, we may experience increases in user acquisition costs and delinquency rates, which could have a material and adverse impact on our results of operations and financial condition.

We engage a majority of active borrowers through our own mobile applications. If we are unable to attract borrowers through our own mobile applications or other third-party channels that we may collaborate with, or develop or launch new products that may be attractive to registered users on our mobile applications, we may not be able to engage new borrowers in an efficient manner to convert prospective borrowers into active borrowers, and may even lose existing borrowers to our competitors. In particular, we rely on application marketplaces to drive downloads of our mobile applications. If the operators of application marketplaces make changes to their marketplaces which hinder or impede access to our mobile applications, our ability to engage new borrowers will be adversely affected. If we are unable to attract creditworthy borrowers or if borrowers do not continue to utilize our platform, our business and results of operations would be materially and adversely affected.

We rely on our proprietary credit assessment model and risk management system in the determination of credit approval and credit limit assignment. If our proprietary credit assessment model and risk management system fail to perform effectively, such failure may materially and adversely impact our operating results.

Credit limits for our borrowers are determined and approved based on risk assessment conducted by our proprietary credit assessment model and risk management system. Such model and system use big data-enabled technologies, such as artificial intelligence and machine learning, that take into account transactions that we have processed. While we rely on big data analytics to refine our model and system, there can be no assurance that our application of such technology will continue to deliver the expected benefits. As we have a limited operating history, we may not have accumulated sufficient credit analysis and data to optimize our model and system. Furthermore, our existing data and credit assessment model and risk management system might not be effective, as we seek to expand the borrower base and broaden our borrower engagement efforts through different channels in the future. If our system contains programming or other errors, if our model and system are ineffective or if the credit analysis and data we obtained are incorrect or outdated, our credit assessment abilities could be negatively affected, resulting in incorrect approvals or denials of credit applications or mispriced credit products. If we are unable to effectively and accurately assess the credit profiles of borrowers or price credit products appropriately, we may either be unable to offer attractive financing service fee and credit limits to borrowers, or be unable to maintain low delinquency rates of transactions facilitated by us. Our risk and credit assessment may not be able to provide more predictive assessments of future borrower behavior and result in better evaluation of our borrower base when compared to our competitors. If our proprietary credit assessment model and risk management system fail to perform effectively, our business and results of operations may be materially and adversely affected.

If we are unable to effectively manage 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.

We may not be able to maintain low delinquency rates for transactions facilitated by us, or such delinquency rates may be significantly affected by economic downturns or general economic conditions beyond our control and beyond the control of individual borrowers. For example, certain regulatory developments have reduced the availability of funding for consumer credit and driven up delinquency rates across the online consumer finance industry, including our loan portfolio. For further information, see “—We have faced significant challenges recently, and our business, results of operations and financial condition have been adversely affected by these challenges.” To better protect our company and our institutional funding partners from these industry headwinds, we implemented significantly stricter standards for credit approvals. However, there can be no assurance that we will be able to effectively manage delinquency rates with such measures.

Introduction of new credit products may result in higher delinquency rates for transactions facilitated by us. Increase in credit utilization by borrowers from existing levels may also potentially have a material adverse effect as to the delinquency rates for transactions facilitated by us. Furthermore, we broaden our prospective borrower base from time to time as we enhance our credit assessment model to include those with different credit profiles than borrowers that we currently provide credit to as well as prospective borrowers that we have not reached out to previously. In addition, we have offered, and may continue to offer, borrowers with stronger credit profiles higher credit limits and longer repayment durations to drive higher engagement with such borrowers. In the three months ended December 31, 2018 and 2019 and 2020, our cash credit products had an average size of approximately RMB1,491, RMB2,027 and RMB2,713 (US\$416), respectively. Our weighted average loan tenure increased from 10.4 months in the fourth quarter of 2018 to 10.9 months in the fourth quarter of 2019, and substantially decreased to 4.5 months in the fourth quarter of 2020 primarily due to our efforts to manage our risk exposure. However, as we continue to adjust our credit approval strategy based on market conditions, we may experience higher delinquency rates for transactions facilitated by us in the future.

Although certain credit facilitated by us under the loan book business are funded directly or indirectly by institutional funding partners, if borrowers default on their payment obligations, we are generally obligated to repay our institutional funding partners all or a percentage of loan principals and fees payable in respect of such credit drawdowns. As of December 31, 2020, the total outstanding loan principal of our loan book business was RMB4,801.8 million (US\$735.9 million), substantially all of which represented credit drawdowns that were funded by our own capital. As of December 31, 2020, outstanding principal of off-balance sheet transactions, which represent credit drawdowns directly funded by institutional funding partners, was RMB83.7 million (US\$12.8 million). As such, if we were to experience a significant increase in delinquency rate, we may not have sufficient capital resources to pay defaulted principals and fees to our institutional funding partners, and if this were to occur, our results of operations, financial position and liquidity will be materially and adversely affected. We experienced increases in M1+ delinquency rate by vintage over time. M1+ delinquency rate by vintage for transactions in the four quarters of 2018 was less than 3.3% through March 31, 2019. M1+ delinquency rate by vintage for transactions in the four quarters of 2020 reached 13.0% through March 31, 2021. Such increase was primarily due to higher risks in the credit market. We cannot assure you that M1+ delinquency rate by vintage will not increase in the future.

Increase in the delinquency rate of on-balance sheet transactions would increase our allowance for loan principal and financing service fee receivables and provision for loan principal and financing service fee receivables, which could have a material adverse effect on our business, results of operations and financial positions.

We reserve any estimated loss for on-balance sheet transactions due to the borrowers' default as allowance for loan principal and financing service fee receivables. When evaluating the loan principal receivables on a pooled basis, we apply a roll rate model based on historical loss rates, while also taking into consideration

macroeconomic conditions in order to calculate the pooled allowance. Subsequent to January 1, 2020, the Company adjusts the allowance that is determined by the roll rate-based model for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions, in accordance with Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASC 326”). Accordingly, any increase in the delinquency rates of on-balance sheet transactions would increase our allowance for loan principal and financing service fee receivables, and we recognize any increase in allowance for loan principal and financing service fee receivables as provision for loan principal and financing service fee receivables for the relevant period. Such increase could have a material adverse effect on our business, results of operations and financial positions. Furthermore, if the actual delinquency rates for on-balance sheet transactions were higher than predicted, our cash flow would be reduced and our allowance for loan principal and financing service fee receivables may not be able to cover the actual losses as expected, which could have a material adverse effect on our working capital, financial condition, results of operations and business operations. In 2018, 2019 and 2020, on-balance sheet transactions represented 63.9%, 37.4% and 99.5% of the total amount of transactions under our loan book business. In 2018, 2019 and 2020, provision for loan principal and financing service fee receivables and other assets was RMB1,178.7 million, RMB2,283.1 million and RMB1,641.4 million (US\$251.5 million), respectively; and our provision ratio during the same periods was 3.1%, 9.5% and 7.8%, as a result of the decrease in past-due on-balance sheet outstanding principal receivables compared to 2019. Our charge-off ratio, which is defined as the amount of loan principal receivables we charged off during a period, divided by the total amount of on-balance sheet transactions during such period, in 2018, 2019 and 2020 was 2.9%, 5.3% and 11.6%, respectively.

As of December 31, 2018, 2019 and 2020, our M1+ delinquency coverage ratio, defined as the balance of allowance for loan principal and financing service fee receivables at the end of a period, divided by the total balance of outstanding principal for on-balance sheet transactions for which any installment payment was more than 30 calendar days past due as of the end of such period, was 1.1x, 1.5x and 2.4x respectively. With respect to on-balance sheet transactions, principal for which any installment payment was more than 30 calendar days past due accounted for 5.4%, 11.1% and 7.5% of total on-balance sheet outstanding principal as of December 31, 2018, 2019 and 2020, respectively. As of December 31, 2018, 2019 and 2020, our loan principal and financing service fee receivables for on-balance sheet transactions for which any installment payment was more than 90 calendar days past due were approximately RMB298.1 million, RMB630.0 million and RMB254.9 million (US\$39.1 million), respectively. As of December 31, 2018, 2019 and 2020, our allowance for loan principal and financing service fee receivables were approximately RMB585.3 million, RMB1,528.9 million and RMB849.2 million (US\$130.2 million), respectively.

We do not accrue financing income on principal that is considered impaired or on credit drawdowns for which any installment payment is more than 90 calendar days past due. Financing income previously accrued but subsequently placed on nonaccrual status will be netted from our financing income for the current period. Therefore, an increase in delinquency rates of on-balance sheet transactions will lead to an increase in such adjustments of financing income.

Increase in the amount of off-balance sheet transactions may lead to higher changes in guarantee liabilities and risk assurance liabilities and our business and results of operations may be materially and adversely affected.

Under our loan book business, we have entered into off-balance sheet funding arrangements with certain institutional funding partners, which directly fund credit drawdowns by borrowers for credit products and receive guarantees from us. We also funded budget auto financing products under off-balance sheet arrangements historically. Borrowers directly repay principal and financing service fees to the relevant institutional funding partners, who will in turn deduct the principal and fees due to them from the repayments and remit the remainder to us as our loan facilitation fees. Revenues from loan facilitation services are recognized when we match borrowers with funding partners and the funds are transferred to the borrowers. At the inception of each

off-balance sheet transaction, we record the fair value of (i) guarantee liabilities, which represent the present value of our expected payout based on the estimated delinquency rate and the applicable discount rate for time value; or (ii) risk assurance liabilities, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction, as applicable. The contingent loss arising from risk assurance liabilities is recognized when borrower default is probable, and the amount of loss is estimable. Subsequent to January 1, 2020, the contingent liability relating to the expected credit losses arising from the contingent aspect of the risk assurance liability is initially measured under current expected credit loss model, or CECL model, in accordance with ASC 326.

Accordingly, an increase in the expected delinquency rates of off-balance sheet transactions would result in an increase in the amount of guarantee liabilities and risk assurance liabilities, which are recognized as changes in guarantee liabilities and risk assurance liabilities. In 2018, 2019 and 2020, off-balance sheet transactions represented 36.1%, 62.6% and 0.5% of the total amount of transactions under our loan book business, respectively, and we recognized RMB116.6 million, RMB1,143.4 million and a reverse of RMB87.9 million (US\$13.5 million) of changes in guarantee liabilities and risk assurance liabilities during such periods, respectively. Furthermore, if the actual delinquency rates for off-balance sheet transactions were higher than expected, our guarantee liabilities and risk assurance liabilities may not be able to cover the actual losses as expected, which could have a material adverse impact on our working capital, financial condition, results of operations and business operations. Our guarantee liabilities and risk assurance liabilities were RMB302.6 million, RMB1,517.8 million and RMB31.4 million (US\$4.8 million) as of December 31, 2018, 2019 and 2020, respectively, and we paid the relevant institutional funding partners RMB387.2 million, RMB2,084.1 million and RMB1,684.4 million (US\$258.2 million) as a result of borrowers' default for off-balance sheet transactions in 2018, 2019 and 2020, respectively. Although the relevant amount under our off-balance sheet transactions decreased significantly as we primarily funded our loan book business with our own capital in 2020, we cannot assure you that off-balance sheet transactions will not increase in the future.

Our business depends on our ability to collect payment on and service the transactions we facilitate under the loan book business.

We have implemented payment and collection policies and practices designed to optimize regulatory compliant repayment, while also providing superior borrower experience. Our collection process is divided into distinct stages based on the severity of delinquency, which dictates the level of collection steps taken. For example, automatic reminders through text, voice and instant messages are sent to a delinquent borrower as soon as the collections process commences. Our collection team will also make phone calls to borrowers following the first missed payment and periodically thereafter. For amounts more than 90 calendar days past due, we may continue to contact the relevant borrowers by phone. During 2018, 2019 and 2020, we recovered RMB156.6 million, RMB197.3 million and RMB310.7 million (US\$47.6 million), respectively, of principal and financing service fees of on-balance sheet transactions for which any installment payment is more than 90 calendar days past due.

Despite our servicing and collection efforts, we cannot assure you that we will be able to collect payments on the transactions we facilitate under the loan book business as expected. If borrowers default on their payment obligations relating to such transactions under the loan book business, we are generally obligated to repay our institutional funding partners all or a percentage of loan principals and fees payable in respect of credit funded by them. Therefore, our failure to collect payment on the transactions will have a material adverse effect on our business operations and financial positions. In addition, we aim to control bad debts by utilizing and enhancing our credit assessment system rather than relying on collection efforts to maintain healthy credit performances. As such, our collection team may not possess adequate resources and manpower to collect payment on and service the transactions we facilitated. If we fail to adequately collect amounts owed, then payments of principals and financing service fees to us may be delayed or reduced and our results of operations will be adversely affected. If the amount of transactions facilitated by us under the loan book business increases in the future, we may devote additional resources into our collection efforts. However, there can be no assurance that we would be able to utilize such additional resources in a cost-efficient manner.

Moreover, the current regulatory regime for debt collection in the PRC remains unclear. Although we aim to ensure our collection efforts comply with the relevant laws and regulations in the PRC and we have established strict internal policies that our collections personnel do not engage in aggressive practices, we cannot assure you that such 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 a decrease in the willingness of prospective borrowers to apply for and utilize our credit or fines and penalties imposed by the relevant regulatory authorities, any of which may have a material adverse effect on our results of operations.

Our business may be adversely affected if we are unable to secure funding on terms acceptable to us, or at all.

We collaborate with institutional funding partners to fund certain credit drawdowns we facilitate. Our current institutional funding partners include banks, trust companies, consumer finance companies, asset management companies and other institutions. For credit drawdowns currently funded by institutional funding partners, such credit drawdowns are typically either facilitated to borrowers directly from institutional funding partners or indirectly from institutional funding partners through trusts we established in collaboration with trust companies. Currently, we primarily fund our loan book business with our own capital. The total amount of transactions facilitated by us under the loan book business and the transaction services business in 2020 was RMB22,413.6 million (US\$3,435.0 million), and RMB4,730.4 million (US\$725.0 million) of such transactions was funded by our institutional funding partners. Our funding arrangements has changed significantly since inception. For example, we historically transferred a significant amount of credit drawdowns to P2P platforms, and we have subsequently ceased transferring credit drawdowns to P2P platforms in April 2017. In the fourth quarter of 2018, we launched the transaction services business, whereby we offer loan recommendation and referral services to third-party financial service providers and assume no credit risk. We expect that our funding arrangements will continue to evolve as we explore additional or new sources of funding as well as new risk sharing or transfer mechanisms. There can be no assurance that our cooperation with new institutional funding partners will meet our expectations or the expectations of borrowers.

The availability of funding from institutional funding partners depends on many factors, some of which are out of our control. Some of our institutional funding partners have limited operating history, and there can be no assurance that we will be able to rely on their funding in the future. Our ability to cooperate with new institutional funding partners may be subject to regulatory or other limitations. In addition, regardless of our risk management efforts, credit facilitated by us may nevertheless be considered riskier and have a higher delinquency rate than loans provided by traditional financial institutions. In the event there is a sudden or unexpected shortage of funds from our institutional funding partners or if our institutional funding partners have determined not to continue to collaborate with us, we may not be able to maintain necessary levels of funding without incurring high costs of capital, or at all. Furthermore, we had historically relied on one institutional funding partner to fund a substantial portion of credit facilitated by us. While we have since managed to diversify our funding sources, there can be no assurance that our funding sources will remain or become increasingly diversified in the future. If we become dependent on a small number of institutional funding partners and any such institutional funding partner determines not to collaborate with us or limits the funding that is available, our business, financial condition, results of operations and cash flow may be materially and adversely affected. Since inception, we have from time to time experienced, and may continue to experience, constraints as to the availability of funds from our institutional funding partners. Such constraints have affected and may continue to affect user experience, including by limiting our ability to approve new credit applications or resulting in us having to curtail the amount that can be drawn down by borrowers under their existing credit limits. Such limitations have in turn restrained, and may continue to restrain, the growth of our business. Any prolonged constraint as to the availability of funds from our institutional funding partners may also harm our reputation or result in negative perception of the credit products we offer, thereby decreasing the willingness of prospective or existing borrowers to seek credit products from us or to draw down on their existing credit. In addition, we may not be able to obtain timely payment of the relevant fees from the institutional funding partners and our

relationship with them may suffer as a result. See “— We may not be able to successfully operate our open platform for transaction services business” for further details.

We may be deemed as a lender or a provider of financial services by the PRC regulatory authorities.

We commenced our business in early 2014. We have established trusts in collaboration with trust companies starting in December 2016. Such trusts are funded by funds from institutional funding partners and our own capital. Since the trust companies administering such trusts have been licensed by financial regulatory authorities to lend, credit drawdowns funded under this arrangement are not private lending transactions within the meaning of the Provisions of the Supreme People’s Court the Provisions on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases, or the Private Lending Judicial Interpretation, issued by the Supreme People’s Court of the PRC in 2015. The second revised version of the Private Lending Judicial Interpretation, or the Second Revised Private Lending Judicial Interpretation, has been issued in December 2020. In 2020, the amount of transactions facilitated through trusts was RMB17,879.2 million (US\$2,740.1 million), representing approximately 97.2 % of the total amount of transactions facilitated under the loan book business during such period. We currently fund a majority of credit drawdowns initially disbursed by us through banks or trusts. We historically funded credit drawdowns through online small credit companies established by us.

We disbursed funds to borrowers without utilizing online small credit companies or trusts in the past, which may be considered to involve the use of our own capital in lending, as a result of which we may be deemed as a lender or a provider of financial services by the PRC regulatory authorities, and we may become subject to supervision and restrictions on lending under applicable laws and regulations. For example, the Measures for the Banning of Illegal Financial Institutions and Illegal Financial Business Operations, promulgated by the PRC State Council, or the State Council, in July 1998 and revised in 2011, prohibits financial business activity, including fund raising and facilitating loans to the public, to be conducted without the approval of the People’s Bank of China, or the PBOC. The General Rules on Loans issued by the PBOC in June 1996 provides that a financial institution shall conduct the business with the approval of the PBOC. Otherwise, it will be subject to a fine from one time to five times of the illegal revenues, and the PBOC has the authority to order such business to suspend its operations. Such existing PRC laws and regulations with respect to the supervision and restrictions on lending to the public were primarily aimed to regulate traditional banking and financial institutions at the time of their respective promulgations, and the regulatory environment in the PRC has evolved since then. With the rapid development and evolving nature of the consumer finance industry and other new forms of Internet finance business in China, there are uncertainties as to the interpretation of the laws and regulations mentioned above as well as whether such laws and regulations are applicable to our business. In the event that we are considered by the relevant authorities to be subject to such PRC laws and regulations, and our past business operations are deemed to be in violation of such laws and regulations, we may be exposed to certain administrative penalties, including the confiscation of illegal revenue and fines up to five times the amount of the illegal revenue as mentioned above. Furthermore, our financing service fees received from borrowers might be fully or partially deemed as interest, such fees may be subject to the restrictions on interest rate as specified in applicable rules on private lending. For example, under the Second Revised Private Lending Judicial Interpretation issued by the the Supreme People’s Court in December 2020, such total annual percentage rates (inclusive of any default rate, default penalty and any other fee) exceeding four times that of China’s benchmark one-year loan prime rate, or LPR, as published on the 20th of each month will not be legally protected. Based on the LPR of 3.85% as published on April 20, 2021, such cap would be 15.4%. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations related to Loans and Intermediation.”

In August 2015, the Legislative Affairs Office of the State Counsel of the PRC published a consultation paper seeking public comments on the Regulations on Non-Deposit-Taking Lending Organizations (Draft for Comment), or the Draft Regulations on Non-Deposit-Taking Lending, with a Note on the Draft Regulations on Non-Deposit-Taking Lending published by the PBOC, or the PBOC Note on the Draft Regulations on Non-Deposit-Taking Lending. According to the PBOC Note on the Draft Regulations on Non-Deposit-Taking Lending, rather than generally categorizing activities like lending to public without the approval of PBOC as

illegal, PBOC recognizes that, with the continuous development of the financial industry, the credit market in the PRC has developed into multiple segments, in addition to the traditional lending by financial institutions, and non-deposit-taking lending organizations of various types have formed an important part of, and enriched the tiers of, the credit market of the PRC. The PBOC also states that the Draft Regulations on Non-Deposit-Taking Lending seeks to regulate small credit companies and other non-deposit-taking lending organizations that are not covered by the current regulatory framework in the PRC, which we believe may include companies such as ours.

It is uncertain when or whether the Draft Regulations on Non-Deposit Lending-Taking will be officially promulgated and take effect and whether the promulgated version would be substantially revised. Therefore, substantial uncertainty remains regarding the final framework, scope and applicability to us of the Draft Regulations on Non-Deposit Lending-Taking to us. We cannot assure you that our past or existing practices would not be deemed to violate any existing or future laws, regulations and governmental policies. If the Draft Regulations on Non-Deposit Lending-Taking is enacted as proposed, we may have to obtain the requisite business permit and operate in accordance with relevant requirements provided therein.

The laws and regulations governing the online consumer finance industry in the PRC are still at a nascent stage and subject to further change and interpretation. If our business practices or the business practices of our institutional funding partners are deemed to violate any PRC laws or regulations, our business, financial condition, results of operations and prospects would be materially and adversely affected.

The PRC government has not adopted a clear regulatory framework governing the new and rapidly-evolving online consumer finance industry in which we operate, and our business may be subject to a variety of laws and regulations in the PRC that involve financial services, including consumer finance, small credit, and private lending. The application and interpretation of these laws and regulations are ambiguous, particularly in the new and rapidly-evolving online consumer finance industry in which we operate, and may be interpreted and applied inconsistently between the different government authorities. As of December 31, 2020, we had not been subject to any material fines or other penalties under any PRC laws or regulations as to our business operations. However, if the PRC government adopts a stringent regulatory framework for the online consumer finance industry in the future, and subject market participants such as our company to specific requirements (including without limitation, capital requirements, reserve requirements and licensing requirements), our business, financial condition and prospects would be materially and adversely affected. The existing and future rules, laws and regulations can be costly to comply with and if our practice is deemed to violate any existing or future rules, laws and regulations, we may face injunctions, including orders to cease illegal activities, and may be exposed to other penalties as determined by the relevant government authorities as well.

In July 2015, the Guidelines on Promoting the Healthy Development of Internet Finance, or the Internet Finance Guidelines, were jointly released by ten PRC regulatory agencies. The Internet Finance Guidelines set out the regulatory framework and some basic principles on regulating the online consumer finance business in the PRC. The Internet Finance Guidelines specify that the China Banking Regulatory Commission, or the CBRC, will have primary regulatory responsibility for the online consumer finance businesses in China, which as currently used in the Internet Finance Guidelines is interpreted as businesses conducted via the Internet by consumer finance companies. Pursuant to the Pilot Measures for the Administration of Consumer Finance Companies released by the CBRC in November 2013, or the Pilot Consumer Finance Measures, consumer finance companies in the PRC refer to non-banking financial institutions as approved by the CBRC that do not engage in taking public deposits from individual lenders and provide individual borrowers with consumer loans pursuant to the principles that such loans be small amount in nature and widely dispersed to various borrowers. However, the Internet Finance Guidelines and the Pilot Consumer Finance Measures do not explicitly provide guidance or requirements on other forms of online consumer finance business conducted by participants other than the CBRC-approved consumer finance companies as defined in the Pilot Consumer Finance Measures, including, for example, our business. Therefore, it is currently uncertain whether our business practice is subject to the relevant rules regarding online consumer finance companies provided under the Internet Finance Guidelines and consumer finance companies provided under the Pilot Consumer Finance Measures. Given the

evolving regulatory environment of the consumer finance industry, we cannot rule out the possibility that the CBRC or other government authorities will issue new regulatory requirements to institute a new licensing regime covering our industry. If such a license regime is introduced or new regulatory rules are promulgated, we cannot assure you that we would be able to obtain any new licenses or other regulatory approvals in a timely manner, or at all, which would materially and adversely affect our business and impede our ability to continue our operations.

According to two circulars promulgated in April 2016, namely the Circular of the General Office of the PRC State Council on Issuing the Implementing Proposals for the Special Rectification of Internet Financial Risks and the Circular on Issuing the Implementing Proposals for the Special Rectification of P2P online Financial Risks, two special task forces at the central-government level, namely the Office of the Leading Group for Specific Rectification against Online Finance Risks, or the Online Finance Risks Rectification Office, and the Office of the Leading Group for Specific Rectification against P2P Online Lending Risks, or the P2P Online Lending Rectification Office, were established to align the regulatory measures of the PBOC, the CBRC, and other relevant PRC government authorities that regulate the business operations of online finance companies and P2P platforms.

In addition, in August 2016, the CBRC, the Ministry of Industry and Information Technology, or the MIIT, the Ministry of Public Security of China and the Office for Cyberspace Affairs jointly promulgated the Interim Measures for Administration of the Business Activities of Online Lending Information Intermediary Institutions, or the Interim Online Lending Information Intermediary Measures, which set out certain rules to regulate the business activities of online lending information intermediary institutions. The Interim Online Lending Information Intermediary Measures define “online lending” as direct lending between peers, which can be natural persons, legal persons or other organizations, through Internet platforms, and “online lending information intermediary institutions” as financial information intermediaries that are engaged in lending information business and directly provide peers with lending information services, such as information collection and publication, credit rating, information interaction and loan facilitation between borrowers and lenders for them to form direct peer-to-peer lending relationships. The Interim Online Lending Information Intermediary Measures are only applicable to private lending transactions according to relevant interpretations by the China Banking Regulatory Commission. Loans funded by financial institutions which are licensed by financial regulatory authorities are not private lending transactions within the meaning of the Second Revised Private Lending Judicial Interpretation issued by the Supreme People’s Court of the PRC in December 2020. Therefore, facilitation of loans funded directly by such licensed financial institutions is not subject to the regulation set forth in the Interim Online Lending Information Intermediary Measures.

On December 8, 2017, the P2P Online Lending Rectification Office issued the Notice on the Rectification and Inspection Acceptance of Risk of Online Lending Intermediaries, or Circular 57, which provides further clarification on several matters in connection with the rectification of online lending information intermediaries. The Circular 57 requires that online lending intermediaries set up custody accounts with qualified banks that have passed certain testing and evaluation procedures run by the P2P Online Lending Rectification Office to hold customer funds. Pursuant to the Circular 57, online lending information intermediaries that have already established risk reserve funds shall not continue to set aside any of their funds as additional risk reserve and shall gradually reduce the balance of their existing risk reserve funds. Other than risk reserve funds, online lending information intermediaries shall actively seek alternative means of investor protection, such as third-party guarantee arrangements.

In particular, starting from the issuance of the Circular on the Classification and Disposal of Risks of Online Lending Institutions and Risk Prevention on December 19, 2018, or Circular 175, by the Online Finance Risks Rectification Office and the P2P Online Lending Rectification Office, a storm of regulatory measures have been taken by the PRC government centered on the enhancement of rectification of existing P2P platforms, with the goal of guiding such platforms to wind down and exit P2P business. The overarching objective of Circular 175 is for the PRC government agencies to effect orderly exits of peer-to-peer direct lending marketplaces without

inducing systematic risks in the financial system or causing significant social turbulence. In accordance with Circular 175, P2P lending platforms which have demonstrated risk characteristics should exit the business or cease operation, and even the normal platforms must limit the scale of outstanding business and number of investors, which is sometimes referred as the “Business Dual Decrease,” and eventually seek to become licensed small credit companies, loan facilitation companies servicing banking institutions or companies channeling information for banking institutions. The regulatory actions under such stringent regulation on P2P lending platforms have decimated P2P lending platforms, including many well-known or listed companies such as Yidai, LuFax, and China Rapid Finance (NYSE: XRF). It is reported that in November 2019, the Online Finance Risks Rectification Office and the P2P Online Lending Rectification Office jointly issued the Guidance of Transformation of Online Lending Information Intermediaries to Small Credit Companies, or Guidance 83, which further signals the fundamental goal of the PRC government to end of P2P business. As of December 31, 2020, all P2P lending platforms have been exited or have completed their business transformation.

We do not engage in direct loan facilitation between peers. While we facilitate transactions that are directly funded by certain institutional funding partners, such companies are financial institutions licensed by financial regulatory authorities to lend. As such, we do not consider ourselves as an “online information intermediary institution” regulated under the Interim Online Lending Information Intermediary Measures. However, we cannot assure you that the CBRC, the P2P Online Lending Rectification Office or other PRC governmental agencies would not expand the applicability of the Interim Online Lending Information Intermediary Measures and/or otherwise regard us as an online lending information intermediary institution. As a provider of online credit products, our business share certain similarities with those of P2P platforms. In March 2017, Beijing Happy Time received a rectification notice from the Beijing Branch of the Office of Leading Group for Special Rectification against Online Finance Risks, which was also the Office of the Leading Group for Special Rectification against P2P Online Lending Risks of Beijing or the Beijing Rectification Office, the regulator of the Internet finance and online lending industry in Beijing. The rectification notice required Beijing Happy Time to conduct certain improvements and corrections to its business operation to be in compliance with the Interim Online Lending Information Intermediary Measures and the Implementing Scheme of Special Rectification of Risks in the Internet Finance Sector. We do not believe we are subject to the Interim Online Lending Information Intermediary Measures, Circular 57 and Circular 157 and have discussed with the Beijing Rectification Office about the difference between our business and those of “online information intermediary institution” as defined in the Interim Online Lending Information Intermediary Measures and that certain correction requirements in the notice were not actually related to our business. Nevertheless, the Beijing Rectification Office still required us to comply with certain requirements under the Interim Online Lending Information Intermediary Measures regardless of whether we are a P2P platform due to the fact that some of our institutional funding partners are P2P platforms, which are identified as online lending information intermediary institutions in accordance with the Interim Online Lending Information Intermediary Measures and other PRC laws and regulations. As such, we were deemed to be participating in a certain part of the “online lending” process as defined in the Interim Online Lending Information Intermediary Measures. We have since carried out certain improvements and corrections as required by the Beijing Rectification Office and are maintaining an ongoing dialogue with the Beijing Rectification Office. As of the date of this annual report, we have not received final clearance from the Beijing Rectification Office that our rectification efforts were sufficient, and there can be no assurance that we will be able to receive such final clearance. We also cannot assure you that the Beijing Rectification Office will agree with our position that we are not an “online information intermediary institution.” In the event that we are deemed as an online lending information intermediary institution by the PRC regulatory authorities in the future, we may have to register with local financial regulatory authorities and apply for telecommunication business operation licenses if required by the competent authorities, and our current business practices may be considered to be in violation of the Interim Online Lending Information Intermediary Measures. Accordingly, we may face administrative orders to make rectification, receive administrative warnings or criticism notice, monetary penalties up to RMB30,000 and other penalties, and our business, results of operations and financial position could be materially and adversely affected.

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We have cooperated with our institutional funding partners, whose compliance with PRC laws and regulations may affect our business. Our collaboration with institutional funding partners have exposed us to and may continue to expose us to additional regulatory uncertainties faced by such institutional funding partners. In addition, we have ceased transferring credit drawdowns to P2P platforms in April 2017. Nonetheless, we cannot assure you that the business operations of our institutional funding partners currently are or will be in compliance with the relevant laws and regulations, and in the event that our institutional funding partners do not operate their businesses in accordance with the relevant laws and regulations or are engaged in illegal activities, they will be exposed to various regulatory risks and accordingly, our business, financial condition and prospects would be materially and adversely affected.

In April 2017, the P2P Online Lending Rectification Office, the regulator for administration and supervision on the nationwide Internet finance and online lending, issued the Notice on the Conduction of Check and Rectification of Cash Loan Business Activities and a supplementary notice, or the Notice on Cash Loan. The Notice on Cash Loan requires the local counterparts of the P2P Online Lending Rectification Office to conduct a full-scale and comprehensive inspection of cash loan business conducted by online platforms and require such platforms to conduct necessary improvements and corrections within a designated period to comply with the relevant requirements under the Second Revised Private Lending Judicial Interpretation in December, 2020, the Measures for the Banning of Illegal Financial Institutions and Illegal Financial Business Operations, the Guiding Opinions on Small Credit Companies, the Interim Online Lending Information Intermediary Measures and the Implementing Scheme of Special Rectification of Risks in the Internet Finance Sector. The Notice on Cash Loan focuses on preventing malicious fraudulent activities, loans that are offered at extortionate interest rates and violence in the loan collection processes in the cash loan business operation of online platforms. The P2P Online Lending Rectification Office issued a list of cash loan business that are to be examined, which includes Laifenqi, one of the brands in which we use to market our credit products. In light of the Notice on Cash Loan, we have taken measures, including re-evaluating and adjusting the amount of financing service fees we charge on all credit drawdowns in an effort to comply with applicable regulations. Due to the uncertainties with respect to the interpretation and application of the laws and regulations as stated in the Notice on Cash Loan, we cannot assure you our business practice will be deemed to be in full compliance with all such laws and regulations, and we may face injunctions, including orders to change our current business activities, and may be exposed to other penalties as determined by the relevant government authorities after such examination according to the Notice on Cash Loan. Furthermore, we may be required to conduct certain other improvements or corrections which could be costly, and our business, financial condition, results of operations and prospects would be materially and adversely affected.

The Online Finance Risks Rectification Office and P2P Online Lending Rectification Office jointly issued the Circular on Regulating and Rectifying Cash Loan Business on December 1, 2017, or Circular 141. Circular 141 sets out the principles and new requirements for the conduct of “cash loan” businesses by small loan companies, P2P platforms and banking financial institutions. Circular 141 does not clearly define “cash loans,” but it indicates that cash loans that are subject to regulation and rectification have certain features, such as the lack of (i) specific user cases (which, as we understand the term, refers to scenarios in which users purchase specific products or services on credit), (ii) specified uses of loan proceeds, (iii) defined customer base, or (iv) collateral.

The Circular 141 sets forth several general requirements with respect to “cash loan” business, including, among others: (i) no organizations or individuals may conduct the lending business without obtaining approvals for the lending business; (ii) the aggregate borrowing costs of borrowers charged by institutions in the forms of interest and various fees should be annualized and subject to the limit on interest rate of private lending set forth in the Private Lending Judicial Interpretations issued by the Supreme People’s Court; (iii) all relevant institutions shall follow the “know-your-customer” principle and prudently assess and determine the borrower’s eligibility, credit limit, cooling-off period and other relevant features; (iv) loans to any borrower without income sources are prohibited; (v) all relevant institutions shall enhance the internal risk control and prudently use “data-driven” risk management models; (vi) no lending institution or any third party entrusted thereby may collect debts by means

of violence, intimidation, insult, defamation or harassment; and (vii) lending institutions shall strengthen the protection of customers' information, and shall not steal or misuse customers' private information in the name of "Big Data", or illegally trade or disclose customers' private information.

The Circular 141 also sets forth several requirements on banking financial institutions participating in "cash loan" business, including, among others, (i) such banking financial institutions shall not extend loans jointly with any third-party institution which has not obtained approvals for the lending business, or fund such institution for the purpose of extending loans in any form; (ii) with respect to the loan business conducted in cooperation with third-party institutions, such banking financial institutions shall not outsource the core business (including the credit assessment and risk control), and shall not accept any credit enhancement service whether or not in a disguised form (including the commitment to taking default risks) provided by any third-party institutions with no guarantee qualification and (iii) such banking financial institutions must require and ensure that the third-party institutions shall not collect any interests or fees from the borrowers. It remains uncertain how the regulatory authorities will interpret and enforce the requirements of Circular 141 under various circumstances. We have entered into arrangements with several banks which directly fund credit drawdowns to borrowers. We refer to such banks qualified credit applications from borrowers, including our assessment of their credit profiles and our suggested credit limits. They will then review the credit applications and approve credit for drawdown. Borrowers directly repay principal and financing service fees to the relevant institutional funding partners, who will in turn deduct the principal and fees due to them from the repayments and remit the remainder to us as our loan facilitation fees.

On October 9, 2019, the Supplementary Provisions on the Supervision and Administration of Financing Guarantee, or Financing Guarantee Provisions, is jointly issued by the China Banking and Insurance Regulatory Commission, the National Development and Reform Commission and other seven central governmental departments. Although financing guarantee, which means guarantor providing security for the secured party's debt financing such as borrowings and issuance of bonds, has always been a licensed activity, the Financing Guarantee Provisions further tightens the supervision of such business. Specifically, it provides that institutions providing customer referral, credit rating or other services for loan lenders are barred from offering financing guarantee services in any manner unless after obtaining necessary approvals. Our off-balance sheet transactions may be deemed to involve both customer referral and financing guarantee services. However, we do not directly or indirectly provide any financing guarantee to lenders without approvals. Our outstanding loans, if involving guarantees, are either guaranteed by one of our wholly owned subsidiaries, Xiamen Xincheng Youda Financing Guarantee Ltd., or Xiamen Xincheng or covered by alternative arrangements with third-party companies with financing guarantee licenses. Xiamen Xincheng has obtained a license to provide financing guarantee service. We plan to provide guarantees for credit drawdowns through Xiamen Xincheng, which has a registered capital of RMB900 million. As of December 31, 2020, the net assets of Xiamen Xincheng was RMB1,003.0 million (US\$153.7 million), and it was therefore permitted to incur guarantee liabilities and risk assurance liabilities up to RMB10,030.2 million (US\$1,537.2 million). Nonetheless, if our arrangement to provide guarantees through the alternative arrangements are deemed to be in violation of Circular 141 or Financing Guarantee Provisions, we could be subject to penalties and/or be required to change our business model. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

On July 23, 2019, the Supreme People's Court of the PRC, the Supreme People's Procuratorate of the PRC, the Ministry of Public Security and Ministry of Justice of the PRC jointly issued the Opinions on Several Issues Concerning Handling Illegal Lending Criminal Cases, or the Illegal Lending Opinions. According to the Illegal Lending Opinions, providing loans to unspecified public regularly (meaning more than ten borrowers in any given two years) without necessary governmental approvals will constitute illegal lending practices, of which the provision of loans of annual interest rate (including nominal interest and fees charged to borrowers in combination) higher than 36%, under serious or very serious circumstances, is criminally punishable ("Illegal High-interest Lending"). The Illegal Lending Opinions also provides specific definition of "serious" and "very serious" Illegal High-Lending. In comparison to previous administrative and judicial practices, the Illegal Lending Opinions criminalizes Illegal High-interest Lending practices at the first time. In addition, under the

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Illegal Lending Opinions, the collection of debts by means of violence is forbidden. Whoever gathers, instigates or hires others to forcibly collect debts by disturbing, pestering, beguiling, gathering a crowd to create momentum or otherwise, which does not constitute a crime independently, but the illegal lending has constituted the crime of illegal operation, shall be imposed a heavier punishment as the case may be in accordance with the provisions on the crime of illegal operation. In an effort to comply with potentially applicable laws and regulations, the Company adjusted the pricing of its credit products in April 2017 to ensure that the annualized fee charged on all credit drawdowns rates (including interest and fees combined) do not exceed 36%. The Company does not believe the regulatory change represented by the Illegal Lending Opinions will materially affect its business.

We focus on complying with relevant laws, regulations and government policies applicable to our business practice in the PRC and have implemented various measures. We have established trusts in collaboration with trust companies starting in December 2016. In addition, we continuously seek to work with additional institutional funding partners, including more traditional banking institutions, in light of the regulatory uncertainties faced by certain of our institutional funding partners, such as P2P platforms. In April 2017, we ceased transferring credit drawdowns to P2P platforms and certain other institutional funding partners. However, due to the lack of clarity in the potential interpretation of the relevant rules and the fact that the rules, laws and regulations are expected to continue to evolve in this newly emerging industry in which we operate, we cannot assure you that our measures would effectively prevent us from violating any existing or future rules, laws and regulations. In addition, although the relevant regulations on P2P platforms do not directly apply to us, any regulatory restrictions may cause borrowers with lower credit qualities to seek for our service, which may have negative effect on our delinquency rates. Furthermore, such changes in regulations may also affect market sentiment and have a negative impact on our partnership with institutional funding partners.

As part of our efforts to obtain funding at competitive costs, we may from time to time explore alternative funding initiatives to support our rapid business growth, including through standardized capital instruments such as the issuance of asset-backed securities and other debt and equity offerings. The current PRC regulatory framework does not impose many restrictions and obligations on us as the credit originator of any potential asset-backed securities offering. Pursuant to the relevant PRC laws and regulations, an institution, such as our online small credit companies, is entitled to establish an asset-backed securities scheme as a credit originator for such scheme on the condition that it has legitimate ownership to the underlying transferred assets that are able to generate independent and predictable cash flow in compliance with relevant laws and regulations. However, the initiators of any potential asset-backed securities scheme with whom we work with are required to be financial institutions and they are subject to a variety of laws and regulations in the PRC, such as Administrative Provisions on the Asset Securitization Business of Securities Companies and the Subsidiaries of Fund Management Companies and Measures for the Supervision and Administration of Pilot Projects of Credit Asset Securitization of Financial Institutions. Since we will not operate as an initiator of any asset-backed securities scheme, we will not be subject to these laws and regulations governing financial institutions as initiators. However, as the laws and regulations applicable to asset-backed securities are still developing, it remains uncertain as to the application and interpretation of such laws and regulations, particularly relating to the new and rapidly evolving online consumer finance industry in which we operate.

To the extent we issue asset-backed securities in the future, we do not plan to issue such securities to investors located in the United States or otherwise meeting the definition of "U.S. persons" as defined under Rule 902 under the Securities Act. As such, we do not believe that any such potential issuances will be subject to the requirements in Regulation AB under the Securities Act and the related rules. Nonetheless, if we issue asset-backed securities in the future that are required to be registered under the Securities Act, we may need to comply with Regulation AB and related rules, which may make the issuance of such asset-backed securities impracticable.

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

We generate a material portion of our total revenues from financing service fees. In 2020, financing income, which we recognize for our on-balance sheet transactions, comprised 57.0% of our total revenues. In addition, we recognize revenues from loan facilitation services when we match borrowers with funding partners and the funds are transferred to the borrowers. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed. As such, the amount of financing service fees charged under such arrangements may affect the amount of loan facilitation fees that we collect. Any material decrease in our financing service fees would have a substantial impact on our margin. In the event that the amount of financing service fees we charge for credit drawdowns we facilitated decrease significantly in the future and we are not able to reduce our cost of capital for funds from institutional funding partners or to adopt any cost control initiatives, our business, financial condition and results of operations will be harmed. To compete effectively, the financing service fees we charge could be affected by a variety of factors, including the creditworthiness and ability to repay of the borrowers, the competitive landscape of our industry, our access to capital and regulatory requirements. Our financing service fees may also be affected by a change over time in the mix of the types of products we offer and a change to our borrower engagement initiatives. Our competitors may also offer more attractive fees, which may require us to reduce our financing service fees to compete effectively. Certain consumer financing solutions offered by traditional financial institutions may provide lower fees than our financing service fees. Although we do not believe such consumer financing solutions currently compete with our products or target the same unserved or 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 financing service fees that we will be able to charge. Furthermore, as our borrowers establish their credit profile over time, they may qualify for and seek out other consumer financing solutions with lower fees, including those offered by traditional financial institutions offline, and we may need to adjust our financing service fees to retain such borrowers. In addition, our financing service fees may be affected by many macroeconomic factors beyond our control, such as inflation, recession, the state of the credit markets, changes in market interest rates, global economic disruptions, unemployment and fiscal and monetary policies.

Our financing service fees, to the extent they are fully or partially deemed as interest, may also be subject to the restrictions on interest rate as specified in applicable rules on private lending. Circular 141 provides that overall capital cost charged on a borrower, comprised of interests and fees, should be in compliance with the judicial interpretations by the Supreme People's Court of the PRC regarding interest rates in private lending. According to the Private Lending Judicial Interpretations, if the annual interest rate of a private loan is higher than 36%, the excess will be void and will not be enforced by the courts. The annualized fee rates charged by us on a significant number of transactions facilitated were in excess of 36% historically. Among the number of transactions we facilitated in 2016, 59.5% of their annualized fee rates exceeded 36%. Had all such credit drawdowns reduced their annualized fee rates to 36%, our revenue would have been reduced by approximately RMB307 million, representing 21% of our total revenues in 2016.

In an effort to comply with potentially applicable laws and regulations, we adjusted the pricing of our credit products in April 2017 to ensure that the annualized fee rates charged on all credit drawdowns do not exceed 36%. See "The laws and regulations governing the online consumer finance industry in the PRC are still at a nascent stage and subject to further change and interpretation. If our business practices or the business practices of our institutional funding partners are deemed to violate any PRC laws or regulations, our business, financial condition, results of operations and prospects would be materially and adversely affected." In addition, as some of our institutional funding partners are prohibited from charging fees at annualized rates in excess of 24%, we cooperate with various insurance and asset management companies to charge additional fees from the relevant borrowers so that the overall fee rates applicable to such borrowers would still be within the limit of 36% on an annualized basis. If such arrangements were found by the regulatory authorities to be in violation of the applicable laws and regulations, our business, results of operations and financial condition could be materially and adversely affected.

Under the Second Revised Private Lending Judicial Interpretation issued by the Supreme People's Court in December 2020, total annual percentage rates (inclusive of any default rate, default penalty and any other fee) for private lending exceeding four times that of China's benchmark one-year loan prime rate, or LPR, as published on the 20th of each month will not be legally protected. Based on the LPR of 3.85% as published on April 20, 2021, such cap would be 15.4%. According to the Second Revised Private Lending Judicial Interpretation and Reply by Supreme People's Court to Issues Concerning the Scope of Application of the New Judicial Interpretation on Private Lending, the interest rate cap is not applicable to the lending business of financial institutions and their branches that have been established with the approval of financial regulatory authorities. Rather, this new policy is generally interpreted as only being applicable to private lending, while our business almost entirely involves financial institutions. However, it is important to note that the Second Revised Private Lending Judicial Interpretation is newly promulgated, and the policy is subject to further clarifications by courts and regulatory authorities. If the same interest rate cap were applied to our business as required by relevant courts or regulatory authorities, our profitability may suffer a material adverse impact, and we could incur net losses.

In addition, the Circular 141 requires financial institutions to ensure that the loan facilitation operators they cooperate with do not collect interests or fees from borrowers. Although we no longer charge borrowers directly of any financing service fees, we do receive service fees from our institutional funding partners and third-party guarantee companies, which in turn charge fees from borrowers. We do not believe such practice is in violation of Circular 141. However, as the Circular 141 and other relevant regulations lack detailed guidance, the relevant authorities has broad discretion in the interpretation and implementation of such rules. We cannot rule out the possibility that the government authorities would still consider our business practices described above to be in violation of Circular 141. These regulations may be interpreted or enforced in ways that are different from our understanding and expectations. Moreover, the PRC government may seek to enhance the regulatory scrutiny of our industry and promulgate new laws and regulations in response to the growth of consumer finance. To the extent that any new laws and regulations or any interpretations of existing laws and regulations restrict our ability to continue and expand our current operations, cause any aspects of our current operations to become non-compliant, or impose material compliance costs on us, our business and results of operations may 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 Administration of Financing Guarantee Companies, or the Financing Guarantee Rules, on August 2, 2017 which became effective on October 1, 2017. Pursuant to the Financing Guarantee Rules, "financing guarantee" refers to the activities in which guarantors provide guarantee to the guaranteed parties as to loans, bonds or other types of debt financing, and "financing guarantee companies" refer to companies legally established and operating financing guarantee business. According to the Financing Guarantee Rules, the establishment of financing guarantee companies shall be subject to the approval by the competent government 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 of RMB500,000 to RMB1,000,000, confiscation of illegal gains if any, and if the violation constitutes a criminal offense, criminal liability shall be imposed in accordance with the law.

On October 9, 2019, the Supplementary Provisions on the Supervision and Administration of Financing Guarantee Companies, or Financing Guarantee Provisions, is jointly issued by the China Banking and Insurance Regulatory Commission, the National Development and Reform Commission and other seven central governmental departments. Although financing guarantee has always been a licensed activity, the Financing Guarantee Provisions further tightens the supervision of such business. Specifically, it provides that institutions providing customer referral, credit rating or other services for loan lenders are barred from offering financing guarantee services in any manner unless after obtaining necessary approvals.

Under our loan bank business, we have entered into cooperative arrangements with certain banks in which they are identified as the lender under the agreements with borrowers and the borrowers are required to repay the principal and financing service fees directly to them. However, when borrowers under arrangements with banks fail to repay, we are obligated to repay the relevant bank the full overdue amount. In addition, pursuant to our agreement with a consumer finance company, we will make cash payments to the consumer finance company based on the overdue amount of loans that we have facilitated in which the consumer finance company originates. For 2020, such transactions, which are off-balance sheet transactions, represented 0.5% of the total amount of transactions under our loan book business. We have also entered into arrangements with various institutional funding partners to fund on-balance sheet transactions, and we are also obligated to compensate such institutional funding partners for borrower default. For 2020, such on-balance sheet transactions represented 3.3% of the total amount of transactions under our loan book business. As such, transactions funded by institutional funding partners represented 3.8% of the total amount of transactions under our loan book business for year 2020.

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 current arrangements with institutional funding partners. However, institutions providing customer referral, credit rating or other services for loan lenders are barred from offering financing guarantee services in any manner unless after obtaining necessary approvals in accordance with Financing Guarantee Provisions. Furthermore, pursuant to Circular 141, a bank participating in loan facilitation transactions may not accept credit enhancement service from a third party which has not obtained any license or approval to provide guarantees, including credit enhancement service in the form of a commitment to assume default risks. One of our wholly-owned subsidiaries, Xiamen Xincheng, obtained a license to provide financing guarantee service in March 2019. We provide guarantees for certain credit drawdowns through Xiamen Xincheng. Under the Financing Guarantee Rules, the outstanding guarantee liabilities and risk assurance liabilities of a financing guarantee company shall not exceed ten times of its net assets. Nonetheless, we may also provide guarantees through alternative arrangements, such as cooperation with third parties with financing guarantee licenses. If such alternative arrangements are deemed to be in violation of Circular 141, we could be subject to penalties and/or be required to change our business model. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may not be able to successfully operate our open platform for transaction services business.

In the second half of 2018, we launched an open platform for transaction services business. The open platform helps financial service providers grow, while simultaneously bringing value to consumers. The transaction services business also allows us to further monetize our user base and mitigate our credit risk exposure. We perform credit assessment on users applying for credit on our platform, following which we primarily refer users that meet our credit requirements to licensed institutional funding partners that participate on the platform. We receive commissions from the institutional funding partners for such referrals. According to the contracts between us and our institutional funding partners, the calculation of the commission will be decided by the monthly paid interest. As such, our monthly paid interest will decrease when the users repay multiple periods or pay off in advance, which will in turn result in decrease in our commission. The financial service providers perform independent credit assessment for the transactions facilitated under our transaction services business, and we do not bear credit risk for the transactions. Although we do not bear principal credit risk, our commission depends on the monthly paid interest and is affected by actual repayment and delinquency behavior of users.

The success of the open platform depends on our ability to attract more users and financial service providers. However, both users and financial service providers may become dissatisfied with our platform and users may consequently be reluctant to continue to use our platform and utilize our credit products and financial service providers may be hesitant to continue to partner with us. As a result, our business, reputation, results of operations and financial condition will be materially and adversely affected.

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Furthermore, we have limited control over the products of financial service providers. The regulatory framework for online consumer finance market in China is both complex and constantly evolving. If any product we recommended on our platform is found to violate the relevant laws and regulations, we may suffer significant reputational damage, and our business, results of operations and financial condition would be materially and adversely affected.

In addition, our institutional funding partners may delay their payment of commissions to us and we may need to initiate litigations against such institutional funding partners in order to receive the relevant fees we are entitled to receive. Furthermore, we may charge our institutional funding partners with lower commission rates in the future. Any of the above may materially and adversely affect our results of operations and financial condition.

We intend to continue to explore new business opportunities, and such new businesses may not deliver the expected benefits.

To grow our business, we intend to continue to explore new business opportunities in addition to our core consumer finance business. For example, we launched an open platform for transaction services business in the second half of 2018 to leverage our user base. We also launched Wanlimu Kids Clubs, an early childhood education business, in January 2021. Prior to launching Wanlimu Kids Clubs, we had no experience or track record of operating an early childhood education business. If we experience initial success with the new business, we may decide to invest significant amounts of capital to grow the business. We cannot assure you that our new business initiatives will be successful. For example, we are in the process of winding down our budget auto financing business and the Wanlimu e-commerce platform. We may make significant capital expenditures to develop new businesses, and our management's attention may be diverted. We may also incur significant cost to comply with the laws and regulations that apply to such new businesses. Any failure of our efforts to pursue new business opportunities could have a material adverse effect on our business, prospects, financial condition and results of operations.

You should consider our business and prospects in light of the risks and challenges we face as a new entrant into the early childhood education industry, including, among other things, with respect to our ability to:

- enhance the reputation and recognition of the “Wanlimu Kids Clubs” brand;
- increase student enrollment;
- obtain all necessary approvals, licenses and permits or to make all necessary registrations and filings for our educational services in China;
- offer educational programs that are appealing to children and their parents;
- properly price our educational programs; and
- operate our education centers in a safe and cost-efficient manner.

If we fail to address any or all of these risks and challenges, our business may be materially and adversely affected.

Our early childhood education business relies on our ability to recruit, train and retain dedicated and qualified teachers and management personnel.

Our teachers and management personnel are critical to the quality of our services and our reputation. We seek to recruit, train and retain qualified and dedicated teachers with necessary licenses and permits required by law, as well as principals who manage our education centers. There is, however, a limited pool of teachers with the attributes we require. In addition, any foreign teachers we hire must hold valid working permits, which may not be obtained in a timely manner, or at all. Despite our various initiatives, investments to secure qualified

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personnel and competitive compensation we offer, we may still not be able to recruit, train and retain sufficient qualified teachers and principals to keep pace with our growth while maintaining consistent teaching quality in the different markets we serve. A shortage of qualified teachers or a deterioration in the quality of our teachers' services, whether actual or perceived, or a significant increase in the average compensation of teachers, would have a material adverse effect on our business, financial condition and results of operations.

In addition, our teachers are the ones who interact directly with our students and their families. Despite our constant emphasis on service quality, our continuous training of our teachers as well as our close supervision on a daily basis, we cannot assure that our teachers will completely follow our service manual and standards all the time. Any misbehavior or unsatisfactory performance of our teachers will hurt our reputation and potentially our operation results and financial performance. Any improper behavior of our teachers, whether actual or perceived, would result in negative publicity and adversely affect our business and brand.

Injuries, accidents, food safety incidents or other harm suffered by students or employees of our education centers that we operate may subject us to liabilities and damage our reputation.

Operating early childhood education centers involves inherent risks associated with the safety and wellbeing of our students and other people visiting or working at our education centers. We could face negligence claims for inadequate maintenance of our education centers or lack of supervision of our teachers and other employees. In addition, any defects playground equipment in our education centers or educational tools we use in classrooms may cause harm to students. We therefore could be liable for accidents, injuries, food safety incidents or other harm to students or other people at our education centers. Even if we are found not legally liable for such accidents or injuries, disputes on liabilities or general complaints by parents regarding food quality, students wellbeing or, from time to time, air quality and renovation fumes within our education centers may create unfavorable publicity and our reputation may be damaged on such occasions. Additionally, although we maintain certain liability insurance, the insurance coverage may not be adequate to fully protect us from claims and liabilities, and reoccurrence of similar accidents may make it difficult for us to obtain liability insurance at reasonable prices in the future. Defending such claims may also cause us to incur substantial expenses and divert the time and attention of our management.

As we are winding down the Wanlimu e-commerce platform, we may incur significant inventory write-downs or write-offs, and our results of operations, financial condition and liquidity may be materially and adversely affected.

We launched the Wanlimu e-commerce platform, which offers online luxury fashion products, in March 2020. We are in the process of winding down this business to focus on our other service offerings. We operated the Wanlimu e-commerce platform primarily on the basis of just-in-time ordering, whereby we purchased the relevant products from suppliers upon receiving customer orders. As of December 31, 2020, inventory relating to the platform amounted to RMB62.2 million (US\$9.5 million). As we are winding down the Wanlimu e-commerce platform, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. Any of the above may materially and adversely affect our results of operations and financial condition.

We have limited experience managing our allowance for loan principal and financing service fee receivables. In addition, our allowance for loan principal and financing service fee receivables is determined based on both objective and subjective factors and may not be adequate to absorb loan losses if we fail to accurately forecast the expected loss.

We face the risk that borrowers fail to repay their principals and financing service fees in full. Estimated credit loss relating to on-balance sheet transactions is recorded as allowance for loan principal and financing service fee receivables. If we experience higher delinquency rates, such allowance would also increase. See

“Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources.” We have established an evaluation process designed to determine the adequacy of our allowance for loan principal and financing service fee receivables. While this evaluation process uses historical and other objective information, it is also dependent on our subjective assessment based upon our experience and judgment. In addition, since January 1, 2020 and our adoption of ASC 326, our evaluation process also take into account certain forward-looking factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions. Actual losses are difficult to forecast, especially if such losses stem from factors beyond our historical experience. We have limited experience managing our allowance for loan principal and financing service fee receivables, especially given the fact that we only commenced our business in early 2014. Furthermore, we shifted our focus of target borrower base from college students to young consumers in general starting from November 2015, and we may not be able to accurately forecast delinquencies of our current target borrower base. Given these challenges, it is possible that we will underestimate or overestimate the allowance for loan principal and financing service fee receivables. In addition, we are not subject to periodic review by bank regulatory agencies of our allowance for loan principal and financing service fee receivables. As a result, if we underestimate the allowance for loan principal and financing service fee receivables, there can be no assurance that our allowance for loan principal and financing service fee receivables will be sufficient to absorb losses or prevent a material adverse effect on our business, financial condition and results of operations. Conversely, if we overestimate the allowance for loan principal and financing service fee receivables, we will record higher provision for loan principal and financing service fee receivables, which will adversely affect our results of operations.

We face intense 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 consumer finance service providers, including online consumer finance service providers, such as JD Finance, 360 Finance, WeBank, Huabei and Jiebei, as well as traditional financial institutions, such as banks and consumer finance companies. Our competitors may operate different business models, have different cost structures or participate selectively in different market segments. They may ultimately prove 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, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their offerings. Our competitors may also have longer operating history, more extensive borrower bases or funding sources, greater brand recognition and brand loyalty and broader relationships with funding partners or merchandise suppliers than us. Additionally, a current or potential competitor may acquire, or form a strategic alliance with, one or more of our competitors. Our competitors may be better at developing new products, offering more attractive fees, responding more quickly to new technologies and undertaking more extensive and effective marketing campaigns. Furthermore, 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 also enter the market in the future. In response to competition and in order to grow or maintain the amount of transactions facilitated to borrowers, we may have to offer lower amount of financing 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 credit products could stagnate or substantially decline, which could harm our business and results of operations.

With respect to institutional funding partners, we compete with other investment products and asset classes, such as equities, bonds, investment trust products, insurance products, bank savings accounts and real estate. If a substantial number of our institutional funding partners choose other investment alternatives, our business, financial condition and results of operations could be materially and adversely affected.

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

PRC regulations impose sanctions for engaging in Internet information services of a commercial nature without having obtained an Internet content provider license, or the ICP license, and sanctions for engaging in the operation of online data processing and transaction processing without having obtained a VATS license for online data processing and transaction processing, or ODPTP license (ICP and ODPTP are both sub-sets of value-added telecommunication business). These sanctions include corrective orders and warnings from the PRC communication administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites and mobile apps may be ordered to cease operation. Nevertheless, the interpretation of such regulations and PRC regulatory authorities' enforcement of such regulations in the context of online consumer finance industry remains uncertain, it is unclear whether online consumer finance service provider like us are required to obtain ICP license or ODPTP license, or any other kind of value-added telecommunication business licenses. As of December 31, 2020, Qufenqi Beijing, Xiamen Qudian Culture and Technology Co., Ltd., or Xiamen Qudian Culture and Technology, Xiamen Qudian Technology Co., Ltd., or Xiamen Qudian and Xiamen Qu Plus Plus Technology Development Co., Ltd., or Xiamen Qu Plus Plus, Xiamen Wanlimu Technology Co., Ltd., had obtained ICP licenses. We have not obtained any ODPTP license to date. 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 ICP licenses, 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 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 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.

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 subsidiaries and our consolidated VIEs, or to make additional capital contributions to our PRC subsidiaries.

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 subsidiaries, 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 subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, and registration with other governmental authorities in China.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, or Circular 59, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45. According to Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that RMB

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converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our initial public offering, to our PRC subsidiaries, 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.

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 subsidiaries or any consolidated variable interest entity or future capital contributions by us to our PRC subsidiaries. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries 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.

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

Since inception, we have issued equity securities to support the growth of our business. In addition, we issued US\$345 million aggregate principal amount of convertible senior notes in July 2019. As we intend to continue to make investments to support the growth of our business, we may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including developing new products and services, further enhancing our risk management capabilities, increasing our marketing expenditures to improve brand awareness and diversify our borrower engagement channels by collaborating with other leading Internet companies, enhancing our operating infrastructure and acquiring complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. However, additional funds may not be available when we need them, on terms that are acceptable to us, or at all. Repayment of the debts may divert a substantial portion of cash flow to pay principal and interest on such debt, which would reduce the funds available for expenses, capital expenditures, acquisitions and other general corporate purposes; and we may suffer default and foreclosure on our assets if our operating cash flow is insufficient to repay debt obligations, which could in turn result in acceleration of obligations to repay the indebtedness and limit our sources of financing.

Volatility in the credit markets may also have an adverse effect on our ability to obtain debt financing. If we raise additional funds through further issuances of equity or convertible debt securities, our existing 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 Class A ordinary shares. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to pursue our business

objectives and to respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, operating results, financial condition and prospects could be adversely affected.

Servicing our debt may require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our debt.

In July 2019, we issued US\$345 million aggregate principal amount of convertible senior notes due 2026. The convertible notes bear interest at a rate of 1.00% per year, payable on July 1 and January 1 of each year, beginning on January 1, 2020. The convertible notes will mature on July 1, 2026, unless earlier redeemed, repurchased or converted in accordance with their terms. As of December 31, 2020, we have repurchased US\$217 million aggregate principal amount of convertible notes, and the outstanding principal amount was US\$128 million.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Any harm to our brands or reputation or any damage to the reputation of the online consumer finance industry may materially and adversely affect our business and results of operations.

Enhancing the recognition and reputation of our brands is critical to our business and competitiveness, since this initiative affects our ability to attract and better serve borrowers and institutional funding partners as well as merchandise suppliers. Factors that are vital to this objective include our ability to:

- maintain the effectiveness, quality and reliability of our systems;
- provide borrowers with a superior experience;
- engage a large number of quality borrowers with low delinquency rate;
- enhance and improve our credit assessment model and risk management system;
- enhance the quality of our funding sources;
- effectively manage and resolve borrower complaints; and
- effectively protect personal information and privacy of borrowers.

Any malicious or otherwise negative allegation made by the media or other parties about the foregoing or other aspects of our company, including our management, business, compliance with law, financial condition, prospects or our historical business operations on campuses, such as the ongoing putative shareholder class action lawsuits that we are involved in, whether with merit or not, 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 institutional funding partners, financial service providers that participate on our open platform or other business partners, 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 we offer. Furthermore, any negative development in the online consumer finance industry, such as bankruptcies or failures of other consumer finance service providers, and especially a large number of such bankruptcies or failures, or negative perception of the industry as a whole, such as that arises from any failure of other consumer finance platforms to detect or prevent money laundering or other illegal activities, even if factually incorrect or based on isolated incidents, could compromise

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our image, undermine the trust and credibility we have established and impose a negative impact on our ability to attract new borrowers and to collaborate with and retain institutional funding partners. Negative developments in our industry, such as widespread borrower default, fraudulent behavior and/or the closure of other online consumer finance service providers, may also lead to tightened regulatory scrutiny of the sector and limit the scope of permissible business activities that may be conducted. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

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

We had net losses of RMB40.8 million and RMB233.2 million in the period from April 9 to December 31, 2014 and in 2015, respectively. We had accumulated deficits of RMB5,984.8 million and RMB6,633.7 million as of December 31, 2014 and December 31, 2015, respectively. Although we had net income of RMB2,491.3 million in 2018, RMB3,264.3 million in 2019 and RMB958.8 million (US\$146.9 million) in 2020, we cannot assure you that we will be able to continue to generate net income in the future. In particular, we have faced recent challenges due to regulatory developments in the online consumer finance industry and the outbreak of COVID-19 coronavirus, which may materially and adversely affect our business and results of operations. For further information, see “—We have faced significant challenges recently, and our business, results of operations and financial condition have been adversely affected by these challenges.”

In addition, we anticipate that our cost of revenues and operating expenses will increase in the foreseeable future as we continue to grow our business, attract borrowers, institutional funding partners and merchandise suppliers and further enhance and develop our credit products, enhance our risk management capabilities and increase brand recognition. As we develop our Wanlimu Kids Clubs business, we expect to incur significant upfront investment and sales and marketing expenses to acquire customers. These efforts may prove more costly than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. There are other factors that could negatively affect our financial condition. For example, the delinquency rates of the transactions facilitated may be higher than expected, which may lead to lower than expected revenue, additional expenses and higher provision for loan principal and financing service fee receivables. Furthermore, we have adopted share incentive plans in the past and may adopt new share incentive plans in the future, which have caused, and will result in, significant share-based compensation expenses to us. We generate a material portion of our total revenues from service fees we receive from our loan book business. Any material decrease in our service fees would have a substantial impact on our margin. Furthermore, as a result of the outbreak of COVID-19 coronavirus, our investment in Wanlimu Kids Clubs business and their potential impact on our business and results of operations, we may incur net losses in 2021. As a result of the foregoing and other factors, our net income margins may decline or we may incur additional net losses in the future and may not be able to maintain profitability on a quarterly or annual basis.

If our credit products do not achieve sufficient market acceptance or if we are unable to manage the growth of our credit products, our financial condition, results of operations and competitive position will be materially and adversely affected.

We currently offer cash credit products and merchandise credit products under our loan book business. Historically, we had explored and offered other types of credit products to users in China which were discontinued due to limited demand in the market. For example, we launched our budget auto financing business in November 2017, and we started to wind down this business in the second quarter of 2019 to focus on our core consumer finance business. While we intend to broaden the scope of products and services that we offer, there can be no assurance that we will be successful. New credit products must achieve high levels of market acceptance in order for us to balance the default risks associated with such products and to recoup our investment 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 credit products at appropriate pricing and amount that meet this demand in a timely fashion;

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- borrowers may not like, find useful or agree with any changes made to our platform;
- our existing credit products may cease to be popular among current borrowers or prove to be less attractive to prospective borrowers;
- our failure to offer attractive merchandise on the Qudian marketplace that can be purchased by borrowers through merchandise credit products at competitive amount of financing service fees to meet consumer needs and preferences;
- our failure to assess risk associated with new products and to properly price new and existing products;
- negative publicity about our credit products, our platform or our mobile apps' performance or effectiveness;
- views taken by regulatory authorities that the launch of new credit products and changes to our existing credit products do not comply with PRC laws, rules or regulations 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 competitive position, results of operations and financial condition could be harmed.

Furthermore, the introduction of new credit products or the increased utilization of certain credit products over other products may result in material adverse change to our results of operations. For example, borrowers may increase their preference and utilization of our merchandise credit products, which are typically larger in amount with longer terms, over our cash credit products. As small credit products enjoy favorable risk characteristics compared to larger credit products, an increase in the utilization of merchandise credit products over cash credit products by borrowers may result in an increase in delinquency rate for the transactions facilitated by us. Credit products with longer durations may also lead to reduced frequency of transactions by borrowers, which may have a material adverse effect as to the volume and comprehensiveness of the data we collect and analyze and our risk management capabilities.

As we wind down our Dabai Auto business, revenues generated from such business will decrease, and we may record write-downs in relation to the process of winding down such business.

We have started to wind down our budget auto financing business in the second quarter of 2019 to focus on our core consumer finance business. As a result, revenues generated from our Dabai Auto business will further decrease. Sales income in relation to Dabai Auto business was RMB2,174.8 million, RMB411.4 million and RMB122.8 million (US\$18.8 million) in 2018, 2019 and 2020, respectively. As of December 31, 2020, we carried finance lease receivable of RMB208.4 million (US\$31.9 million). The decrease in revenues generated from our Dabai Auto business and any further write-down that may be recorded during the process of winding down such business may adversely affect our business, financial condition and results of operations.

Credit analysis and other information that we receive from other parties concerning a prospective borrower may be inaccurate or may not accurately reflect such prospective borrower's creditworthiness, which may compromise the accuracy of our credit assessment.

For the purpose of credit assessment and pricing, we obtain prospective borrower's credit analysis and other information from them as well as, with their authorization, from external parties, and assess applicants' creditworthiness based on such information. Such external party's credit assessment system may still be at a development stage and therefore have limitations in measuring borrowers' creditworthiness. We have experienced instances where credit analysis information provided by an external party was not fully predictive of actual delinquency rates. Therefore, we do not rely on inputs from one or only a few external parties. Instead, we use inputs from many external parties for our credit assessment model to enhance our risk management capabilities. As the credit assessment methodologies of external parties are not disclosed to us, we may not have

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adequate knowledge of the assumptions behind their credit analysis, which could cause our model to produce inaccurate results. In addition, if there is an adverse change in the economic condition, credit analysis information provided by external parties may not be a reliable reference to assess an applicant's creditworthiness, which may compromise our risk management capabilities. As a result, our assessment of a borrower's credit profile may not reflect that particular borrower's actual creditworthiness because assessment may be based on outdated, incomplete or inaccurate information. In addition, the completeness and reliability of information on borrower's credit risk available in the PRC is relatively limited. The PBOC has developed and put into use a credit reference center which remains relatively underdeveloped. The information available to us and external parties from whom we obtain information for our credit assessment model is limited. We also currently do not have a comprehensive way to determine whether prospective borrowers have obtained loans through other consumer finance platforms, creating the risk whereby a borrower may utilize our credit products in order to pay off loans from other sources. There is also a risk that, following our obtaining a borrower's information, the borrower may have:

- 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.

Such inaccurate or incomplete borrower credit analysis and other information could compromise the accuracy of our credit assessment and adversely affect the effectiveness of our control over our delinquency rates. We may not be able to recoup funds underlying transactions made in connection with inaccurate or incomplete borrower credit information, in which case our results of operations will be harmed.

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

Some of our institutional funding partners report delinquencies of our users to the credit reference center of the PBOC, which adversely affect such users' abilities to obtain loans in the future. Due to errors in our interfaces with certain institutional funding partners, we failed to inform such institutional funding partners about repayments made by certain of our users. As a result, such institutional funding partners believed that the users were delinquent on loan repayments and therefore made erroneous reports to the credit reference center of the PBOC. Neither we nor the institutional funding partners are subject to legal liabilities if the institutional funding partners timely inform the PBOC about the errors after receiving complaints from the borrowers.

As isolated incidents, the erroneous reports have not resulted in any material adverse effect on our business. To avoid future errors, we have started to request our institutional funding partners to compare their records of delinquent borrowers with ours. However, there can be no assurance that our institutional funding partners will agree with the measure we proposed or that such measure will be effective in preventing errors. If additional erroneous reports were made to the PBOC in the future, we may suffer reputational damage due to the negative publicity, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to risks associated with other parties with which we collaborate. 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 other parties in providing our credit products to borrowers. Such other parties include our institutional funding partners, third-party financial service providers that participate on our open platform, our cloud computing service provider and merchandise suppliers. These parties may not be able sufficiently or timely fund credit that we facilitate or provide satisfactory merchandise and services to us and/or

borrowers on commercially acceptable terms or at all. Any failure by these parties to continue with good business operations, comply with applicable laws and regulations 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, engage prospective borrowers 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, even if these activities are not related to, attributable to or caused by us.

Fraudulent activity could negatively impact our results of operations, brand and reputation and cause the use of our credit products and services to decrease.

We are subject to the risk of fraudulent activity associated with borrowers and parties handling user information. Our resources, technologies and fraud detection tools may be insufficient to accurately detect and prevent fraud. For example, we currently do not have a comprehensive way to determine whether prospective borrowers have obtained loans through other consumer finance platforms, creating the risk whereby a borrower may borrow money through us in order to pay off loans from other sources. Even if we identify a fraudulent borrower and reject his or her credit application, such borrower may re-apply by using fraudulent information. We may fail to identify such behavior, despite our measures to verify personal identification information provided by borrowers. Furthermore, we may not be able to recoup funds underlying transactions made in connection with fraudulent activities. A significant increase in fraudulent activities could negatively impact our brands and reputation, discourage institutional funding partners from collaborating with us, reduce the amount of transactions facilitated to borrowers and lead us to take additional steps to reduce fraud risk, which could increase our costs. High profile fraudulent activity could even lead to regulatory intervention, and may divert our management's attention and cause us to incur additional expenses and costs. Although we have not experienced any material business or reputational harm as a result of fraudulent activities in the past, we cannot rule out the possibility that fraudulent activities may materially and adversely affect our business, financial condition and results of operations in the future.

We rely on institutional funding partners to fund credit drawdowns to borrowers, which may constitute provision of intermediary service, and our agreements with these institutional funding partners and borrowers may be deemed as intermediation contracts under the PRC Civil Code.

Under the PRC Civil Code, if an intermediary conceals any material fact intentionally or provides false information in connection with the conclusion of the proposed contract, which results in harm to the client's interests, the intermediary may not claim for service fees and is liable for the damages caused. See "Item 4. Information on the Company — B. Business Overview — Regulations — Regulations related to Loans and Intermediation." Therefore, if we fail to provide material information to institutional funding partners, or if we fail to identify false information received from borrowers or others and in turn provide such information to institutional funding partners, and in either case if we are also found to be at fault, due to failure or deemed failure to exercise proper care, such as to conduct adequate information verification or supervision of our employees, or to accurately detect and prevent fraud due to ineffectiveness of our fraud detection tools, we could be held liable for damages caused to institutional funding partners as an intermediary pursuant to the PRC Civil Code. In addition, if we fail to complete our obligations under the agreements with institutional funding partners and borrowers, we could also be held liable for damages caused to borrowers or institutional funding partners pursuant to the PRC Civil Code. On the other hand, we do not assume any liability solely on the basis of failure to correctly assign a credit limit to a particular borrower in the process of facilitating transactions, as long as we do not conceal any material fact intentionally or provide false information, and are not found to be at fault otherwise. However, due to the lack of detailed regulations and guidance in the area of online consumer finance platforms and the possibility that the PRC government authority may promulgate new laws and regulations

regulating online consumer finance platforms in the future, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations for the online consumer finance industry, and there can be no assurance that the PRC government authority will ultimately take a view that is consistent with ours.

Fluctuations in interest rates could negatively affect the amount of transactions facilitated by us and cost of capital for funds provided to borrowers.

All credit facilitated by us have fixed financing service fees. If prevailing market interest rates rise, our cost of capital for funds will increase, which may force us to increase the financing service fees we charge for on-balance sheet transactions. If our borrowers decide not to utilize our credit products because of such an increase in financing service fees, our ability to retain existing borrowers, attract or engage prospective borrowers as well as our competitive position may be severely limited. We cannot assure you that we will be able to effectively manage such interest risk at all times or pass on any increase in interest rate to our borrowers. If we are unable to effectively manage such an increase, our business, profitability, results of operations and financial condition could be materially and adversely affected. If prevailing market interest rates decrease and we fail to adjust the amount of financing service fees we charge for on-balance sheet transactions accordingly, prospective borrowers may take advantage of the lower funding cost offered by other parties. As a result, any fluctuation in the interest rate environment may discourage borrowers from making credit applications from us or utilize their approved credit, which may adversely affect our business.

If we are unable to provide a high quality borrower experience, our business and reputation may be materially and adversely affected.

The success of our business largely depends on our ability to provide high quality borrower experience, which in turn depends on a variety of factors. These factors include our ability to continue to offer credit products at competitive amount of financing service fees and adequate credit limits, reliable and user-friendly website interface and mobile apps for borrowers to browse, apply for credit, and purchase merchandise, and further improve our online credit approval process, source merchandise sold on the Qudian marketplace to respond to borrower's demands and preferences, and maintain collection practices that are in strict compliance with applicable laws. If borrowers are not satisfied with our credit products, the merchandise sold on the Qudian marketplace or our services, or our system is severely interrupted or otherwise fail to meet the borrowers' requests, our reputation and borrower loyalty could be adversely affected.

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

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

- our ability to attract new borrowers and maintain relationships with existing borrowers;
- the amount of transactions;
- the mix of products we offer;
- delinquency rates of transactions we facilitate;
- the amount and timing of cost of revenues and operating expenses related to acquiring borrowers and the maintenance and expansion of our business, operations and infrastructure;

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- our ability to establish relationship with additional institutional funding partners and maintain relationships with existing institutional funding partners;
- our ability to secure funding for credit we facilitate on reasonable terms;
- our emphasis on borrower experience instead of near-term growth;
- the timing of expenses related to the development or acquisition of technologies or businesses;
- network outages or security breaches;
- general economic, industry and market conditions; and
- changes in applicable laws and regulations.

In addition, we experience seasonality in our business, reflecting a combination of seasonality patterns of the retail market and our promotional activities. In recent years, many online and offline retailers in China hold promotions on November 11 and December 12 of each year, which drives significant increase in retail sales. Higher retail sales during the shopping seasons may generate greater demand for our credit products. As a result, we typically record higher total revenues during the fourth quarter of each year compared to other quarters. On the other hand, our total revenues for the first quarter tend to be lower due to the Chinese New Year holiday that generally reduces borrowing activities. On the other hand, lower financing service fee amount may decrease our margin for the relevant periods. 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.

Furthermore, we have commenced construction of our innovation park in Xiamen, Fujian Province, and the construction is expected to be completed in 2022. If the costs and expenses incurred for the construction exceed our planned limits, our financial results may be negatively affected.

Uncertainties relating to the growth of the retail industry in China in general, and the online retail industry in particular, could adversely affect revenues from our cash and merchandise credit products and our business prospects.

We generate a substantial portion of our revenue from the provision of both cash and merchandise credit products which we believe are mainly used for day-to-day discretionary consumption purposes. As a result, our cash and merchandise credit products businesses are affected by the development of the retail industry, and in particular the online retail industry, in China. The long-term viability and prospects of various online retail business models in China remain relatively untested. As such, demand for our credit products and our future results of operations will depend on numerous factors affecting the development of the online retail industry in China, which may be beyond our control. These factors include:

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

A decline in the popularity of online shopping in general, especially through the use of credit products, or any failure by us to adapt the Qudian marketplace and improve the online shopping experience of our users in response to trends and user requirements, may adversely affect our results of operations and business prospects.

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Our success and future growth depend significantly on our successful marketing efforts, 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 brands effectively is critical to attracting new and retaining existing borrowers. Successful promotion of our brands and our ability to attract quality borrowers depend largely on the effectiveness of our marketing efforts and the success of the channels we use to promote our brands and credit products. 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 or at all and, 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.

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

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

Any significant disruption in our information technology systems, including events beyond our control, could prevent us from offering our products, thereby reduce the attractiveness of our products and result in a loss of borrowers or institutional funding partners.

In the event of a system outage and physical data loss, our ability to provide credit products would be materially and adversely affected. The satisfactory performance, reliability and availability of our technology and our underlying network infrastructure are critical to our operations, user service, reputation and our ability to attract new and retain existing borrowers and institutional funding partners. Our information technology systems infrastructure is currently deployed and our data is currently maintained on customized cloud 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 attempts to harm our systems, criminal acts and similar events. Since the launch of our business, we had experienced one system outage during the holiday seasons in China due to competition for available cloud computing services provided by our service provider and we cannot assure you that such incidents will not occur in the future. 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 arranging new credit for borrowers.

Any interruptions or delays in our service, whether as a result of third-party error, our error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with borrowers and institutional funding partners and our reputation. Additionally, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. 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 credit applications and other business operations, damage our brands and reputation, divert our employees' attention, reduce our revenue, subject us to liability and cause borrowers and institutional funding partners to abandon our credit products, any of which could adversely affect our business, financial condition and results of operations.

Misconduct and errors by our employees and parties we collaborate with could harm our business and reputation.

We are exposed to many types of operational risks, including the risk of misconduct and errors by our employees and parties that we collaborate with. Our business depends on our employees and/or business partners to interact with users, process large numbers of transactions, deliver merchandise purchased by borrowers, providing user and after-sale product services and support the collection process, all of which involve the use and disclosure of personal information. We could be materially and adversely affected if transactions were redirected, misappropriated or otherwise improperly executed, if personal information was disclosed to unintended recipients or if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human error, purposeful sabotage or fraudulent manipulation of our operations or systems. It is not always possible to identify and deter misconduct or errors by employees or business partners, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. If any of our employees or business partners take, convert or misuse funds, documents or data or fail to follow our rules and procedures when interacting with users, we could be liable for damages and subject to regulatory actions and penalties. Any future allegations of employee misconduct, whether perceived or actual, could materially and adversely affect our reputation and business. We could also be perceived to have facilitated or participated in the illegal misappropriation of funds, documents or data, or the failure to follow our rules and procedures, and therefore be subject to civil or criminal liability. Any of these occurrences could result in our diminished ability to operate our business, potential liability to 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 as to protection of such information, our business and operations may be adversely affected.

We collect, store and process certain personal and other sensitive data from our users, which makes us an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. While we have taken steps to protect the confidential information that we have access to, our security measures could be breached. Because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential user information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users could be severely damaged, we could incur significant liability and our business and operations could be adversely affected. For example, there have been media reports alleging that former employees of our company have misappropriated and sold borrower data. We are not aware of any former employee who has been identified by law enforcement authorities to have engaged in such misconduct, and we do not believe such allegations have had a material impact on our business. However, future allegations of data breaches, whether perceived or actual, could materially and adversely affect our reputation and business.

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 user information protection system with appropriate remedial measures. We have obtained the consents 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 prevent the personal information from being divulged, damaged or lost. However, there is uncertainty as to the interpretation and application of such laws

which may be interpreted and applied in a manner inconsistent with our current policies and practices or require changes to the features of our system. 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.

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

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the NYSE. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Commencing with our fiscal year ending December 31, 2018, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Form 20-F filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. In addition, beginning at the same time, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting.

As of December 31, 2020, our management has concluded that our internal control over financial reporting is effective. See “Item 15. Controls and Procedures — Management’s Annual Report on Internal Control over Financial Reporting.” Our independent registered public accounting firm has issued a report, which has concluded that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020.

However, our internal control over financial reporting may not prevent or detect all errors and all fraud for a variety of reasons. Among others, we are based in China, an emerging market where the overall internal control environment may not be as strong as in more established markets. In addition, 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 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 trading 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 others from 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 property as critical to our success, and we rely on trademark and trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. See “Item 4. Information on the Company — B. Business Overview — Regulation — Regulations Related to Intellectual Property Rights.” However, we cannot assure you that any of our intellectual property rights would not be challenged, invalidated or circumvented, or such intellectual property will be sufficient to provide us with competitive advantages. In addition, other parties may misappropriate our intellectual property rights, which would cause us to suffer economic or reputational damages. Because of the rapid pace of technological change, nor can we 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, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights held by other parties. We may be from time to time in the future subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other parties' trademarks, copyrights, know-how, proprietary technologies or other intellectual property rights that are infringed by our credit products or other aspects of our business without our awareness. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

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

We may incur liability for merchandise sold on the Qudian marketplace that are without or have yet to receive proper authorization, infringe on other parties' intellectual property rights, or fail to comply with related permits or filing requirements.

We currently collaborate with approximately 200 merchandise suppliers, including leading brands and their authorized distributors for our merchandise credit product business. Although we have adopted measures to verify the authenticity and authorization of merchandise offered on the Qudian marketplace and avoid potential infringement of any rights of other parties in the course of sourcing these merchandise, we may not always be successful. In the event that counterfeit, unauthorized or infringing merchandise is sold on our mobile apps or infringing content is posted on our websites, we could face claims that we should be held liable. We had in the past received a few claims alleging that merchandise sold on the Qudian marketplace infringed on other parties' rights and had worked with the relevant merchandise suppliers for product return and exchange of such merchandise. Although these claims have been immaterial to our business, results of operations and financial condition, if any material claim occurs in the future, irrespective of the validity of such claims, we may incur significant costs and efforts in either defending against or settling such claims. If there is a successful claim against us, we might be required to pay substantial damages or refrain from further sale of the relevant

merchandise. Potential liability under PRC law if we negligently participated or assisted in infringement activities associated with counterfeit goods includes injunctions to cease infringing activities, rectification, compensation, administrative penalties and even criminal liability. Moreover, such claims or administrative penalties could result in negative publicity and our reputation could be severely damaged. Any of these events could have a material and adverse effect on our business, results of operations or financial condition.

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

Pursuant to the Circular of the General Office of the PRC State Council on Issuing the Implementing Proposals for the Special Rectification of Internet Financial Risks adopted in April 2016, online finance institutions are required to segregate assets of the institutional funding partners and borrowers in a custodian bank from their own assets. However, there is uncertainty as to the implementation of such regulations, and the scope of online finance institutions which are subject to such assets segregation liabilities remains unclear. In addition, commercial banks in the PRC currently only provide custodian services to online lending information intermediary institutions as defined under the Interim Online Lending Information Intermediary Measures. We do not consider ourselves as an online lending information intermediary institution as defined under the Interim Online Lending Information Intermediary Measures, and we currently do not engage commercial banks in the PRC to provide such custodian services to us. We use our best efforts to separate our own assets from those assets of the institutional funding partners to whom we transfer credit drawdowns by setting up separate bank accounts to monitor the assets of such institutional funding partners. However, since such bank accounts are still under our names and all the assets are therefore considered to be owned by us from a PRC legal perspective, if any person enforces a judgment against our assets, the assets of the institutional funding partners and borrowers will be enforced against as well. In addition, if we are deemed as an online lending information intermediary institution by the applicable regulatory authorities under the Interim Online Lending Information Intermediary Measures in the future, we may be subject to regulatory measures, such as warnings, fines and other measures permitted under the law, for our current practices.

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

We have implemented various policies and procedures in compliance with all applicable anti-money laundering and anti-terrorist financing laws and regulations, including internal controls and “know-your-customer” procedures, for preventing money laundering and terrorist financing. In addition, we rely on our institutional funding partners and payment processors, in particular online payment companies that handle the transfer of funds from institutional funding partners to us and the borrowers, to have their own appropriate anti-money laundering policies and procedures. Certain of our institutional funding partners and online payment companies are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations and are regulated in that respect by the PBOC. We have adopted commercially reasonable procedures for monitoring our institutional funding partners and payment processors.

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 processors as a conduit for money laundering (including illegal cash operations) or terrorist financing without our knowledge. If we were to be associated with money laundering (including illegal cash operations) or terrorist financing, our reputation could suffer and we could become subject to regulatory fines, sanctions, or legal enforcement, including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, all of which could have a material adverse effect on our financial condition and results of operations. Even if we, our institutional funding partners and payment processors comply with the applicable anti-money laundering laws and regulations, we, institutional funding partners and payment

processors may not be able to fully eliminate money laundering and other illegal or improper activities in light of the complexity and the secrecy of these activities. Any negative perception of the industry, such as that arises from any failure of other online consumer finance service providers to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established, and negatively impact our financial condition and results of operation.

The Internet Finance Guidelines purport, among other things, to require internet finance service providers to comply with certain anti-money laundering requirements, including the establishment of a customer identification program, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. The PBOC will formulate implementing rules to further specify the anti-money laundering obligations of Internet finance service providers. 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 implementing rules if and when adopted.

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

We may evaluate and consider strategic investments, combinations, acquisitions or alliances to further increase the value of our credit products and better serve borrowers and enhance our competitive position. These transactions could be material to our financial condition and results of operations if consummated. For example, we purchased 10,204,082 Class A ordinary shares issued by Secoo Holding Limited (NASDAQ: SECO), or Secoo, for an aggregate consideration of US\$100 million in June 2020. Secoo is a large online integrated upscale products and services platform. As of March 31, 2021, we hold approximately 28.9% of Secoo's issued and outstanding shares, and we are its largest shareholder. We have agreed not to sell, transfer or dispose of any shares acquired in the transaction for twelve months after the closing in June, subject to certain limited exceptions.

Our loss from equity method investments amounted to RMB370.0 million (US\$56.7 million) in 2020, which was primarily related to our investment in Secoo. We may continue to recognize loss from such investment in the future, which could have a material and adverse effect on our financial condition and results of operations. If we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction and, even if we do consummate such a transaction, we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction, which may result in investment losses.

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

- difficulties in assimilating and integrating the operations, personnel, systems, data, technologies, products and services of the acquired business;
- inability of the acquired technologies, products or businesses to achieve expected levels of revenue, profitability, productivity or other benefits including the failure to successfully further develop the acquired technology;
- difficulties in retaining, training, motivating and integrating key personnel;
- diversion of management's time and resources from our normal daily operations and potential disruptions to our ongoing businesses;
- difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;
- difficulties in retaining relationships with borrowers, institutional funding partners, merchandise suppliers, employees and other partners of the acquired business;
- risks of entering markets in which we have limited or no prior experience;

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- regulatory risks, including remaining in good standing with existing regulatory bodies or receiving any necessary pre-closing or post-closing approvals, as well as being subject to new regulators with oversight over an acquired business;
- assumption of contractual obligations that contain terms that are not beneficial to us, require us to license or waive intellectual property rights or increase our risk for liability;
- liability for activities of the acquired business before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and
- unexpected costs and unknown risks and liabilities associated with strategic investments or acquisitions.

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

From time to time we may also make financial investments, such as investments in equity securities of other companies, and there can be no assurance that we will be able to realize profits from such investments. We may also engage in corporate restructuring in order to facilitate capital raising and/or incubate new businesses. However, we may fail to obtain such intended benefits.

We may continue to repurchase our shares, and such repurchases may be at prices that exceed the trading price of our ADSs. We cannot guarantee that our share repurchase program will enhance long-term shareholder value, and it may fail to deliver the intended benefits.

We announced a share repurchase program approved by our board of directors in November 2017, under which we may repurchase up to US\$300 million worth of our outstanding ADSs/or ordinary shares over a period of twelve months. We further announced a share repurchase program in December 2018, under which we may repurchase up to US\$300 million worth of our outstanding ADSs/or ordinary shares over a period of twelve months, in addition to any further repurchases that may be made under the program announced in November 2017. In January 2020, we announced a new share repurchase program, under which we may repurchase up to US\$500 million worth of our outstanding ADSs/or ordinary shares over a period of 30 months. Under the new share repurchase program, we are authorized to repurchase our ADSs and/or ordinary shares on the open market from time to time, in privately negotiated transactions, tender offers or any combination thereof. Our management is authorized to determine the terms and conditions relating to the program, including, among others, the quantity, timing, price and purpose of share repurchases.

In the future, we plan to continue to make share repurchases, and such repurchases may be at prices that differ from the trading price of our ADSs. For example, upon obtaining approval from our board of directors, we purchased all 18,173,885 of our Class A ordinary shares then held by Kunlun Group Limited, or Kunlun, at a premium to the then prevailing trading price of our ADSs on April 29, 2019. While we believe our share repurchases in the past helped us stabilize share price and promote shareholders' interests, there can be no assurance that we will achieve the intended benefit of any future share repurchase to enhance value to shareholders.

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

Our business operations depend on the continued services of our senior management, particularly the executive officers named in this annual report. In particular, Mr. Min Luo, our founder, chairman and chief

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executive officer, is 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, we cannot assure you that we can continue to retain their services. If one or more of our key executives were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel. In addition, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team will not join our competitors or form a competing business. If any dispute arises between our current or former officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

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

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

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

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

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC are expected to continue to increase. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pension, housing 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. Unless we are able to control our labor costs or pass on these increased labor costs, our financial condition and results of operations may be adversely affected.

We may be subject to claims under consumer protection laws, including health and safety claims and product liability claims, if property or people are harmed by the merchandise and services offered on the Qudian marketplace.

The Qudian marketplace allows consumers to buy merchandise from third-party merchandise suppliers, and some of such merchandise may be defectively designed or manufactured. Operators of online marketplaces in the PRC are subject to certain provisions of consumer protection laws even where the operator is not the supplier of the product or service purchased by the consumer. As a result, sales of defective merchandise could expose us to product liability claims relating to personal injury or property damage or other actions. In addition, if we do not take appropriate remedial action against merchandise suppliers for actions they engage in that we know, or should have known, would infringe upon the rights and interests of consumers, we may be held jointly liable with the merchandise suppliers for such infringement. Moreover, applicable consumer protection laws in China

provide that trading platforms will be held liable for failing to meet any undertakings that the platforms make to consumers with regard to merchandise listed on their websites or mobile apps. Furthermore, we are required to report to the State Administration of Industry and Commerce, or the SAIC, or its local branches any violation of applicable laws, regulations or SAIC rules by merchandise suppliers or service providers, such as sales of goods without proper license or authorization, and to take appropriate remedial measures, including ceasing to provide services to the relevant merchandise suppliers. We may also be held jointly liable with merchandise suppliers who do not possess the proper licenses or authorizations to sell goods or sell goods that do not meet product standards. Some of the products sold on the Wanlimu e-commerce platform may be defectively designed or manufactured. Sales of such products could expose us to liability associated with consumer protection laws, such as product liability claims relating to personal injury or property damage or other actions. In addition, we may face activist litigation in China by plaintiffs claiming damages based on consumer protection laws, which may result in increased costs in defending such suits and damages should we not prevail, which could materially and adversely affect our reputation and brands and our results of operations. We do not maintain product liability insurance for merchandise offered on the Qudian marketplace or the Wanlimu e-commerce platform, and our rights of indemnity from our merchandise suppliers may not adequately cover us for any liability we may incur. Even unsuccessful claims could result in the expenditure of funds and management time and resources and could materially reduce our net income and profitability.

Under our standard form agreements, we require merchandise suppliers to indemnify us for any losses we suffer or any costs that we incur due to any merchandise offered by these merchandise suppliers. However, not all of our agreements with merchandise suppliers include such terms, and for those agreements that include such terms, we may not be able to successfully enforce our contractual rights and may need to initiate costly and lengthy legal proceedings in China to protect our rights.

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

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

We do not have any business insurance coverage.

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

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

Political tensions between the United States and China have escalated in recent years due to, among other things, the trade war between the two countries since 2018, the COVID-19 outbreak, the PRC National People's Congress' passage of Hong Kong national security legislation, the imposition of U.S. sanctions on certain Chinese officials from China's central government and the Hong Kong Special Administrative Region by the U.S. government, and the imposition of sanctions on certain individuals from the U.S. by the Chinese government, various executive orders issued by former U.S. President Donald J. Trump, such as the one issued in August 2020 that prohibits certain transactions with ByteDance Ltd., Tencent Holdings Ltd. and the respective

subsidiaries of such companies, the executive order issued in November 2020 that prohibits U.S. persons from transacting publicly traded securities of certain “Communist Chinese military companies” named in such executive order, as well as the executive order issued in January 2021 that prohibits such transactions as are identified by the U.S. Secretary of Commerce with certain “Chinese connected software applications,” including Alipay and WeChat Pay, as well as the Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures promulgated by China’s Ministry of Commerce, or MOFCOM, on January 9, 2021, which will apply to Chinese individuals or entities that are purportedly barred by a foreign country’s law from dealing with nationals or entities of a third country. Rising political tensions between China and the U.S. could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. The measures taken by the U.S. and Chinese governments may have the effect of restricting our ability to transact or otherwise do business with entities within or outside of China and may cause investors to lose confidence in Chinese companies and counterparties, including us. If we were unable to conduct our business as it is currently conducted as a result of such regulatory changes, our business, results of operations and financial condition would be materially and adversely affected.

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

A severe or prolonged downturn in the Chinese or global economy could affect borrowers’ willingness to seek credit and institutional funding partners’ ability and willingness to fund credit drawdowns facilitated by us, which could materially and adversely affect our business and financial condition.

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

Borrower growth and activity on mobile devices depends upon effective use of mobile operating system, networks and standards, which we do not control.

Our credit products are offered through mobile apps. As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for these new devices and platforms, and we may need to devote significant resources to the development, support and maintenance of such applications. In addition, our future growth and our results of operations could suffer if we experience difficulties in the future in integrating our credit products into mobile devices or if problems arise with our relationships with providers of mobile operating systems or mobile app stores, or if we face increased costs to distribute or have users utilize our credit products on mobile devices. We are further dependent on the interoperability of providing our credit products on popular mobile operating systems that we do not control, such as iOS and Android, and any changes in such systems that degrade the accessibility of our credit products or give preferential treatment to competing products could adversely affect the usability of our credit products on mobile devices. In the event that it is more difficult for our users to access and utilize our credit products on their mobile devices, or if our users choose not to access or utilize our credit products on their mobile devices or to use mobile operating systems that do not offer access to our credit products, our user growth could be harmed and our business, 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. Our systems infrastructure is currently deployed and our data is currently maintained on customized cloud computing services. Our cloud computing service provider may 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. Such service provider may have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with 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 demands associated with the continued growth in Internet usage.

In addition, we have no control over the costs of the services provided by telecommunication service providers which in turn, may affect our costs of utilizing 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.

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

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

The outbreak of COVID-19 coronavirus in 2020 has materially and adversely affected our business, results of operations and financial condition. Our business could also be adversely affected by the effects of Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics. Our business operations could be disrupted if any of our employees is suspected of having COVID-19 coronavirus, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, SARS or other epidemic, since it could require our

employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the Chinese economy in general.

Risks Related to Our Corporate Structure

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.

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 a 50% equity interest in any PRC company engaging in value-added telecommunications businesses, with certain exceptions relating to e-commerce, domestic multi-party, communication, store-and-forward and call center. The primary foreign investor must also have experience and a good track record in providing value-added telecommunications services, or VATS, overseas.

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, Ganzhou Qufenqi and Xiamen Youxiang Times Technology Co., Ltd., or Xiamen Youxiang, are foreign-invested enterprises, or FIEs. To comply with PRC laws and regulations, we conduct our business in China through our consolidated VIEs and their affiliates. Ganzhou Qufenqi and Xiamen Youxiang have entered into a series of contractual arrangements with the applicable consolidated VIEs and their shareholders. In addition, pursuant to the resolutions of all shareholders of Qudian Inc. and the resolutions of the board of directors of Qudian Inc., the board of directors of Qudian Inc. or any officer authorized by such board shall cause Ganzhou Qufenqi and Xiamen Youxiang to exercise their rights under the applicable power of attorney agreements entered into among Ganzhou Qufenqi or Xiamen Youxiang, the applicable consolidated VIEs and the nominee shareholders of the applicable consolidated VIEs and the rights of Ganzhou Qufenqi and Xiamen Youxiang under the applicable exclusive call option agreements between Ganzhou Qufenqi or Xiamen Youxiang, as applicable and the applicable consolidated VIEs. As a result of these resolutions and the provision of unlimited financial support from the Company to each of our consolidated VIEs, Qudian Inc. has been determined to be most closely associated with each of our consolidated VIEs within the group of related parties and was considered to be the primary beneficiary of each of our consolidated VIEs and its subsidiaries.

We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. Our PRC legal counsel, based on its understanding of the relevant laws and regulations, is of the opinion that each of the contracts among our wholly-owned PRC subsidiary, our consolidated VIEs and their shareholders is valid, binding and enforceable in accordance with its terms. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government authorities, such as the Ministry of Commerce, or the MOFCOM, or the MIIT, or other authorities that regulate online consumer finance platforms and other participants in the telecommunications industry, would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

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

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consolidated VIEs and have to modify such structure to comply with regulatory requirements. However, there can be no assurance that we can achieve this without material disruption to our business. Further, if our corporate structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

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

Furthermore, the Law of Foreign Investment of the PRC, or the 2019 Law of Foreign Investment, and its implementation regulations have become effective since January 1, 2020. Under the Law of Foreign Investment of the PRC and its implementation regulations, VIEs that are controlled via contractual arrangement would not be absolutely deemed as Foreign-Invested Enterprises, or FIEs. Therefore, the current legal status of Contractual Arrangement as a whole and each of the agreements comprising the Contractual Arrangement will not be materially affected by the Law of Foreign Investment of the PRC and its implementation regulations. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. See “— Substantial uncertainties exist with respect to how the 2019 Law of Foreign Investment (including its implementation regulations) may affect our current corporate structure, corporate governance and business and financial condition.” Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our consolidated 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. 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 — B. Business Overview — Overview — Our Contractual Arrangements with Consolidated VIEs and Their Shareholders.”

Our contractual arrangements with our consolidated VIEs may result in adverse tax consequences to us.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with our consolidated VIEs were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) increasing the tax liabilities of our consolidated VIEs without reducing the tax liability of our subsidiaries, which could further result in late payment fees and other penalties to our consolidated VIEs for underpaid taxes; or (ii) limiting the ability of our consolidated VIEs to obtain or maintain preferential tax treatments and other financial incentives.

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 otherwise have a material adverse effect as to our business.

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 — B. Business Overview — Overview — Our Contractual Arrangements with Consolidated VIEs and Their Shareholders.” All of our revenue are 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 record holder of equity interest in our consolidated VIEs, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest.

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 “ — Risks Relating to Doing Business in China — There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

Ganzhou Qudian Technology Co., Ltd., or Ganzhou Qudian and Xiamen Qudian became our consolidated VIEs in 2017. Xiamen Weipujia Technology Co., Ltd., or Xiamen Weipujia, also became our consolidated VIE in 2018. Xiamen Qu Plus Plus also became our consolidated VIE in 2019. Min Luo, our founder, chairman and chief executive officer, and Mr. Lianzhu Lv, our head of user experience department, are the only shareholders of Ganzhou Qudian. Mr. Min Luo is the only shareholder of Xiamen Qudian. Mr. Min Luo and Mr. Hongjia He are the only shareholders of Xiamen Weipujia. Mr. Min Luo and Mr. Long Xu are the only shareholders of Xiamen Qu Plus Plus. We believe such shareholding structure will enhance our administrative efficiency and reduce uncertainties associated with the enforcement of the relevant contractual arrangements entered into with the new consolidated VIEs and their respective shareholder(s). Instead of relying on several shareholders’ compliance with their respective contractual obligations, we will only rely on one or two shareholders’ compliance for each new consolidated VIE and would only need to enforce against such shareholder(s) in the event of a breach. However, there can be no assurance that the shareholding structure of the new consolidated VIEs will deliver the expected benefits. If any of the shareholders of the new consolidated VIEs breaches his obligations under the applicable contractual arrangements, our business, financial condition and results and operations could be materially and adversely affected.

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

In connection with our operations in China, we rely on the shareholders of our consolidated VIEs to abide by the obligations under such contractual arrangements. The interests of these shareholders in their individual capacities as the shareholders of our consolidated VIEs may differ from the interests of our company as a whole,

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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 will act in the best interests of our company or those conflicts of interest will be resolved in our favor. In addition, these individuals may breach or cause our consolidated VIEs and their subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements to address potential conflicts of interest the shareholders of our consolidated VIEs may encounter, on one hand, and as a beneficial owner of our company, on the other hand. We, however, could, at all times, exercise our option under the exclusive 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 power of attorney agreements, 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 provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated 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 our founder, chairman and chief executive officer, Mr. Min Luo, 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. Min Luo, our founder, chairman of the board and chief executive officer, beneficially owns all the Class B ordinary shares issued and outstanding, representing 77.0% of our aggregate voting power as of March 31, 2021. As a result, Mr. Min Luo has the ability to control or exert significant influence over important corporate matters, investors may be prevented from affecting important corporate matters involving our company that require approval of shareholders, including:

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

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

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

Under PRC law, legal documents for corporate transactions, including agreements and contracts 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.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the designated key employees of our legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we have approval procedures in place and monitor our key employees, including the designated legal representatives of our 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 control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations, and our business and operations may be materially and adversely affected.

Substantial uncertainties exist with respect to how the 2019 Law of Foreign Investment (including its implementation regulations) may affect our current corporate structure, corporate governance and business and financial condition.

On March 15, 2019, the Standing Committee of the National People's Congress promulgated the Law of Foreign Investment of the PRC, or the 2019 Law of Foreign Investment, which became effective on January 1, 2020. On December 26, 2019, the State Council issued the Regulations on Implementing the Law of Foreign Investment of the PRC, which came into effect on January 1, 2020. The 2019 Law of Foreign Investment and its implementation regulations replaced the trio of laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

The 2019 Law of Foreign Investment stipulates four forms of foreign investment, namely, (1) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China;

(2) a foreign investor acquires stock shares, equity shares, interests in assets, or other like rights and interests of an enterprise within China; (3) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (4) foreign investments in other forms as provided by law, administrative regulations, or by the State Council.

The contractual arrangements have been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. As mentioned above, the 2019 Law of Foreign Investment and its implementation regulations do not mention concepts including “de facto control” and “controlling through contractual arrangements,” nor does it specify the regulation on controlling through contractual arrangements. Specifically, it does not incorporate contractual arrangements as a form of foreign investment, the contractual arrangements as a whole and each of the arrangements comprising the contractual arrangements will not be materially affected and will continue to be legal, valid and binding on the parties.

However, the 2019 Law of Foreign Investment stipulates that “foreign investment includes foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council,” which means there are possibilities that future laws, administrative regulations or provisions of State Council may stipulate contractual arrangements as a way of foreign investment and our contractual arrangements would be regarded as foreign investment correspondingly. If that is the case, whether our contractual arrangements will be deemed to be in violation of the foreign investment access requirements and how our contractual arrangements will be handled are subject to uncertainties.

Therefore, there is no guarantee that the contractual arrangements and the business of our Consolidated VIEs will not be materially and adversely affected in the future due to changes in PRC laws and regulations. If future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be completed by companies with existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions timely, or at all.

Risks Related 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.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures

may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operations could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

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

Substantially all of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries and consolidated 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.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

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

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

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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.

Mr. Min Luo has completed the SAFE registration pursuant to SAFE Circular 75 in 2014. We have notified substantial beneficial owners of ordinary shares who we know are PRC residents of their filing obligation. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

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

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 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 inter-company 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 subsidiaries and certain other subsidiaries permit payments of dividends only out of their retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

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

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

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

Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable 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. Similarly, any gain realized on the transfer of ADSs or Class A ordinary shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our Class A ordinary shares or ADSs, and any gain realized from the transfer of our Class A ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of ADSs or Class A ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between 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 Class A ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of our ADSs or Class A ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in our ADSs or Class A ordinary shares may decline significantly.

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

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

acquired from a transaction through a public stock exchange. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or SAT Circular 37, which was revised on June 15, 2018, to completely repeal SAT Circular 698 and the second paragraph of Section 8 of Bulletin 7. According to SAT Circular 37, the amount of taxable income equals the remainder after deducting the net equity value from the equity transfer income. Equity transfer income means the consideration collected by the transferor from the equity transfer, including income in both monetary form and non-monetary form. Net equity value means the tax basis for acquiring such equity. The tax basis for the equity is the capital contribution costs actually paid by the equity transferor to a PRC resident enterprise at the time of the investment and equity participation, or the equity transfer costs actually paid at the time of acquisition of such equity to the original transferor of such equity.

There is uncertainty as to the application of Bulletin 7 and SAT Circular 37. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Circular 37 and Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Circular 37 and Bulletin 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 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 VIEs. Currently, certain of our PRC subsidiaries, 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 monetary or fiscal policies adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. In June 2010, the PRC government indicated that it would make the foreign exchange rate of the Renminbi more flexible, which increases the possibility of sharp fluctuations of the Renminbi’s value in the near future and the unpredictability associated with the Renminbi’s exchange rate. Since then, the Renminbi has fluctuated against the U.S. dollar, at

times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. In 2017, however, the RMB appreciated approximately 6.7% against the U.S. dollar. In 2018, the RMB depreciated approximately 5.7% against the U.S. dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

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

PRC regulations establish more complex procedures for acquisitions conducted by foreign investors which could make it more difficult for us to pursue growth through acquisitions.

The M&A Rules promulgated by six PRC regulatory agencies on August 8, 2006 established new procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. On February 3, 2011, the General Office of the State Council promulgated the Notice on Launching the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Security Review Notice, which became effective on March 6, 2011. The M&A Security Review Notice provides for certain circumstances under which foreign investors' acquisition of domestic enterprises shall be subject to the security review of the PRC governments. The security review assesses such acquisition's impact on national security, stable operation of national economy, basic living of the people, and R&D capacity for key technologies related to national security. On August 25, 2011, the Ministry of Commerce of PRC promulgated the Regulation of Ministry of Commerce on Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Security Review Regulation, which became effective on September 1, 2011. The M&A Security Review Regulation stipulates the requirements of application documents and security review procedures of the Ministry of Commerce. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules, the M&A Security Review Notice and the M&A Security Review Regulation to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce or its provincial affiliates, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

The enforcement of the laws on Employment Contracts and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

On June 29, 2007, the National People's Congress of China enacted the laws on Employment Contracts, or the Employment Contract Law, which became effective on January 1, 2008, amended on December 28, 2012.

The Employment Contract Law established new restrictions and increased costs for employers to dismiss employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Employment Contract Law, an employer is obliged to sign a labor contract with an unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts subject to certain conditions or after the employee has worked for the employer for ten consecutive years. The employer also has to pay compensation to an employee if the employer terminates an unlimited-term labor contract. Such compensation is also required when the employer refuses to renew a labor contract that has expired, unless it is the employee who refuses to extend the expired contract or resign. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008 and its Implementation Rules on Paid Annual Leave for Employees, which became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from five to 15 days, depending on their accumulative total length of service. Employers who fail to allow for such vacation time must compensate their employees three times their regular salaries for each vacation day disallowed, unless such employers can provide evidence, such as a copy of a written notice provided to their employees, that suggests the employers made arrangements for their employees to take such annual leaves, but such employees voluntarily waived taking their leaves or such employees waived their right to such vacation days in writing.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit report included in our annual report filed with the SEC, as auditors of companies that are traded publicly in the U.S. and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the U.S. to undergo regular inspections by the PCAOB to assess its compliance with the laws of the U.S. and professional standards. According to Article 177 of the PRC Securities Law which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties. Because our auditors are located in the People's Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

On May 24, 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects the U.S. regulators' heightened interest in this issue. In a statement issued on December 9, 2019, the SEC reiterated concerns over the inability of the PCAOB to conduct inspections of the audit firm work papers with respect to U.S.-listed companies that have operations in China, and emphasized the importance of audit quality in emerging markets, such as China. On April 21, 2020, the SEC and the PCAOB issued a new joint statement, reminding the investors that in investing in companies that are based in or have substantial operations in many emerging markets, including China, there is substantially greater risk that disclosures will be incomplete or misleading, and there is also a greater risk of fraud. In the event of investor harm, there is substantially less ability to bring and enforce SEC, DOJ and other U.S. regulatory actions, in comparison to U.S. domestic companies, and the joint statement reinforced past SEC and PCAOB statements on matters including the difficulty to inspect audit work papers in China and its potential harm to investors.

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

Due to the enactment of the Holding Foreign Companies Accountable Act, or the HFCA Act, we may not be able to maintain our listing on the NYSE.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in December 2020, the United States enacted the Holding Foreign Companies Accountable Act, or the HFCA Act, which includes requirements for the SEC to identify issuers whose audit reports are prepared by auditors that the PCAOB is unable to inspect or investigate because of restrictions imposed by non-U.S. authorities in the auditor's local jurisdiction, or covered issuers. The HFCA Act also requires public companies on this SEC list to certify that they are not owned or controlled by a foreign government and make certain additional disclosures on foreign ownership and control of such issuers in their SEC filings. Furthermore, the HFCA Act amends the Sarbanes-Oxley Act of 2002 to require the SEC to prohibit securities of any U.S. listed companies from being traded on any of the U.S. national securities exchanges, such as NYSE and Nasdaq Stock Market, or in the U.S. "over-the-counter" markets, if the auditor of the U.S. listed companies' financial statements is not subject to PCAOB inspections for three consecutive "non-inspection" years after the law becomes effective.

While the SEC has not yet identified a list of issuers whose auditors are not subject to PCAOB inspections, the first such list could be released in early 2022. On March 24, 2021, the SEC announced the adoption of interim final amendments to implement the submission and disclosure requirements of the HFCA Act. In the announcement, the SEC clarifies that before any issuer will have to comply with the interim final amendments, the SEC must implement a process for identifying covered issuers. The announcement also states that the SEC staff is actively assessing how best to implement the other requirements of the HFCA Act, including the identification process and the trading prohibition requirements. Enactment of the HFCA Act and other efforts to increase the U.S. regulatory access to audit information could cause investor uncertainty as to China-based issuers' ability to maintain their listings on the U.S. national securities exchanges, including us, and the market price of the ADSs could be adversely affected. We cannot assure you that we will not be identified by the SEC as an issuer whose audit report is prepared by auditors that the PCAOB is unable to inspect or investigate. We cannot assure you that, once we have a "non-inspection" year, we will be able to take remedial measures in a timely manner, and as a result, and we cannot assure you that we will always be able to maintain the listing of our ADSs on a national stock exchange in the U.S., such as the NYSE or the Nasdaq Stock Market, or that you will always be allowed to trade our shares or ADSs. If we were subject to the trading prohibitions of the HFCA Act, the market price and liquidity of our ADSs will be materially and adversely affected.

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

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

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

Our audit committee is aware of the policy restriction and regularly communicated with our independent auditor to ensure compliance. If additional remedial measures are imposed on the China-based "big four" accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act. The settlement did not require the firms to admit to any violation of law and preserves the firms' legal defenses in the event the administrative proceeding is restarted.

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 any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the trading price of our ADSs may be adversely affected.

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

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

The SEC, U.S. Department of Justice ("DOJ") and other authorities often have substantial difficulties in bringing and enforcing actions against non-U.S. companies such as us, and non-U.S. persons, such as our directors and executive officers in China. Due to jurisdictional limitations, matters of comity and various other factors, the SEC, DOJ and other U.S. authorities may be limited in their ability to pursue bad actors, including in instances of fraud, in emerging markets such as China. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our directors and executive officers reside within China. There are significant legal and other obstacles for U.S. authorities to obtain information needed for investigations or litigation against us or our directors, executive officers or other gatekeepers in case we or any of these individuals engage in fraud or other wrongdoing. In addition, local authorities in China may be constrained in their ability to assist U.S. authorities and overseas investors more generally. As a result, if we have any material disclosure violation or if our directors, executive officers or other

gatekeepers commit any fraud or other financial misconduct, the U.S. authorities may not be able to conduct effective investigations or bring and enforce actions against us, our directors, executive officers or other gatekeepers. Therefore, you may not be able to enjoy the same protection provided by various U.S. authorities as it is provided to investors in U.S. domestic companies.

Privacy concerns relating to our products and services and the use of user information could damage our reputation, deter current and potential users and customers from using our products.

We may collect personal data while providing products, services and solutions to our customers. Our reputation may be damaged due to the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, which will cause us to lose users and other customers and adversely affect our operations. We strive to comply with applicable laws and regulations on data protection, as well as our privacy policies and data protection obligations in accordance with our terms of use and other obligations we may have. However, any non-compliance or perceived non-compliance with these laws, regulations or policies may lead to investigations and other lawsuits against us by government agencies or other individuals. This will have a negative impact on our reputation and brand image, may cause us to lose users and customers, and have a negative impact on our business. In addition, any system failure or breach of our privacy policy by our current or former employees that may compromise our security and result in an unauthorized access to or release of our users' or other customers' data could greatly limit the user engagement of our products and services, harm our reputation and brand image, as well as affect our business operations.

PRC government authorities have promulgated laws and regulations to protect personal information from any abuse or unauthorized disclosure. In November 2016, the Standing Committee of the National People's Congress promulgated the Network Security Law of the People's Republic of China, or the Network Security Law, which took effect as of June 1, 2017. The Network Security Law is the first special law establishing the overall regulatory regime of personal information protection at the digital age. Since the Network Security Law came into effect, a series of legislative and administrative actions in connection with personal information protection have been taken by the PRC government. The newly adopted legislature includes laws, judicial interpretations, national standards and governmental regulations related to personal information protection, while governmental agencies such as the Central Cyberspace Affairs Commission, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration for Market Regulation have taken a series campaigns to enhance and tighten the supervision of collection, usage, storage and transfer practices of personal information by internet service providers. For instance, pursuant to the Order for the Protection of Telecommunication and Internet User Personal Information issued by the Ministry of Industry and Information Technology 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. Furthermore, Personal Information Protection Act has been listed into the legislative plan, which will strengthen the supervision of the collection of personal information. Furthermore, the Information Security Technology-Personal Information Security Specification (GB/T 35273-2017), or the Specification, was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardization Administration of the PRC, or the Standardization Administration, on December 29, 2017 and has been replaced by Information Security Technology Personal Information Security Specification (GB/T 35273-2020), or the 2020 Specification, issued by the State Administration for Market Regulation and the Standardization Administration jointly which took effect on October 1, 2020. Pursuant to the Specification, product and service providers should take technical and other necessary measures to ensure the safety of personal information, clearly demonstrate the purpose, approaches and scope of processing the personal information to the individual and acquire the authorization. In addition, according to the 2020 Specification, personal biometric information should be stored separately from personal identity information and in principle, the original personal biometric information should not be stored; besides, it further requires that main function of privacy policy is to disclose the scope and rules of personal information collection and use by the personal information controller, which should not be regarded as a contract signed by the subject of personal information. In particular, in 2019, operators of hundreds of APPs, including many popular and well-known Apps such as

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Douyu, YY, Meituan and Alipay, have been consulted or ordered by government agencies to rectify their practices of personal information protection; since September 2019, the so-called “big data” companies have caught regulatory attentions for the suspect of illegal collection and abuse of personal information through internet crawling practices, while Hangzhou Moxie Data Technology Co., Ltd. and Shanghai Xinyan Artificial Intelligence Technology Co., Ltd. have even been officially investigated.

As laws and regulations on data protection evolve, our practices may be deemed to be inconsistent with such laws or regulations. In addition to the potential fines, such non-compliances could result in an order requiring us to change our practices, which may adversely affect our business and operation.

Risks Related to Our Ordinary Shares and ADSs

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

The trading prices of our ADSs have been, and are likely to continue to be, volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies’ securities after their offerings, including 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 our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the 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 our ADSs.

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

- regulatory developments affecting us or our industry;
- announcements of studies and reports relating to the quality of our credit offerings or those of our competitors;
- changes in the economic performance or market valuations of other 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;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional Class A ordinary shares or ADSs.

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

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

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

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

Our board of directors has complete discretion as to whether to distribute dividends. 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 our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline significantly. The total number of ordinary shares outstanding as of March 31, 2021 was 253,088,198, comprising 189,597,026 Class A ordinary shares and 63,491,172 Class B ordinary shares. All ADSs representing our Class A ordinary shares sold in our initial public offering 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 are available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

In addition, certain major holders of our ordinary shares 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 registered shares in the form of ADSs in the public market could cause the price of our ADSs to decline significantly.

We have been named as a defendant in eight putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.

We will have to defend against the putative shareholder class action lawsuits described in “Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Legal and Administrative Proceedings.” We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these lawsuits. There can be no assurance that we will prevail in defense of these lawsuits. Any adverse outcome of these cases could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

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

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under our second amended and restated articles of association, the minimum notice period required to convene a general meeting will be 10 days. When a general meeting is convened, you may not receive sufficient notice of a shareholders’ meeting to permit you to withdraw your Class A ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but there can be no assurance that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders’ meeting.

Your 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 cash dividends if the depositary decides it is impractical to make them available to you.

The depositary will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends in the foreseeable future. See “Item 8. Financial Information — A. Consolidated Statements and Other Financial Information — Dividend Policy” To the extent that there is a distribution, the depositary of our ADSs

has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is 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.

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

In July 2019, we issued US\$345 million aggregate principal amount of convertible senior notes due 2026. As of March 31, 2021, we have repurchased US\$217 million aggregate principal amount of convertible notes, and the outstanding principal amount was US\$128 million. The conversion of some or all of the convertible notes may dilute the ownership interests of existing shareholders. Any sales in the public market of the ADSs issuable upon such conversion could adversely affect prevailing market prices of our ADSs. In addition, the existence of the convertible notes may encourage short selling by market participants because the conversion of the convertible notes could depress the market price of our ADSs.

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

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

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

We are an exempted company 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.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the Cayman Islands will generally recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty), or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that (i) such courts had proper jurisdiction over the parties subject to such judgment; (ii) such courts did not contravene the rules of natural justice of the Cayman Islands; (iii) such judgment was not obtained by fraud; (iv) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (v) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (vi) there is due compliance with the correct procedures under the laws of the Cayman Islands. There is uncertainty as to whether a judgment obtained from the United States courts under the civil liability provisions of the securities laws will be determined by the courts of the Cayman Islands as penal or punitive in nature. If such a determination is made, the courts of the Cayman

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Islands will not recognize or enforce the judgment against a Cayman Islands company. Because the courts of the Cayman Islands have yet to rule on whether such judgments are penal or punitive in nature, it is uncertain whether they would be enforceable in the Cayman Islands.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. Under PRC law, a foreign judgment, which does not otherwise violate basic legal principles, state sovereignty, safety or social public interest, may be recognized and enforced by a PRC court, based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. As there existed no treaty or other form of reciprocity between China and the United States, the United Kingdom, Japan or most other western countries governing the recognition and enforcement of judgments as of the date of this annual report, including those predicated upon the liability provisions of the United States federal securities laws, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult or impossible. In addition, you may not be able to bring original actions in China based on the U.S. or other foreign laws against us, our directors, executive officers or the expert named in this annual report either. As a result, shareholder claims that are common in the U.S., including class action securities law and fraud claims, are difficult or impossible to pursue as a matter of law and practicality in China. Therefore, you may not be able to effectively enjoy the protection offered by the U.S. laws and regulations that intend to protect public investors.

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law 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 or to obtain copies of lists of shareholders of these companies. Our directors have discretion under the 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 management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States. The Companies Law is modeled after that of England and Wales but does not follow recent statutory enactments in England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders.

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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 Class A ordinary shares represented by our 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 Class A ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our Class A ordinary shares and ADSs may be materially and adversely affected. In addition, our second amended and restated memorandum and articles of association contain other provisions that could limit the ability of third parties to acquire control of our company or cause us to engage in a transaction resulting in a change of control, including a provision that entitles each Class B ordinary share to 10 votes in respect of all matters subject to a shareholders' vote.

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.

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

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

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

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the 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.

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

As a Cayman Islands company listed on the NYSE, we are subject to the NYSE corporate governance listing standards. However, the NYSE market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance listing standards.

For instance, we are not required to:

- have a majority of the board be independent (although all of the members of the audit committee must be independent under the Exchange Act);
- have a compensation committee or a nominating and corporate governance committee consisting entirely of independent directors; or
- have regularly scheduled executive sessions with only independent directors each year.

We have relied on and intend to continue to rely on some of these exemptions. 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 will be classified as a passive foreign investment company, or PFIC, which could result in adverse United States tax consequences to United States investors.

The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year, we will be classified as a PFIC for United States federal income tax purposes if either (i) 75% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in that taxable year which produce, or are held for the production of, passive income is at least 50%. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). The calculation of the value of our assets will be based, in part, on the quarterly market value of our ADSs, which is subject to change. See “Item 10. Additional Information — E. Taxation — Certain United States Federal Income Tax Considerations — Passive Foreign Investment Company.”

We consider ourselves as a service provider with the primary business purpose of focusing on our data technology. However, we have historically funded, and may continue to fund, credit drawdowns with our own capital. In such case, the fees received from borrowers may be treated as interest for purposes of the PFIC rules. Given the foregoing and based on the past and projected composition and classification of our income and assets, we believe that there is a significant risk that we were classified as a PFIC for United States federal income tax purposes for 2020, and we may be classified as a PFIC in future taxable years. If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, our PFIC status could result in adverse United States federal income tax consequences to you if you are a United States Holder, as defined under “Item 10. Additional Information — E. Taxation — Certain United States Federal Income Tax Considerations.” For example, if we are or become a PFIC, you may become subject to increased tax liabilities under United States federal income tax laws and regulations, and will become subject to burdensome reporting requirements. See “Item 10. Additional Information — E. Taxation — Certain United States Federal Income Tax Considerations — Passive Foreign Investment Company.” There can be no assurance that we were not a PFIC for 2020 or will not be a PFIC in any future taxable year.

We will continue to incur increased costs as a result of being a public company.

As a U.S. public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the New York Stock Exchange, impose various requirements on the corporate governance practices of public companies. These rules and regulations increase our legal and financial compliance costs and make some corporate activities more time-consuming and costly. We expect to continue 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 have increased the number of independent directors and adopted policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will continue to 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 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.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were founded in April 2014 and operated our business through Beijing Happy Time Technology Development Co., Ltd., or Beijing Happy Time. We initially operated our business by facilitating merchandise credit and cash credit to college students on campuses across China. Starting from November 2015, we shifted our focus to a broader base of young consumers in China, and we have terminated our on-campus business. Since July 2016, we have engaged all borrowers as to our cash and merchandise credit products through online channels.

In September 2016, Qufenqi (Ganzhou) Information Technology Co., Ltd., or Ganzhou Qufenqi, was incorporated as a wholly foreign owned entity in China. In November 2016, we incorporated Qudian Inc. under the laws of the Cayman Islands as our offshore holding company, and subsequently, we established a wholly-owned subsidiary in the British Virgin Islands, QD Technologies Limited, in November 2016, and a wholly-owned subsidiary in Hong Kong, QD Data Limited, to be our intermediate holding company in December 2016, to facilitate our initial public offering in the United States. The entire equity interest of Ganzhou Qufenqi was transferred from its former holding company to QD Data Limited. As a result of the restructuring in 2016, we hold equity interest in Ganzhou Qufenqi through our current offshore structure. At the same time, Ganzhou Qufenqi entered into a series of contractual arrangements with Beijing Happy Time and its shareholders. In addition, pursuant to the resolutions of all shareholders of Qudian Inc. and the resolutions of the board of directors of Qudian Inc., the board of directors of Qudian Inc. or any officer authorized by such board will cause Ganzhou Qufenqi to exercise its rights under such contractual arrangements. As a result of these resolutions and the provision of unlimited financial support from the Company to Beijing Happy Time, Qudian Inc. has been determined to be most closely associated with Beijing Happy Time within the group of related parties and was considered to be the primary beneficiary of Beijing Happy Time and its subsidiaries.

Ganzhou Qudian, Hunan Qudian Technology Development Co., Ltd., or Hunan Qudian, and Xiamen Qudian became our consolidated VIEs in 2017. Xiamen Weipujia became our consolidated VIEs in 2018. Xiamen Qu Plus Plus became our consolidated VIE in 2019. We have entered into a series of contractual arrangements with each new consolidated VIE and its shareholders, which allows us to exercise effective control over each new consolidated VIE and realize substantially all of the economic risks and benefits arising from such new consolidated VIE. The contractual arrangements for each consolidated VIE, including those as to the new consolidated VIEs, contain substantively identical provisions that afford us, through our wholly-owned subsidiary Ganzhou Qufenqi, the right to control all consolidated VIEs in the same manner and degree. Mr. Min Luo, our founder, chairman and chief executive officer, and Mr. Lianzhu Lv, our head of user experience department, are the only shareholders of Ganzhou Qudian, and Mr. Min Luo and Mr. Hongjia He, our vice

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president, are the only shareholders of Hunan Qudian. Mr. Min Luo is the only shareholder of Xiamen Qudian. Mr. Min Luo and Mr. Hongjia He are the only shareholders of Xiamen Weipujia. Mr. Min Luo and Mr. Long Xu are the only shareholders of Xiamen Qu Plus Plus. In January 2021, we completed the dissolution of Hunan Qudian and terminated the contractual arrangements with Hunan Qudian and its shareholders. We believe such shareholding structure will enhance our administrative efficiency and reduce uncertainties associated with the enforcement of the relevant contractual arrangements entered into with the consolidated VIEs and their respective shareholder(s). Instead of relying on several shareholders' compliance with their respective contractual obligations, we will only rely on one or two shareholders' compliance for each consolidated VIE and would only need to enforce against such shareholder(s) in the event of a breach. The establishment of any of these consolidated VIEs is not intended to, and will not, have an adverse impact on the rights of our ADS holders. For more information, see "Item 3. Key Information on the Company — D. Risk Factors — Risks Relating to Our Corporate Structure — 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 otherwise have a material adverse effect as to our business." We intend to utilize our consolidated VIEs to continue to conduct our existing loan book and transaction services businesses and to also undertake new business opportunities.

We currently conduct our business in China mainly through our consolidated VIEs and their subsidiaries. Xiamen Weipujia does not currently engage in material business operations.

We launched Wanlimu Kids Clubs, an early childhood education business, in January 2021. We currently operate the early childhood education business through Xiamen Wanlimu Growth Technologies Co., Ltd., or Xiamen Wanlimu Growth, a subsidiary of Ganzhou Qudian. To facilitate offshore financing for the new business, we have established a wholly-owned subsidiary under the laws of the Cayman Islands, WLM Kids Inc., or Wanlimu Cayman. Through a wholly-owned subsidiary of Wanlimu Cayman to be established in China, we plan to enter into a series of contractual arrangements with Xiamen Wanlimu Growth and its shareholder, which will allow us to continue to exercise effective control over Xiamen Wanlimu Growth and realize substantially all of the economic risks and benefits arising from Xiamen Wanlimu Growth.

In July 2019, we issued US\$345 million aggregate principal amount of 1.00% convertible senior notes due 2026 (including full exercise of the initial purchasers' option to purchase additional notes), raising US\$334.2 million in net proceeds to us after deducting underwriting discounts and commissions and other offering expenses. In connection with the offering of the convertible senior notes, we entered into capped call transactions with the initial purchasers and/or their respective affiliates and used approximately US\$28.2 million of the net proceeds of the offering to pay the cost of such transactions.

Our principal executive offices are located at Tower A, AVIC Zijin Plaza, Siming District, Xiamen, Fujian Province 361000, People's Republic of China, and our telephone number is +(86) 592 591 1580. Our website address is www.qudian.com. The information on our website does not form a part of this annual report. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

B. Business Overview

Overview

We are a leading technology platform empowering the enhancement of online consumer credit experience in China. We target hundreds of millions of young, tech-savvy and mobile-active consumers in China who are underbanked and underserved but eager to access small credit for their discretionary spending. Our technology platform enables licensed credit providers to offer instantaneous, affordable and customized consumer credit to this young generation of consumers.

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At the core of our technology platform are our big-data driven artificial intelligence-based credit assessment model and efficient transaction infrastructure. Our credit assessment model is built on a massive amount of multi-dimensional borrower data and advanced machine learning capabilities. We focus on data analysis that not only reflect borrowers' ability to repay but also their willingness to do so. The growing volume of credit transactions facilitated by our platform allows us to continuously refine our proprietary credit assessment model, which enables us to accurately assess borrowers' credit profiles. In addition, our transaction clearing infrastructure meets the stringent requirements of regulated financial institutions and has the capability to process enormous credit transactions in real time. We have integrated our transaction infrastructure seamlessly with licensed institutional funding partners. As a result, we are able to rapidly aggregate borrowing demand, assess credit risk and match funding sources instantaneously.

Through our technology platform, we operate (i) a loan book business, whereby we offer small credit products to consumers and undertake the related credit risk, and (ii) a transaction services business, whereby we offer loan recommendation and referral services to third-party financial service providers and assume no credit risk. In 2020, we facilitated RMB22.4 billion (US\$3.4 billion) in transactions, 82.1% of such transactions were facilitated under our loan book business, and 17.9% were facilitated under our transaction services business. As of December 31, 2020, we had served a cumulative number of borrowers of 19.1 million.

To provide consumers with a convenient experience, we offer small credit products through our online platform, with all of the transactions facilitated through mobile devices. Prospective borrowers can apply for small credit on their mobile phones and receive approval within minutes. Approved borrowers are then able to draw down on their cash credit with cash disbursed immediately into their online accounts in digital form. Borrowers also repay the credit drawdowns through their online accounts. We also offer merchandise credit products to finance borrowers' direct purchase of merchandise from the Qudian marketplace on installment basis. Through collaborating with approximately 200 merchandise suppliers, we offer a variety of merchandise ranging from consumer electronics products to watches and sports and outdoor products to capture approved borrowers' growing consumption demand and enhance their online shopping experience. In the three months ended December 31, 2020, the small credit products under our loan book business had an average size of approximately RMB2,700 (US\$416) and weighted average term of approximately 4.5 months.

We collaborate with a variety of institutional funding partners such as banks, trust companies, consumer finance companies, asset management companies and other institutions, to secure sufficient amounts of funding for credit drawdowns. Institutional funding partners are interested in working with us because of our technology-driven credit assessment capabilities and the diversified credit portfolio with attractive risk-adjusted returns. Our strong technological capabilities enable us to seamlessly integrate our system with those of our institutional funding partners, rapidly facilitate transactions and repayment settlements at a massive scale and forecast our funding needs on a real-time basis. We do not directly source funding from retail investors.

We have developed our transaction services business to help financial service providers grow, while simultaneously bringing value to consumers. The transaction services business also allows us to further monetize our user base and mitigate our credit risk exposure. While our registered users grew to approximately 81.9 million as of December 31, 2020, the number of outstanding borrowers was 3.5 million as of the same date, evidencing the potential to maximize the value of our user base. As of December 31, 2020, the cumulative amount of transactions facilitated under our transaction services business was RMB28.0 billion, and the cumulative number of borrowers for such transactions was 1.4 million. In the three months ended December 31, 2020, the transactions facilitated under our transaction services business had an average loan balance of approximately RMB6,800 (US\$1,040) and weighted average term of approximately 6.4 months.

We generate (i) financing income, loan facilitation income and other related income and guarantee income from cash credit products and (ii) financing income and sales commission fee from merchandise credit products. We generate transaction services fee and other related income from our transaction services business. We also

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generate sales income from merchandise sales on the Wanlimu e-commerce platform, which we are in the process of winding down. We historically offered budget auto financing products, from which we generated sales income and financing income. We started to wind down our budget auto financing business in the second quarter of 2019 to focus on our core consumer finance business.

Our total revenues increased from RMB7,692.3 million in 2018 to RMB8,840.0 million in 2019, and decreased to RMB3,688.0 million (US\$565.2 million) in 2020. We recorded net income of RMB2,491.3 million, RMB3,264.3 million and RMB958.8 million (US\$146.9 million) in 2018, 2019 and 2020, respectively.

Credit Business

Our credit business is comprised of (i) a loan book business, whereby we offer small credit products to consumers and undertake the related credit risk, and (ii) a transaction services business, whereby we offer loan recommendation and referral services to third-party financial service providers and assume no credit risk.

Loan Book Business

Small Credit Products

Under our loan book business, we offer small credit products to consumers and undertake the related credit risk. We target hundreds of millions of young, tech-savvy and mobile-active consumers in China who are underbanked and underserved but eager to access small credit for their discretionary spending. Our small credit products consist of cash credit products and merchandise credit products. Users can access our small credit products through our Laifenqi and Qudian mobile apps. Small credit products typically have short durations, enabling us to quickly understand a borrower's behavior and further refine our data analytics and credit assessment model. Small credit products also enjoy favorable risk characteristics compared to larger credit products. A borrower is more likely to repay a smaller amount on time to maintain the quality of his or her credit profile, which may impact future borrowing activities. Benefits to fraudulent borrowers are also limited given the small amount of money borrowed.

Our cash credit products comprise short-term, unsecured lines of credit that can be drawn down at any time, subject to our approval at the time of each drawdown request. Prospective borrowers complete an application and receive a decision on their application in as quick as a few seconds. When a credit is drawn, the money is deposited directly into the borrower's specified digital account and can be used anywhere such digital account is accepted. Borrowers are typically charged financing service fees for cash credit drawdowns. In the three months ended December 31, 2020, our cash credit products had an average size of approximately RMB2,800 (US\$425) and weighted average term of approximately 4.4 months.

We also offer merchandise credit products to finance borrowers' direct purchase of merchandise offered on the Qudian marketplace on installment basis. The Qudian marketplace connects consumers with merchandise suppliers. We neither sell merchandise nor hold inventory for the Qudian marketplace. Customers access the Qudian marketplace through mobile apps. Only customers with approved merchandise credit limits can make purchases, and we require a minimum amount of each purchase to be funded by utilizing our credit product. In the event the credit drawdown were insufficient to purchase the relevant merchandise, borrowers will need to pay for the portion that was not covered by the credit products using their own funds. A borrower may also voluntarily pay a portion of the purchase price with his or her own funds. We currently collaborate with approximately 200 merchandise suppliers, including leading consumer brands and their authorized distributors, to offer 16 categories of merchandise from around 2,000 brands covering primarily consumer electronics, home appliances, watches and accessories, sports and outdoor merchandise and luggage. Borrowers are typically charged financing service fees for merchandise credit drawdowns. We also earn sales commission fee from our merchandise suppliers for our intermediary services rendered. Sales commission fee represents fees earned from merchandise suppliers when borrowers purchase their merchandise on the Qudian marketplace and comprise

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(i) the difference between the retail prices of the merchandise sold to borrowers and the prices of the merchandise that we pay to the merchandise suppliers and (ii) rebates earned from merchandise suppliers. Such fees are determined based on our negotiation with the relevant merchandise suppliers. Merchandise suppliers do not receive any other amounts from us or borrowers.

We utilize our proprietary data analytics and credit assessment model to determine the amount of credit available for each borrower. For information regarding credit assessment, see “— Credit Approval and Servicing Process — Stage 3: Credit Assessment.” The full amount of such credit represents such borrower’s credit limit for merchandise credit products. A portion of the full amount represents the borrower’s credit limit for cash credit products. Nonetheless, while borrower may utilize funds received under cash credit products for any purpose, merchandise credit products can only be used to fund purchases on the Qudian marketplace. Borrowers’ credit limits are not the same as revolving lines of credit which can be utilized and paid down and utilized again because we have the right to not approve any additional draw downs. Upon receipt of a drawdown request, our credit assessment model and risk management system normally review the application and re-evaluate the creditworthiness of such borrower to ensure that he or she is qualified for the requested drawdown.

When borrowers draw down on their cash credit or utilize their merchandise credit to purchase merchandise on the Qudian marketplace, they may choose between several installment plans of different durations and financing service fees. The terms of the credit products are clearly stated in the electronic borrowing agreements borrowers enter into with us upon drawdowns:

- *Installments.* Borrowers are generally required to make fixed weekly or monthly payments. The combined total represents the loan principal and financing service fees charged to borrowers.
- *Durations.* Durations of credit products facilitated typically range from one to 18 months for cash credit products and from one to 18 months for merchandise credit products as of the date of this annual report. Historically, we also offered merchandise credit products that require monthly payments ranging up to 24 months.
- *Prepayments.* Borrowers may pay off their account balance in full at any time, and the amount of repayment will be calculated based on actual duration of the loan prior to the prepayment.
- *Penalty fee.* A penalty fee for late payment is clearly disclosed in the agreement and will be imposed as a daily penalty rate of the amount past due.
- *Repayment method.* Repayments are made through the borrower’s specified digital account.

The borrower may continue to utilize his or her credit as long as the borrower has made the requisite payments in a timely manner, and there are unused credit remaining, subject to our approval at the time of each drawdown request. Borrowers are not allowed to roll over cash credit products or merchandise credit products upon maturity or otherwise change the terms of the transactions.

Budget Auto Financing Products

We historically offered budget auto financing products in the form of sales-type finance leases and vehicle sales with guarantee under the Dabai Auto brand. We started to wind down our budget auto financing business in the second quarter of 2019 to focus on our core consumer finance business.

In the case of sales-type finance leases, we purchased cars on our inventory and leased them to creditworthy car buyers. Each car buyer was required to make a down payment and pay installments throughout the term of the lease. The legal title of the car was transferred to the car buyer upon full repayment. In the case of vehicle sales with guarantee, we sold vehicles to buyers and provided loan facilitation services to funding partners who provided financing to the vehicle buyers. The buyer obtained control of the vehicle when the borrower physically possessed the vehicle and when we received cash consideration for the vehicle from the buyer. We received

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recurring service fees from the financial institution for our loan facilitation services and post-origination services throughout the term of the loan. In addition, we provided a guarantee on the principal and accrued interest repayments of the defaulted loans to the financial institution.

Risk Management

To maintain healthy credit performance, we developed a rigorous credit assessment model and robust risk management system. We are an innovator in the application of artificial intelligence, machine learning and big data analytics to credit services. We aggregate borrowers' behavioral data and utilize machine learning technologies to accurately assess borrowers' credit profiles. Our unique small credit products with short tenure result in a high transaction frequency, which in turn help to produce a massive amount of transaction data and a high transaction velocity, which is critical for an artificial intelligence and machine learning driven credit assessment model to quickly evolve in a continuously self-reinforcing manner. The model is built on more than 800 decision rules and over 6,000 data variables and powered by our massive database, including more than 215 million actual transaction backed analytics and data from more than RMB291 billion cumulative amount of credit drawdowns facilitated as of December 31, 2020.

Fraud Prevention

Our fraud prevention system identifies suspicious activities effectively and accurately with minimum friction in user experience. Machine learning enables us to analyze prospective borrowers' behavioral patterns and address different types of fraud risks, including known fraud types, new fraud types as well as organized frauds. We aggregate data from both internal and external sources and undertake multiple steps to identify frauds:

- ***Information Authentication.*** We use information from external databases to match the information provided by the prospective borrower. If the relevant information does not match, such application will be declined.
- ***Restricted List Search.*** We collaborate with other institutions to screen prospective borrowers who are on restricted lists maintained by such institutions. We utilize such lists which contain individuals whose records indicate higher risk of fraud.

Credit Assessment

Our credit assessment system has undergone significant evolutions since our inception in April 2014. Prior to November 2015, we primarily engaged borrowers offline and utilized traditional credit assessment methodologies such as in-person collection of borrower information as well in-person interviews. Our borrower engagement efforts shifted from offline to online since November 2015, and we have fully automated data collection and credit assessment methodologies accordingly. In the fourth quarter of 2017, we adopted a new credit assessment system, which consisted of multiple modules:

- ***Admission Module.*** Under this module, we assess applicants based on their basic background information, such as age and the geographical regions where they are located;
- ***Redline Module.*** Under this module, we exclude certain ineligible applicants, such as students and applicants on restricted lists maintained by other institutions that we collaborate with;
- ***Enhanced Rule Module.*** Under this module, we identify high risk applicants, such as applicants with a history of severe delinquency or have a record of borrowing from a large number of lenders. QD score is also one of the key factors we consider under the enhanced rule module to assess applicants;

QD Score

QD score analyzes a large number of variables for each transaction and enable us to better differentiate between creditworthy borrowers and lower quality borrowers. Such variables include internal data, such as historical transaction data backed by actual repayment and delinquency behavior. Compared to our earlier credit assessment systems, QD score takes into account more variables relating to (i) prospective borrowers' credit applications and delinquencies with other financial service providers and (ii) prospective borrowers' ability to repay. We believe such variables have enhanced our ability to identify prospective borrowers who have borrowed from multiple sources and therefore present higher level of credit risk as well as our ability to accurately assess prospective borrowers' ability to repay. For repeat borrowers, we use borrowers' transaction data on our platform. We have cumulatively facilitated over 215 million credit transactions on our platform, which gives us proprietary data advantage in terms of users' credit quality with regards to repayment and delinquency behavior.

QD score correlates positively with credit quality and ranges from 0 to 1,000. We offer borrowers with better credit quality progressively higher credit limits. In 2020, credit limits assigned to eligible borrowers ranged approximately from RMB500 to RMB25,000.

Historical Practices

Our credit assessment system has undergone significant changes since our inception in April 2014. Prior to November 2015, we primarily engaged borrowers offline and utilized traditional risk management methodologies such as in-person interviews and in-person collection of borrower information, which included education background, PRC identity card and student identification card. We assessed borrowers' risk profiles based on the completeness of their information, and we divided them into multiple segments, each corresponding to a different credit limit.

Our borrower engagement efforts shifted from offline to online in November 2015, and we have started to automate our data collection process and credit assessment system. During the period from November 2015 to January 2017, we assessed borrowers' credit profiles based on a large number of inputs, such as Zhima Credit Score, the borrower's delinquency record, the number of credit applications submitted by the borrower to other financial service providers and delinquency rates in the region where a prospective borrower resides. None of the inputs by itself alone is determinative in our analysis. We assigned borrowers highly differentiated credit limits based on their credit profiles.

In January 2017, we rolled out a major upgrade of our risk management system and adopted two distinct credit assessment systems for new borrowers and borrowers who have established certain credit histories with us.

These systems allowed us to better utilize transaction data on our platform as well as distinguish the credit quality of borrowers. In the fourth quarter of 2017, we combined the two systems into a more enhanced system, namely QD score.

Every applicant who passes our fraud prevention and credit assessment system is assigned a credit limit, the size of which is determined by our credit assessment system.

Our Risk Management Team

We have established a risk management team comprising of 131 employees as of December 31, 2020. Our risk management team meets regularly to examine the credit and enterprise risks of our company, and is intimately involved in portfolio management, credit model development, validation and optimization. Tasks performed by our risk management team includes reporting on origination trends, monitoring of portfolio performance and stability, risk concentrations, building and maintaining credit models, performing economic stress tests on our portfolio, optimizing credit decisioning processes and conducting peer benchmarking and exogenous risk assessments.

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A majority of our risk management team members are responsible for credit management and collection. We have implemented payment and collection policies and practices, included through automated repayment process in which borrowers authorize deduction from their specified digital accounts for the amount of scheduled repayments. These policies and practices are designed to optimize regulatory compliant repayment, while also providing superior borrower experience. Our collections teams are trained to help borrowers to understand the value of their credit profile, explore available payment alternatives and make reasonable arrangements to repay outstanding balances. Our employees contact borrowers following the first missed payment and periodically thereafter. Our primary methods of contacting past due borrowers are to send reminders through text, voice and instant messages, phone calls, letters and emails.

We have developed a machine learning algorithm to better allocate collection resources based on more detailed grouping of larger delinquency risk, which we rolled out in the second quarter of 2017. The algorithm places delinquent borrowers into different groups based on internal blacklist check, credit history and QD score. Higher risk groups are allocated with more collection resources as the likelihood of their outstanding balance becoming longer-term delinquent or even uncollectable is generally higher. We expect to both improve our collection efficiency and reduce delinquency under this algorithm.

Pricing

Credit limits for small credit products are determined based on assessments performed by our proprietary credit assessment model and risk management system. Our credit assessment model takes into account factors such as identity characteristics, credit history, payment overdue history, payment capacity, behavioral characteristics and online social network activity, and assign each borrower a personalized credit limit based on his or her credit profile.

We continually review and assess the credit profiles of borrowers at each drawdown request. If the credit profile of a prospective borrower changes, the amount and duration of credit that such borrower may be able to draw down under the credit limit would also change. As borrowers repay, they build credit histories with us. Based on the credit histories, our artificial intelligence-based credit assessment model enables us to continually re-evaluate borrowers' credit profiles and provide more personalized credit limits. We offer borrowers with stronger credit profiles higher credit limits and longer repayment durations, thereby driving higher engagement with them.

Pricing for credit drawdowns borrowed under cash credit and merchandise credit products are quoted in the form of the size of each installment payment and the number of installments required. For cash credit and merchandise credit products, the combined total represents the loan principal and financing service fees charged to borrowers. A credit product with duration of one week only requires a one-time payment upon maturity. A penalty fee for late payment is imposed as a daily penalty rate of the amount past due. All fees are clearly disclosed to the borrower upfront when the transaction is facilitated. In an effort to comply with potentially applicable laws and regulations, we adjusted the pricing of our credit products in April 2017 to ensure that the annualized fee rates charged on all credit drawdowns do not exceed 36%.

The financing service fee of a credit product is determined by its size and duration. Credit products of larger size and longer duration generally correspond to higher amount of financing service fees. For borrowers with strong credit profiles, we may offer them discounts as to financing service fees. In addition, we hold promotional campaigns from time to time and charge lower financing service fees during such campaigns. Such discounts were RMB61.6 million, RMB10.7 million and RMB2.2 million (US\$0.3 million) for the years ended December 31, 2018, 2019 and 2020, respectively.

Transaction Services Business

In the fourth quarter of 2018, we launched an open platform for transaction services business, which helps financial service providers grow, while simultaneously bringing value to consumers. The transaction services business also allows us to further monetize our user base and mitigate our credit risk exposure. We perform credit assessment on users applying for credit on our platform, following which we primarily refer users that meet our credit requirements to licensed institutional funding partners that participate on the platform. We receive commissions from the institutional funding partners for such referrals.

The financial service providers perform independent credit assessment for the transactions facilitated under our transaction services business, and we do not bear credit risk for the transactions.

Our open platform provides one-stop end-to-end credit service to consumers through our mobile applications. Consumers can complete credit applications, and loan drawdowns from our licensed institutional funding partners or other financial service providers on our platform. As such, our platform offers superior user experience compared to platforms that redirect borrowers to other financial service providers to process their borrowing transactions.

Borrowers

We target hundreds of millions of young, tech-savvy and mobile-active consumers in China who are underbanked and underserved but eager to access small credit for their discretionary spending. As we have been focused on providing credit products to young consumers across China, we have gained extensive experience and understanding into the behavior and consumption preference of such demographic of users since our inception. In 2020, approximately 78.9% of active borrowers are between 18 and 35 years of age.

We primarily engage borrowers through our mobile applications. We also seek to diversify our borrower engagement channels by collaborating with other leading Internet companies. However, in response to the uncertainties that came with the COVID-19 coronavirus outbreak, we adopted a more conservative business strategy and implemented more stringent credit approval standards, as we have only provided credit products to customers with better credit histories since early 2020.

As of December 31, 2018, 2019 and 2020, approximately 31.0 million, 33.8 million and 33.8 million registered users were approved with credit, respectively. As of December 31, 2018, 2019 and 2020, our outstanding borrower base was 5.3 million, 6.1 million and 3.5 million, respectively. In 2018, 2019 and 2020, repeat borrowers made up approximately 88.0%, 77.6% and 98.3% of our total active borrowers, respectively. On average, an active borrower drew down credit from our platform approximately 6.2 times in 2020.

Funding

We collaborate with institutional funding partners to fund transactions under both the loan book business and the transaction services business. While we bear credit risk for transactions under the loan book business, we do not bear credit risk for transactions under the transaction services business. We believe institutions provide us with an efficient way to secure a large amount of funding, while being generally more stable than retail investors by nature. In addition, while we intend to focus on leveraging technology, rather than capital, to serve the broad consumer base in China, we indirectly fund certain transactions under the loan book business through funding arrangements with financial institutions to provide ourselves with funding flexibility.

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The table below sets forth a breakdown by funding sources for total amount of transactions in the periods presented:

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
On-balance sheet transactions:				
Credit drawdowns that were funded by institutional funding partners	17,786,502	6,827,311	611,751	93,755
Credit drawdowns transferred to institutional funding partners	1,664,062	477,200	—	—
Credit drawdowns funded through trusts(1)	16,122,440	6,350,111	611,751	93,755
Credit drawdowns that were funded by our own capital	19,249,864	15,933,116	17,683,191	2,710,068
Total on-balance sheet transactions	37,036,366	22,760,427	18,294,942	2,803,823
Off-balance sheet transactions	20,904,603	38,080,279	97,879	15,001
Transactions under the loan book business	57,940,969	60,840,706	18,392,821	2,818,823
Transactions under the transaction services business	—	23,683,642	4,020,778	616,211
Total	57,940,969	84,524,348	22,413,599	3,435,034

(1) Excludes credit drawdowns funded by our own capital through trusts.

The table below sets forth a breakdown by funding sources, as a percentage of the amount of transactions, in the periods presented

	Year Ended December 31,		
	2018	2019	2020
	%		
On-balance sheet transactions:			
Credit drawdowns that were funded by institutional funding partners	30.7	8.1	2.7
Credit drawdowns transferred to institutional funding partners	2.9	0.6	—
Credit drawdowns funded through trusts(1)	27.8	7.5	2.7
Credit drawdowns that were funded by our own capital	33.2	18.9	78.9
Total on-balance sheet transactions	63.9	26.9	81.6
Off-balance sheet transactions	36.1	45.1	0.5
Transactions under the loan book business	100.0	72.0	82.1
Transactions under the transaction services business	—	28.0	17.9
Total	100.0	100.0	100.0

(1) Excludes credit drawdowns funded by our own capital through trusts.

We select funding sources to fund credit facilitated by us based on various factors, including the fees charged by such funding sources, amount of the credit drawdowns to be funded, the credit drawdown requirement of the funding sources at that time and the timing of the availability of fund from the funding sources. Under the loan book business, the financing service fee of a small credit product is determined by its size and duration, instead of the funding arrangement related to the transaction. For more information, see “— Pricing.” Under the transaction services business, the pricing terms for the transactions are determined by the relevant financial service providers.

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Funding Provided Directly by Institutional Funding Partners and Guaranteed by Us

We have entered into cooperative agreements with banks in China and started to fund credit drawdowns to borrowers under such arrangements in April 2017. The banks are able to utilize our data-driven credit assessment model to screen potential borrowers who are traditionally underserved by banks due to the lack of credit data. Under such agreements, we refer to such banks qualified credit applications from borrowers, including our assessment of their credit profiles and our suggested credit limits. They will then review the credit applications independently in accordance with their credit assessment standards and approve credit for drawdown. Once a credit limit is approved and funding is requested, the banks will fund the credit to the borrower directly.

The relevant bank is identified as the lender under the borrowing agreement. The borrower is required to repay the principal and financing service fees directly to the relevant bank. Such bank will in turn deduct the principal and fees due to it from the repayment and remit the remainder to us as our loan facilitation fees. When the borrower defaults, we are obligated to repay the full overdue amount to the relevant banks.

We also entered into collaborations with consumer finance companies and small credit companies pursuant to which the consumer finance companies and small credit companies funded the credit we facilitated for the borrower directly. Such arrangements with the consumer finance companies and small credit companies were similar to those entered into with banks.

In 2020, the amount of transactions facilitated under these arrangements with banks, consumer finance companies and small credit companies for our cash credit products were RMB97.9 million (US\$15.0 million). We recognize loan facilitation fees earned from banks, consumer finance companies and small credit companies as loan facilitation income and other related income, which were RMB131.6 million (US\$20.2 million) in 2020. Subsequent to January 1, 2020, the non-contingent aspect of the risk assurance liability is subsequently recognized as guarantee income over the term of the arrangement as we are released from the stand ready obligation based on the borrower's repayment of the loan principal, which were RMB826.2 million (US\$126.6 million) in 2020. At the inception of each credit drawdown directly funded by banks, consumer finance companies and small credit companies, we record the fair value of (i) guarantee liabilities, which represent the present value of our expected payout based on the estimated delinquency rate and the applicable discount rate for time value; or (ii) risk assurance liabilities, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction, as applicable. The contingent loss arising from risk assurance liabilities is recognized when borrower default is probable, and the amount of loss is estimable. Subsequent to January 1, 2020, the contingent liability relating to the expected credit losses arising from the contingent aspect of the risk assurance liability is initially measured under the CECL model in accordance with ASC 326. As of December 31, 2020, guarantee liabilities and risk assurance liabilities under our arrangement with banks, consumer finance companies and small credit companies was RMB31.4 million (US\$4.8 million). In 2020, we paid banks, consumer finance companies and small credit companies RMB1,684.4 million (US\$258.2 million) for borrower default.

Funding Provided through Trusts

Institutional funding partners, including banks, asset management companies and other institutions, also currently provide credit indirectly to borrowers through trusts we established in collaboration with trust companies. Each trust has a specified term. We consolidate the trusts' financial results in our consolidated financial statements in accordance with U.S. GAAP. Institutional funding partners invests in our trusts in the form of trust units, which entitle the institutional funding partner to a fixed rate of return on the investment. Pursuant to the cooperative agreement with the trust company, we are designated as the service provider for the trusts. If a credit application is approved by us, the credit drawdown will be funded from the trusts to the borrower directly. The trust is identified as the lender under the borrowing agreement. The borrower is required to repay the principal and financing service fees directly to the trust. The trust remits to the institutional funding partners pursuant to the terms of the trust that reflect (i) the pre-agreed rate of return and (ii) funds initially provided by the institutional funding partners. In the event payments made by borrowers are less than the amount

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that would reflect the pre-agreed rate of return and funds initially provided by the institutional funding partners, we are obligated to make up for the deficit so that the institutional funding partners still receive such total amount. Any remaining amount in the trust is retained by us. The trust company is responsible for administering the trust and is paid a service fee.

We also fund certain trusts with our own capital. In 2020, the amount of transactions facilitated through trusts was RMB17,879.2 million (US\$2,740.1 million), of which RMB611.8 million (US\$93.8 million) was funded by institutional funding partners and RMB17,267.4 million (US\$2,646.3 million) was funded with our own capital.

While the amount of transactions that a trust can provide is limited by the applicable trust agreement, we may establish additional trusts as necessary. In addition, each of the trusts has its own funding criteria, including sizes and durations of credit products, borrowers' ages, type of products (i.e., cash credit or merchandise credit) and minimum annualized fee rate. The funding criteria of a trust are in part based on the relevant funding criteria of the institutional funding partners that provided funds into such trust. Following such criteria, we have facilitated a significant amount of transactions through our trusts. Since the trust company administering such trusts has been licensed by financial regulatory authorities to lend, credit drawdowns funded under such arrangement are not private lending transactions within the meaning of the Second Revised Private Lending Judicial Interpretation issued by the Supreme People's Court of the PRC in December 2020. As a result, under such arrangement, we will not be deemed as a lender or a provider of financial services by the PRC regulatory authorities or becoming subject to supervision and restrictions on lending under the applicable laws and regulations.

Funding Arrangements with Banks Involving Our Own Capital

In 2020, we entered into arrangements with certain banks whereby such financial institutions act as channels for us to fund credit drawdowns with our own capital. We bear the full credit risk for such credit drawdowns, and we record such credit drawdowns on our balance sheet. In 2020, we funded RMB8.5 million (US\$1.3 million) of credit drawdowns under such arrangements.

We historically funded certain credit drawdowns with two small credit companies established by us.

Funding Arrangements under the Transaction Services Business

In the fourth quarter of 2018, we launched an open platform for transaction services business. We perform credit assessment on users applying for credit on our platform, following which we primarily refer users that meet our credit requirements to licensed institutional funding partners that participate on the platform. We receive commissions from the institutional funding partners for such referrals.

The financial service providers perform independent credit assessment for the transactions facilitated under our transaction services business, and we do not bear credit risk for the transactions.

In 2020, we facilitated RMB4,020.8 million (US\$616.2 million) of transactions facilitated under our transaction services business.

Credit Drawdowns Transferred to Institutional Funding Partners

We transferred credit drawdowns to certain institutional funding partners, including P2P platforms historically. Such arrangements involve us first disbursing credit to borrowers with our own funds before we aim to transfer such credit drawdowns to institutional funding partners. We have ceased transferring credit drawdowns to P2P platforms and certain other institutional funding partners in April 2017. We made such decision due to the relatively high cost of funds provided by P2P platforms. We also took into account the regulatory uncertainties faced by P2P platforms. The change in funding arrangements did not have any impact on existing credit drawdown outstanding, as we continued to pay P2P platforms fees on credit drawdowns

previously transferred to them in accordance with the relevant agreements. The change in funding arrangements has not had any negative impact on total revenues or liquidity requirements, as we have started to cooperate with other institutional funding partners. The other institutional funding partners provide cheaper funding sources compared to P2P platforms, helping us to maintain low funding costs.

Our Collaboration with Ant Financial

In 2015, we approached Ant Financial for a potential business cooperation. We have established a rapidly expanding business as a provider of online credit products and demonstrated strong capabilities in data technology and risk management. In September 2015, Ant Financial's wholly owned subsidiary API (Hong Kong) Investment Limited became a shareholder of Qufenqi Inc., a former holding company of Beijing Happy Time. We started to engage prospective borrowers through the Alipay consumer interface in November 2015. Since then, we have continued to collaborate with Ant Financial in certain areas of our business. In connection with our restructuring in 2016, API (Hong Kong) Investment Limited became one of the principal shareholders of Qudian Inc., and it ceased to be our principal shareholder in April 2019. In addition, we ceased to engage borrowers through the Alipay consumer interface in July 2019.

Payment Processing and Settlement. Borrowers receive proceeds from credit drawdowns as well as make repayments through their Alipay accounts. For on-balance sheet transactions, we disburse funds to, and collect repayments from, borrowers through our Alipay accounts. For off-balance sheet transactions, our institutional funding partners utilize their own Alipay accounts and transact with borrowers directly. We have entered into agreements with Ant Financial for payment processing and settlement services in connection with our Alipay accounts. Pursuant to such agreements, we are charged a fixed amount for each credit drawdown funded by our Alipay accounts as well as a percentage of each repayment made to our Alipay accounts. The payment processing and settlement agreements typically provide for an initial term of one year, which can be automatically renewed unless either party provides notice to the other of its decision not to renew 30 days prior to the expiration of the relevant agreement.

Historical Collaborations. We used to cooperate with Zhima Credit for their credit service and credit analysis collaboration. Under our agreements with Zhima Credit, Zhima Credit would provide us with credit analysis information of prospective users and we would also share insights into the application of data technology to our own credit analysis models with Zhima Credit. We have ceased to collaborate with Zhima Credit as the relevant agreements expired in September 2018. We also used to engage borrowers through different channels on the Alipay consumer interface, and we ceased to engage borrowers through such interface in July 2019.

In October 2016 we formed a joint venture with Ant Financial, QuCampus, a company organized under the laws of the PRC. In September 2020, Ant Financial transferred its equity interests in QuCampus to us for a consideration of RMB3.2 million. As of the date of this annual report, QuCampus is wholly owned by us. We are currently in the process of winding down QuCampus.

Our Merchandise Suppliers

We operate the Qudian marketplace, an online marketplace where consumers purchase merchandise offered by third-party merchandise suppliers with our merchandise credit products. We currently collaborate with approximately 200 merchandise suppliers, including leading consumer brands and their authorized distributors to offer in demand merchandise from around 2,000 brands with relatively high price points, such as iPhones and other mobile phones, tablets and computers, on the Qudian marketplace. Our product offerings also include consumer electronics, home appliances, watches and accessories, sports and outdoor merchandise and luggage. We believe we enable leading consumer brands and their authorized distributors/retailers to reach a large customer base who previously may not have sufficient resources to purchase products from these brands and their authorized distributors/retailers, thereby increasing demand for their merchandise. As of December 31, 2020, there were over 430,000 SKUs offered on the Qudian marketplace.

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We have implemented a strict and systematic selection process for merchandise and suppliers. We have established a dedicated merchandising team responsible for identifying potential merchandise and suppliers. We select merchandise on the basis of brands that we expect will resonate with our users. Once a potential product is identified, we conduct due diligence reviews on potential merchandise suppliers' qualifications based on our selection criteria, including performing background checks and examining relevant government permits and brand authorization and qualification certificates for their merchandise. We also evaluate their abilities to meet borrowers' demands for timely supply of merchandise and to provide high-quality after-sales customer service, as well as their product offering prices and scale of business.

We generally enter into framework supply agreements with merchandise suppliers annually based on our standard form contract. Such contracts set forth the price that we will remit to merchandise suppliers when borrowers purchase merchandise. Our standard form contract requires merchandise suppliers to represent that their merchandise are authentic and from lawful sources and do not infringe upon lawful rights of third parties and to pay us liquidated damages for any breach. As we serve as a sales and marketing channel that connects borrowers, as customers, and consumer brands and their distributors, as merchandise suppliers, our merchandise suppliers are responsible for order fulfillment. After sales services are also provided by merchandise suppliers, although our user service personnel handle initial customer queries and connect such customers with the respective merchandise suppliers. We typically request our merchandise suppliers to guarantee a minimum amount of inventory to ensure the supply of merchandise to borrowers. We constantly communicate with our merchandise suppliers to keep them informed of any changes to demand and to understand inventory level for merchandise offered on the Qudian marketplace. We do not carry any inventory.

We typically earn sales commission fee from merchandise suppliers when a borrower purchases their merchandise, and such fees comprise (i) the difference between the retail prices of the merchandise sold to borrowers and the prices of the merchandise that we pay to the merchandise suppliers and (ii) rebates earned from merchandise suppliers. The sales commission fee we collect from our merchandise suppliers typically range up to 15% of the price of the relevant merchandise that we pay to the merchandise suppliers. Our merchandise suppliers currently grant us a credit period of three to 30 days after the date that a borrower purchases the relevant merchandise on the Qudian marketplace. We may also earn rebates from merchandise suppliers.

Credit Approval and Servicing Process

We believe that we provide a convenient and user-friendly credit application process, a credit assessment mechanism that accurately determines an applicant's creditworthiness and a superior overall user experience. Our proprietary credit assessment model and risk management system enables us to provide an automated online application process that aims to provide a simple, seamless and efficient experience to users. Prospective borrowers may complete the application and receive a decision on their application as quick as a few seconds. Once approved, we generally provide such prospective borrowers with both cash credit products and merchandise credit products. Approved borrowers are then able to draw down on their cash credit with funds available in their specified digital accounts within a few minutes or complete the purchase of merchandise on the Qudian marketplace utilizing their merchandise credit products.

We have created a simple and quick process for users to apply for small credit products under the loan book business as described below.

Stage 1: Online Credit Application

Our online credit application process begins with the submission of a credit application by a prospective borrower. A typical prospective borrower is a user who has already registered on Alipay, which requires the input of his or her real name, PRC identity card information and most frequently used mobile phone number for authentication. Given the significant coverage of Alipay in China, we believe most of the targeted borrowers have completed this part of registration process before applying for credit from us.

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A registered Alipay user can apply for credit through our mobile apps. As part of the credit application process, the prospective borrower is asked to provide basic personal information that typically includes their name, PRC identity card information, mobile phone number and their authorization for us to run a credit background check and access to their GPS location while in use.

Stage 2: Data Aggregation and Verification

Upon receiving a completed application by a prospective borrower, our proprietary risk management system and fraud prevention system are populated with information from the submitted credit application, including, with authorization of the relevant users, credit analysis for such prospective borrower provided by third parties. For borrowers who have established certain credit histories with us, our credit assessment model places a strong focus on data from internal sources, such as such borrowers' repayment and delinquency record. This data is then used to verify applicants' identity and for fraud detection. We utilize restricted list searches provided by third-parties as well as our proprietary machine learning algorithms to screen for fraudulent applications. Applicants identified to present higher risk of fraud are declined by our fraud prevention system.

Stage 3: Credit Assessment

After completion of the data aggregation and verification process, the prospective borrower's application either proceeds to the next phase of the application process or the prospective borrower is notified of the decision that the application is declined.

Our proprietary credit assessment model has been powered by our massive database, including data from approximately 33.8 million accumulative applicants with approved credit line and approximately 19.1 million cumulative borrowers that have accounted for approximately RMB291.2 billion cumulative amount of credit drawdowns facilitated as of December 31, 2020. Our proprietary data analytics and credit assessment model is optimized to fit the realities of the Chinese market and tailored for each channel through which we engage prospective borrowers, using big data and fast data from sources that target borrowers in China. Our credit assessment model uses our own scoring criteria, and is routinely monitored, tested, updated and validated by our risk management team. Following credit evaluation, our credit determination system makes a determination as to whether the applicant is qualified, and a qualified borrower receives short-term, unsecured amount of credit. The full amount of such credit represents such borrower's credit limit for merchandise credit products. A portion of the full amount represents the borrower's credit limit for cash credit products. Nonetheless, while borrower may utilize funds received under cash credit products for any purpose, merchandise credit products can only be used to fund purchases on the Qudian marketplace. Unqualified applicants are notified of the decision of their applications being declined, although such applicants are not prohibited from applying again in the future.

Building on the experience and data we have gained since our inception, we have developed a new credit assessment system, QD score, and we have started to apply such system to our small credit products since the fourth quarter of 2017. Continuously refined by machine learning algorithms and the high volume of transaction data we collect, QD score analyzes a large number of variables for each transaction and enables us to better differentiate between creditworthy borrowers and lower quality borrowers.

Stage 4: Credit Utilization

Once the credit application is approved, borrowers can request drawdowns under their respective credit. Upon receipt of a drawdown request, our credit assessment model and risk management system normally review the application and re-evaluate the creditworthiness of such borrower to ensure that he or she is qualified for the requested drawdown. If the credit profile of a prospective borrower changes, the credit limits for such borrower may vary. If the borrower has made the requisite payments in a timely manner, and there are unused credit remaining, the borrower may continue to utilize his or her credit, subject to our approval at the time of each drawdown request. Once the drawdown request is approved, we or our institutional funding partners, as applicable, will then fund credit to borrowers. Funding typically occurs in as quickly as a few seconds after a

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request for drawdown is made and approved. In the event we do not approve a drawdown request, we aim to notify the relevant customer of such decision within ten minutes after the request is made.

Stage 5: Servicing and Collection

We utilize an automated process to help borrowers to make their scheduled payments. Upon origination, we establish a payment schedule with payment occurring on a set business day each month or week. Borrowers then make scheduled repayments online, or authorize deduction from their specified digital accounts the amount of scheduled repayments. In 2020, most of the scheduled repayments were made automatically from the borrowers' specified digital accounts.

For borrowers who do not use the automated repayment process, we provide payment reminder services, such as sending reminders through text and instant messages on the day a repayment is due. Once a repayment is past due, we also send additional reminder text and instant messages during the first two calendar days of delinquency.

Our collection efforts extend to every delinquent borrower under our loan book business. Our collection strategies are divided into different categories, which dictate the types of collection methods we use, based on the severity of delinquency and the borrower's "C card score." The C card score analyzes borrowers' personal information, such as gender, age, residence, education, occupation and marriage status, QD score and other credit history and related information. We use different collection methods tailored to borrowers with different C card scores to optimize the efficiency of our collection effort. For example, our collection system may determine whether to remind borrowers through text, instant messages, automated voice calls or phone calls and the frequency of such reminders. We inform the relevant borrowers of the adverse impact of delinquencies on their credit histories, which may convince such borrowers to pay the amounts past due. We may stop collection efforts when credit drawdowns are 180 calendar days overdue and collection attempts have reached a certain number. In the event of (i) death of the borrower, (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) the amount remained outstanding 180 calendar days past due and therefore deemed uncollectible, we will charge off the relevant outstanding amount. Substantially all of our charge-offs since our inception were due to amounts that remain outstanding 180 calendar days past due and therefore deemed uncollectible.

The following table sets forth the amount of delinquent principal and financing service fees for on-balance sheet transactions we successfully recovered through our collection efforts during the periods presented, as a percentage of the balance of outstanding principal and financing service fees past due for on-balance sheet transactions as of the end of the periods presented:

	Year Ended December 31,		
	2018	2019	2020
Percentage of delinquent principal and services fees for on-balance sheet transactions recovered	79.4%	37.6%	155.3%

In addition to our own collection efforts, we have engaged other parties to conduct debt collection for us from June 2016 to October 2016, as we explored various methods of collection. Such parties have collected a total of approximately RMB150 thousand for us during the period. As we viewed cooperation with such parties to be ineffective, we have since terminated such cooperation.

Early Childhood Education Business

We launched Wanlimu Kids Clubs, an early childhood education business in January 2021. Wanlimu Kids Clubs caters to the strong demand of Chinese parents for early childhood education for their children. We aim to provide one-stop solutions for parents and offer various different early childhood education services at our

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Wanlimu education centers for young children to participate in. Classes currently available under Wanlimu Kids Clubs cover subjects such as sports, dancing, music and art. We have established one Wanlimu education center as of March 31, 2021, and plan to open more Wanlimu education centers across China in the future.

E-commerce Business

We launched the Wanlimu e-commerce platform, which offers online luxury fashion products, in March 2020. We are in the process of winding down this business to focus on our other service offerings.

Our Information Technology and Security

Overview

Our network is configured with multiple layers of security modules to isolate our databases from unauthorized access. We use sophisticated security protocols for communication among applications and we encrypt private information, such as an applicant's identification number. Our technology infrastructure is fully deployed, and our data is entirely maintained, on a customized cloud computing system comprised of approximately 1,183 cloud-based servers and 240 databases. As testimony to the flexibility and scalability of our technology infrastructure, we currently processes approximately 14,000 transactions per hour and 121 terabytes data per day. We have multiple layers of redundancy to ensure reliability of our systems and services. We also have a working data redundancy model with comprehensive backups of our databases and software.

Our technology and product development department, which comprised 285 employees as of December 31, 2020, including core team members with extensive experiences with leading Internet, online retail and mobile commerce and fintech companies in China, focuses on the following that support our long-term business growth:

- maintaining and strengthening our proprietary data and analytics systems, including our decisioning engine, proprietary risk management system and fraud prevention system; and
- ensuring our technology system, including front-end and back-end management systems, collection systems, financial systems, security protocols and business continuity plans are well established, reviewed, tested and continuously strengthened.

Technology System

Our proprietary technology system, which supports all key aspects of our online platform, is designed to optimize for scalability and flexibility. The system is designed to handle the large volume of data required to evaluate a large number of prospective borrower applications quickly and accurately and to manage a large number of borrowers yet flexible enough to capitalize on changing user preferences, market trends and technological advances. Our software development life cycle is rapid and iterative to increase the efficiency and capacity of our system. We are able to implement software updates while maintaining our system stability. We continually employ technological innovations to improve our technology system, which performs a variety of integrated and core functions, including:

- *Financial systems.* Systems that manage the external interface for funds transfers, including integration of our system with those of the institutional funding partners to ensure a seamless experience for the borrowers and the institutional funding partners, as well as for the management of daily financial and accounting, reconciliation and reporting functions. Such systems include, among others:
 - *Transaction syndication and clearing system.* We have developed a highly automated transaction syndication and clearing system that is capable of rapidly facilitating a massive number of transactions under a diverse array of funding arrangements. We currently processes approximately 14,000 transactions per hour and 121 terabytes data per day. The system has been seamlessly integrated with the systems of more than 100 licensed institutional funding partners, including

banks. For a small credit application that can be funded by a single funding source, it automatically selects the proper funding source for each credit drawdown based on the large number of funding criteria specified by our institutional funding partners. For a large credit application, it can syndicate the credit commitment among us and our institutional funding partners based on their funding criteria. The system also separates payments from borrowers into the relevant categories, namely, principals, financing service fees, fees payable to institutional funding partners and penalty fees on a real-time basis and settles with the relevant funding partners on a same-day basis. The system adapts to new funding arrangements quickly. For example, it typically takes two days to complete the configuration for a new trust and two weeks to do so for a new off-balance sheet funding arrangement with a bank. The advanced and efficient system allows us to quickly match demand with institutional funding with appropriate risk appetite, thereby providing credit to consumer instantaneously.

- *Liquidity forecast system.* The system provides real-time forecasts on our funding needs by monitoring the fund inflows and outflows, and such forecasts are valuable information for us to manage liquidity.
- *Security.* We collect and store personally identifiable user information, including names, addresses, identification information and financial accounts information for the sole purpose of individual credit assessment. We retrieve this information with user's consent and have safeguards designed to protect such information, including the application of Advanced Encryption Standard, or AES. We store our data in encrypted form, which offers an additional layer of protection. We also verify data interchange with our institutional funding partners using digital signatures, which enhances the security of such interchange. We also have created controls to limit employee access to such information and to monitor access.
- *Front-end systems.* Include external interfaces and mobile apps that users use when applying for credit and managing their accounts.
- *Back-end management systems.* Our back-end systems include, among other things, our user credit and repayment management system, merchandise procurement system, merchandise management system and user information management system.
- *Collection systems.* Primarily include contract management system, operational and marketing management system and automated phone system.

Marketing and Borrower Engagement

Our marketing efforts are designed to attract and retain borrowers and build brand awareness and reputation. Our marketing efforts are primarily online, and we use an array of online marketing channels to attract borrowers. In addition to engaging borrowers through our mobile applications, we also utilize other leading Internet and mobile platforms in China, including leading Android app stores in China and Apple App Store, to obtain qualified leads for prospective new borrowers. We do not currently pay any fees to acquire leads through Android app stores and Apple App Store. We employ and continually optimize the relevant key words associated with our apps to enhance users' ability to find our apps in such stores.

Furthermore, we believe reputation and word-of-mouth referral will also drive continued organic growth in borrowers. We believe once borrowers are satisfied with their experiences, they will continue to utilize our credit for other needs or to make other purchases on the Qudian marketplace, or referring their friends and colleagues to our credit products.

We have established two brands through which our small credit products were marketed, Laifenqi and Qudian. We ceased to offer small credit products through our Qudian brand in August 2019 as we streamlined our business and started to develop our transaction services business. We leverage and position our brands to

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better target and engage prospective borrowers. We have historically marketed our Laifenqi brand to focus on offering cash credit products to prospective borrowers. On the other hand, we have historically marketed our Qudian brand as the destination for the purchase of merchandise through merchandise credit products. We believe our cash credit products will continue to help us engage targeted quality borrowers to whom we may offer merchandise credit and other products in the future.

Competition

The online consumer finance industry in China is intensely competitive and we compete with other consumer finance service providers in general. We compete with other financial products and companies that attract borrowers, institutional funding partners or both. For example, with respect to borrowers, we compete with other consumer finance service providers, including online consumer finance services, such as JD Finance, 360 Finance, WeBank and Huabei and Jiebei of Ant Financial, as well as traditional financial institutions, such as banks and consumer finance companies. Principal methods of competition include enhancing data analytics capabilities, engaging borrowers cost effectively and strengthening funding sources. With respect to institutional funding partners, we primarily compete with other investment products and asset classes, such as equities, bonds, investment trust products, bank savings accounts and real estate. We believe that we are able to offer attractive returns with low investment thresholds not available from other asset classes.

As evidenced by our market leadership, we believe that our innovative technology platform and our ability to offer personalized and affordable credit products make us more attractive and efficient to both borrowers and institutional funding partners, providing us with a competitive advantage. 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 also enter the market in the future. We believe that our brands, scale, network effects, historical data and performance record provide us with competitive advantages over existing and potential competitors.

Intellectual Property

We regard our trademarks, domain names, copyrights, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark and trade secret law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. We have registered 69 trademarks in the PRC for “趣店”, “Qufenqi” and other trademarks. We also have 10 trademarks under application in the PRC. We are the registered holder of 159 domain names in the PRC that include qudian.com and laifenqi.com. We were also granted 127 copyrights that corresponding to our proprietary techniques in connection with our systems.

Seasonality

We experience seasonality in our business, reflecting a combination of seasonality patterns of the retail market and our promotional activities. In recent years, many online and offline retailers in China hold promotions on November 11 and December 12 of each year, which drives significant increase in retail sales. Higher retail sales during the shopping seasons may generate greater demand for our credit products. As a result, we typically record higher total revenues during the fourth quarter of each year compared to other quarters. On the other hand, our total revenues for the first quarter tend to be lower due to the Chinese New Year holiday that generally reduces borrowing activities.

Overall, the historical seasonality of our business has been mild due to our rapid growth but may increase further in the future. 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.

Insurance

We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We also purchased employer's liability insurance and additional commercial health insurance to increase insurance coverage of our employees. We do not maintain property insurance policies covering our equipment and other property that are essential to our business operation to safeguard against risks and unexpected events. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. We consider our insurance coverage to be sufficient for our business operations in China.

Regulation

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

Regulation Related to Foreign Investment Restrictions

The 2019 Law of Foreign Investment was adopted at the second meeting of the thirteenth National People's Congress on March 15, 2019, which became effective on January 1, 2020. On December 26, 2019, the State Council issued the Regulations on Implementing the Law of Foreign Investment of the PRC, which came into effect on January 1, 2020. The 2019 Law of Foreign Investment and its implementation regulations replaced the trio of laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The 2019 Law of Foreign Investment stipulates that the PRC government implements a system of pre-establishment national treatment plus negative list for the administration of foreign investment. Foreign investors are not allowed to invest in fields or sectors prohibited in the market access negative list for foreign investment. Foreign investors that intend to invest in the fields subject to access restrictions stipulated in market access negative list for foreign investment shall satisfy the conditions stipulated in such negative list. The PRC government's policies supporting enterprise development are equally applicable to foreign-invested enterprises. The PRC government does not impose expropriation on foreign investment. Under special circumstances, if it requires imposing expropriation on foreign investment due to the need of public interest, expropriation shall be imposed according to legal procedures, and the foreign-invested enterprises concerned shall receive fair and reasonable compensation. Foreign-invested enterprises can raise funds through public issuance of stocks, corporate bonds and other securities in accordance with the law.

Investment activities in the PRC by foreign investors are principally governed by the Provisions for Guiding the Foreign Investment Direction, or the Guiding Provisions promulgated by the State Council on February 11, 2002. According to the Guiding Provisions, industries in the PRC are classified into four categories namely, "permitted foreign investment industries", "encouraged foreign investment industries", "restricted foreign investment industries" and "prohibited foreign investment industries". The "encouraged foreign investment industries", "restricted foreign investment industries" and "prohibited foreign investment industries" are stipulated in the Guidance Catalog of Industries for Foreign Investment, or the Catalog, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission. Those industries which do not fall within any of these three categories stipulated in the Catalog are regarded as "permitted foreign investment industries" and open to foreign investment unless specifically restricted by other PRC regulations. Industries such as VATS (other than e-commerce, domestic multi-party, communication, store-and-forward and call center) are restricted to foreign investment.

The Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition), or the List, which was promulgated jointly by the MOFCOM and the NDRC on June, 2019 and became effective on July, 2019, and replaced the Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) has listed the special administrative measures for foreign investment in certain industries in the PRC, including requirements on ownership percentage, senior management and etc. The industries that do not

fall within the List are administered under uniform principles for domestic and foreign investment. According to the List, the value-added telecommunications services business (excluding e-commerce business, domestic multi-party communications, store-and-forward and call center) is subject to restrictions on percentage of foreign ownership (not exceeding 50 percent). According to the Administrative Regulations on Foreign-invested Telecommunications Enterprises issued by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016 respectively, foreign-invested value-added telecommunications enterprises must be in the form of a Sino-foreign equity joint venture. The regulations restrict the ultimate capital contribution percentage held by foreign investor(s) in a foreign-invested value-added telecommunications enterprise to 50% or less and require the primary foreign investor in a foreign invested value-added telecommunications enterprise to have a good track record and operational experience in the VATS industry.

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

In light of the above restrictions and requirements, we conduct our value-added telecommunications businesses through our consolidated VIEs.

Regulations Related to VATS

Among all of the applicable laws and regulations, the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, promulgated by the PRC State Council in September 25, 2000 and amended on July 29, 2014 and February 6, 2016 respectively, is the primary governing law, and sets out the general framework for the provision of telecommunications services by domestic PRC companies. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations distinguish "basic telecommunications services" from "VATS." VATS are defined as telecommunications and information services provided through public networks. The Telecom Catalog was issued as an attachment to the Telecom Regulations to categorize telecommunications services as either basic or value-added. In February 2003, December 2015 and June 2019, the Telecom Catalog was updated respectively, categorizing online data and transaction processing, information services, among others, as VATS.

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

In September 2000, the State Council issued the Administrative Measures on Internet Information Services, which was amended in January 2011. Internet information service is a kind of information service categorized as a VATS in the current Telecom Catalog attached to the Telecommunications Regulation as most recently updated in December 2019. Pursuant to these measures, “Internet information services” refers to the provision of information through the Internet to online users, and are divided into “commercial Internet information services” and “non-commercial Internet information services.” A commercial Internet information services operator must obtain a VATS license for Internet information services, or the ICP license, from the relevant government authorities before engaging in any commercial Internet information services operations in China, while the ICP license is not required if the operator will only provide Internet information on a non-commercial basis. According to the Administrative Measures on Telecommunications Business Operating Licenses, the ICP license has a term of five years and can be renewed within 90 days before expiration.

Beijing Happy Time, one of our consolidated VIEs, and Qufenqi (Beijing) Information Technology Co., Ltd, a subsidiary of Beijing Happy Time, have both obtained ICP licenses for provision of commercial Internet information services issued by Beijing Telecommunication Administration in February 2019 and March 2019, respectively. In September 2020, the ICP license of Beijing Happy Time expired and we did not renew such license due to adjustments to our business structure. In addition, Xiamen Qudian Culture and Technology, Xiamen Qudian and Xiamen Qu Plus Plus have obtained ICP licenses for provision of Internet information services issued by Fujian Telecommunication Administration in December 2018, September 2019 and November 2019, respectively. As the implementing rules of the Administrative Measures on Telecommunications Business Operating Licenses or the Telecom Catalog have not been published, it remains uncertain as to how the “commercial Internet information services” and “non-commercial Internet information services” are interpreted and distinguished, and whether online consumer finance service providers like us will be deemed as commercial Internet information service operator, or operators of online data and transaction processing, therefore there is uncertainty as to whether any or all of our consolidated VIEs, or the subsidiaries of our consolidated VIEs need to obtain ICP licenses, or VATS license for online data and transaction processing services, or any other VATS licenses in order to be in full compliance with regulatory requirements with respect to VATS.

In addition to the Telecommunications Regulations of the People’s Republic of China and other regulations above, provision of commercial Internet information services on mobile Internet applications are regulated by the Administrative Provisions on Information Services of Mobile Internet Applications, which was promulgated by the State Internet Information Office on June 28, 2016. The information service providers of mobile internet applications are subject to requirements under the Administrative Provisions on Information Services of Mobile Internet Applications, including acquiring relevant qualifications required by laws and regulations and being responsible for management of information security.

Regulations Related to Internet Information Security and Privacy Protection

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

Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in December 2011, 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 and it 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, the Internet information service provider 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 Standing Committee of the National People's Congress 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. An Internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying any such information, or selling or providing such information to other parties. An Internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. Any violation of these laws and regulations may subject the Internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

Pursuant to the Notice of the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security on Legally Punishing Criminal Activities Infringing upon the Personal Information of Citizens, issued in 2013, and the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens, which was issued on May 8, 2017 and took effect on June 1, 2017, the following activities may constitute the crime of infringing upon a citizen's personal information: (i) providing a citizen's personal information to specified persons or releasing a citizen's personal information online or through other methods in violation of relevant national provisions; (ii) providing legitimately collected information relating to a citizen to others without such citizen's consent (unless the information is processed, not traceable to a specific person and not recoverable); (iii) collecting a citizen's personal information in violation of applicable rules and regulations when performing a duty or providing services; or (iv) collecting a citizen's personal information by purchasing, accepting or exchanging such information in violation of applicable rules and regulations.

The Internet Finance Guidelines jointly released by ten PRC regulatory agencies in July 2015 purport, among other things, to require Internet finance service providers to improve technology security standards, and safeguard customer and transaction information. The Internet Finance Guidelines also prohibit Internet finance service providers from illegally selling or disclosing customers' personal information. The PBOC and other relevant regulatory authorities will jointly adopt the implementing rules. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress 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.

The Network Security Law is formulated to maintain the network security, safeguard the cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and requires that a network operator, which includes, among others, Internet information services providers, take technical measures and other necessary measures in accordance with the provisions of applicable laws and regulations as well as the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of the networks, effectively respond to the network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Network Security Law emphasizes that any individuals and organizations that use networks is required to

comply with the PRC Constitution and laws, abide by public order and cannot endanger network security or make use of networks to engage in unlawful activities such as endangering national security, economic order and social order, and infringing the reputation, privacy, intellectual property rights and other lawful rights and interests of other people. The Network Security Law has reaffirmed the basic principles and requirements as specified in other existing laws and regulations on personal information protections, such as the requirements on the collection, use, processing, storage and disclosure of personal information, and internet service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent the personal information from being divulged, damaged or lost. Any violation of the provisions and requirements under the Network Security Law may subject the Internet service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

On December 29, 2017, the Information Security Technology Personal Information Security Specification (GB/T 35273-2017), or the Specification, was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardization Administration and has been replaced by the 2020 Specification issued by the State Administration for Market Regulation and the Standardization Administration jointly which has taken effect on October 1, 2020. Pursuant to the Specification, product and service providers should take technical and other necessary measures to ensure the safety of personal information, clearly demonstrate the purpose, approaches and scope of processing the personal information to the individual and acquire the authorization. In addition, according to the 2020 Specification, personal biometric information should be stored separately from personal identity information and in principle, the original personal biometric information should not be stored; besides, it further requires that the privacy policy is to disclose the scope and rules of personal information collection and use by the personal information controller, which should not be regarded as a contract signed by the subject of personal information.

On January 23, 2019, the Office of the Central Cyberspace Affairs Commission, the Ministry of Public Security, the State Administration for Market Regulation and the MIIT jointly issued the Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps, or the Announcement. According to the Announcement, from January to December 2019, four authorities abovementioned shall organize special crackdown against the illegal collection and use of personal information all over the country. App operators shall strictly fulfill their obligations regulated in the Cybersecurity Law when collecting and using personal information, and they shall be responsible for the security of personal information obtained and take effective measures to strengthen personal information protection. The App operators shall, by following the principles of lawfulness, legitimacy and necessity, not collect personal information that is not related to the services provided; when collecting personal information, they shall display the rules for the collection and use of personal information in an easy-to-understand, simple and clear manner, and personal information subjects shall independently choose consents; they shall not force the users to make authorization in the forms of default, bundling, stopping installation and use, etc., and may not collect personal information in violation of laws and regulations or against the agreements with users. It is advocated for App operators to provide users with the options to refuse to receive targeted pushes when they push news, current affairs and advertisements to targeted users.

On March 13, 2019, the State Administration for Market Regulation and the Office of the Central Cyberspace Affairs Commission jointly issued the Announcement on Launching the Security Certification of Apps, which encourages app operators to voluntarily pass the security certification of apps, and encourages search engines and app stores to clearly identify and give priority to recommending those certified Apps. On November 28, 2019, the Cyberspace Administration of PRC and other three authorities jointly issued the Announcement on Identification method of App Collecting and Using Personal Information in Violation of Laws and Regulations, which provides reference for determining the unlawful collection and usage of personal information via Apps.

On April 10, 2019, the Ministry of Public Security issued the Guide for Internet Personal Information Security Protection, which sets out the management mechanism, security technical measures and business

processes for personal information security protection. This Guide is applicable for personal information holders to carry out security protection work during personal information life cycle processing. It is applicable to enterprises that provide services through the Internet, and also to organizations or individuals who use a private or non-networked environment to control and process personal information.

On February 13, 2020, the People's Bank of China 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.

In providing our online consumer finance service, we collect certain personal information from borrowers, and also need to share the information with our business partners such as institutional funding partners for the purpose of facilitating credit to borrowers. We have obtained consent from borrowers to collect and use their personal information, and have also established information security systems to protect the user information and to abide by other network security requirements under such laws and regulations. We have not received any investigation or punishment for data breach issues from the PRC regulatory agencies except for one notification from an APP Special Crackdown Working Group consisted of the Office of the Central Cyberspace Affairs Commission, the MIIT, the Ministry of Public Security and the State Administration for Market Regulation in July 2019. The notice required Beijing Happy Time to make rectification to conduct certain corrections to the private policy of the Laifenqi APP to be in compliance with the Announcement. On acceptance of the notice, we have since carried out improvements and corrections as required, including correcting the private policy of Laifenqi APP, updating Laifenqi App and submitting the rectification report to APP Special Crackdown Working Group to comply with certain requirements under the Announcement. Since, there is uncertainty as to how the network security requirements for maintaining network security and protecting customers' personal information will be interpreted and implemented, we cannot assure you that our existing policies and procedures will be deemed to be in full compliance with any laws and regulations that are applicable, or may become applicable to us in the future.

Regulations Related to Loans and Intermediation

The PRC Civil Code governs the formation, validity, performance, enforcement and assignment of contracts. The PRC Civil Code requires that the interest rates charged under a loan agreement must not violate the applicable provisions of the PRC laws and regulations. In accordance with the Second Revised Private Lending Judicial Interpretations issued by the Supreme People's Court of the PRC in December, 2020, which came into effect on January 1, 2021, private lending is defined as financing between individuals, legal entities and other organizations. Loans funded by financial institutions which are licensed by financial regulatory authorities are not private lending transactions. When private loans between individuals are paid by wire transfer, the loan contracts between individuals came into effect upon the deposit of funds to the borrower's account. In the event that the loans are made through an online consumer finance lending platform and the platform only provides intermediary services, the courts will dismiss the claims of the parties concerned against the platform demanding the repayment of loans by the platform as guarantors. However, if the online consumer finance service provider guarantees repayment of the loans as evidenced by its web page, advertisements or other media, or the court is provided with other proof, the lender's claim alleging that the online consumer service provider assumes the obligations of a guarantor will be upheld by the courts. The Second Revised Private Lending Judicial Interpretations also provide that the lender could request the borrower to pay the interest according to the interest rate agreed in the contract, except that the interest rate agreed upon by the parties exceeds four times the market interest rate for one-year loan at the conclusion of the contract. The "market interest rate for one-year loan"

mentioned above refers to the market interest rate for one-year loan released every month by the National Interbank Funding Center with the authorization of the People's Bank of China from August 20, 2019. However, according to the Second Revised Private Lending Judicial Interpretation and Reply by Supreme People's Court to Issues Concerning the Scope of Application of the New Judicial Interpretation on Private Lending, the interest rate cap "market interest rate for one-year loan" is not applicable to the lending business of financial institutions and their branches that have been established with the approval of financial regulatory authorities. The agreements between the lender which is a financial institution and borrower on loans with interest rates below 24% per annum are valid and enforceable. As to loans with interest rates per annum between 24% and 36%, if the interest on the loans has already been paid to the lender, and so long as such payment has not damaged the interest of the state, the community and any third parties, the courts will turn down the borrower's request to demand the return of the interest payment. If the annual interest rate of a loan is higher than 36%, the excess will be void and will not be enforced by the courts.

Pursuant to the PRC Civil Code, a creditor may assign its rights under an agreement to a third party, provided that the debtor is notified. 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. In addition, according to the PRC Civil Code, an intermediation contract is a contract whereby an intermediary presents to its client an opportunity for entering into a contract or provides the client with other intermediary services in connection with the conclusion of a contract, and the client pays the intermediary service fees. Our business practice of connecting our institutional funding partners, certain of which are online lending information intermediaries, with individual borrowers may constitute intermediary service, and our service agreements with borrowers and investors may be deemed as intermediation contracts under the PRC Civil Code. Pursuant to the PRC Civil Code, an intermediary must provide true information relating to the proposed contract. If an intermediary conceals any material fact intentionally or provides false information in connection with the conclusion of the proposed contract, which results in harm to the client's interests, the intermediary may not claim for service fees and is liable for the damages caused.

Regulations Related to Cash Loan Lending

The Office of the Leading Group for Specific Rectification against Online Finance Risks and the Office of the Leading Group for Specific Rectification against P2P Online Lending Risks jointly issued the Circular on Regulating and Rectifying Cash Loan Business on December 1, 2017, or Circular 141. Among other things, Circular 141 provides that:

- The overall capital cost charged on a borrower, comprised of interests and fees, should be in compliance with the judicial interpretations by the Supreme People's Court of the PRC regarding interest rates in private lending; according to the Private Lending Judicial Interpretations, if the annual interest rate of a private loan is higher than 36%, the excess will be void and will not be enforced by the courts;
- A provider of cash loan shall not deduct interests, service fees, management fees or deposits from the loan principal or set excessive overdue interest, late fee or penalty interest;
- A bank may not outsource its core business functions, such as credit assessment and risk management, to third parties;
- A bank participating in loan facilitation transactions may not accept credit enhancement services from a third party which has not obtained any license or approval to provide guarantees, including credit enhancement service in the form of a commitment to assume default risks; and
- A bank may not permit its service provider in cash loan business to collect interest or fees from borrowers.

On July 12, 2020, Provisional Measures for Administration of Internet Lending by Commercial Banks was issued. Under this regulation, the regulatory range was broadened from the supervision on a lending entity to the

supervision on such lending behavior. Moreover, this document sets detailed regulation on the duty of confidentiality of lending entities. Any online entity should bear the responsibility of information confidentiality. Leaking clients' information including names, ages, phone numbers will bring severe punishment for the relevant entity. This regulation also makes it clear that when conducting lending business online, entities must have their service information fully exposure to clients, including and not limited to the amount of each lending, the interest, termination clause, etc.

On September 7, 2020, Notice of General Office of the China Banking and Insurance Regulatory Commission on Strengthening the Supervision and Administration of Microlending Companies was promulgated. Under this regulation, lending entities should adhere to the principle of petty sum and decentralization. Microlending companies shall, by following the principle of petty sum and decentralization, reasonably determine the amount and term of loans based on the income level, overall liabilities, asset status, actual needs and other factors of borrowers, so as to ensure that the repayment amount of the borrowers does not exceed their repayment capacity. The balance of the loans provided by a microlending company to the same borrower shall not exceed 10% of the company's net assets; and the balance of the loans provided by a microlending company to the same borrower and its affiliated parties shall not exceed 15% of the company's net assets. Local financial regulatory authorities may, in light of regulatory needs, lower the maximum balance of the aforesaid loans.

On November 11, 2020, Interim Measures for the Administration of Network Small-sum Loan Business (Trial) was issued. Under this regulation, lending entities have the duty of major-risk reporting. Upon the occasion where major risks are incurred, especially when it is an inter-provincial case, entities must report such major-risk event to regulatory bodies.

On December 19, 2020, Alert to the Risk of Over-borrowing Induced by Internet Platform was issued. Under this document, the regulatory bodies asked the market to be alarmed of over-advertising and false-advertising, over-self-dragging and various traps of internet loaning platforms.

On December 29, 2020, Reply by Supreme People's Court to Issues Concerning the Scope of Application of the New Judicial Interpretation on Private Lending was issued. Under this regulation, upon the matter of the scope of private lending, after soliciting the opinions of financial regulatory authorities, seven types of local financial organizations, including small-sum loan companies, financing guarantee companies, regional equity markets, pawnshops, financing lease companies, commercial factoring companies and local asset management companies under the regulation of local financial regulatory authorities, are financial institutions established upon approval by financial regulatory authorities. The new judicial interpretation on private lending is not applicable to disputes arising from their engagement in relevant financial businesses.

On February 19, 2021, Notice of General Office of the China Banking and Insurance Regulatory Commission on Further Regulating the Internet Lending Business of Commercial Banks. Under this regulation, if a commercial bank and a cooperative agency jointly contribute to the issuance of Internet loans, the management requirements for the range of capital contribution proportion shall be strictly implemented, and the capital contribution proportion of the cooperative party in a single loan shall not be less than 30%. If a commercial bank and a cooperative agency jointly contribute to the issuance of Internet loans, the bank's balance of loans granted with a single cooperative party (including its affiliated parties) shall not exceed 25% of the net tier 1 capital of the bank. The balance of Internet loans jointly issued by a commercial bank and all cooperative agencies shall not exceed 50% of the bank's balance of total loans granted by the bank. Also, this regulation imposes strict control over cross-regional operations. A local corporate bank that engages in Internet lending business shall provide services for local clients and shall not carry out Internet lending business beyond the jurisdiction of its registration place. However, a corporate bank that has no physical business outlets, mainly carries out its business online, and meets other conditions prescribed by the China Banking and Insurance Regulatory Commission is excluded.

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On February 24, 2021, Notice on Further Standardizing the Supervision and Administration of Internet Consumer Loans for College Student was issued. Under this regulation, loaning entities are strictly banned from false-advertising towards college students. Entities must have a pre-loaning research on the way how college students would use this sum of loaning.

On March 15, 2021, Measures for the Supervision and Administration of Network Transactions was issued. Under this regulation, other than individuals whose transaction sum is under RMB10,000 a year, online platforms and business entities must register themselves under regulations of related regulatory bodies. Moreover, online business bodies shall secure clients' information by not revealing clients' privacy, moreover, online business entities are forbidden from sending advertising messages to clients.

We adjusted the pricing of certain of our credit products in April 2017 to ensure that the annualized fee rates charged on all credit drawdowns do not exceed 36%.

We have entered into arrangements with several banks which directly fund credit drawdowns to borrowers. When a borrower defaults, we are obligated to repay the full overdue amount to the relevant bank. It remains uncertain how the regulatory authorities will interpret and enforce the requirements of Circular 141 under various circumstances. We have engaged in discussions with the banks, and we will assist them in satisfying their compliance needs as the regulatory framework evolves.

Regulations Related to Illegal High-interest Lending

On July 23, 2019, the Supreme People's Court of the PRC, the Supreme People's Procuratorate of the PRC, the Ministry of Public Security and Ministry of Justice of the PRC jointly issued the Opinions on Several Issues Concerning Handling Illegal Lending Criminal Cases, or the Illegal Lending Opinions. According to the Illegal Lending Opinions, providing loans to unspecified public regularly (meaning more than ten borrowers in any given two years) without necessary governmental approvals will constitute illegal lending practices, of which the provision of loans of annual interest rate (including nominal interest and fees charged to borrowers in combination) higher than 36%, under serious or very serious circumstances, is criminally punishable ("Illegal High-interest Lending"). The Illegal Lending Opinions also provides specific definition of "serious" and "very serious" Illegal High-Lending. In comparison to previous administrative and judicial practices, the Illegal Lending Opinions criminalizes Illegal High-interest Lending practices at the first time. In addition, under the Illegal Lending Opinions, the collection of debts by means of violence is forbidden. Whoever gathers, instigates or hires others to forcibly collect debts by disturbing, pestering, beguiling, gathering a crowd to create momentum or otherwise, which does not constitute a crime independently, but the illegal lending has constituted the crime of illegal operation, shall be imposed a heavier punishment as the case may be in accordance with the provisions on the crime of illegal operation.

In an effort to comply with potentially applicable laws and regulations, we adjusted the pricing of its credit products in April 2017 to ensure that the annualized fee charged on all credit drawdowns rates (including interest and fees combined) do not exceed 36%. We do not believe the regulatory change represented by the Illegal Lending Opinions will materially affect its business.

Regulations Related to Online Peer-to-Peer Lending

On July 18, 2015, ten PRC regulatory agencies, including the PBOC, the MIIT and the CBRC, jointly issued the Guidelines on Promoting the Healthy Development of Internet Finance, or the Internet Finance Guidelines. The Internet Finance Guidelines define "online peer-to-peer lending" as direct loans between parties through an Internet platform, which is under the supervision of CBRC, and governed by the PRC Civil Code, the General Principles of the Civil Law of the PRC, and related judicial interpretations promulgated by the Supreme People's Court. Online peer-to-peer lending institutions are required to specify their nature as information intermediaries, mainly provide information services for the direct lending between borrowers and lenders, and can neither provide credit enhancement services nor engage in illegal fund-raising.

On April 12, 2016, the General Office of the State Council issued the Implementing Scheme of Special Rectification of Risks in the Internet Finance Sector, which emphasizes that P2P platforms shall specify their nature as information intermediaries and can never engage in certain activities, including but not limited to, setting up capital pool, extending loans and illegal fund raising. In addition, without approval from competent regulator, P2P platforms shall not engage in financial business activities such as asset management, debt or equity transfer, and high-risk allocation in security markets. Furthermore, P2P platforms are required to segregate assets of lenders and borrowers in qualified banks as depositary institutions from their own assets.

On August 17, 2016, the CBRC, the MIIT, Ministry of Public Security and State Internet Information Office promulgated The Interim Measures for Administration of the Business Activities of Online Lending Information Intermediary Institutions, or the Interim Online Lending Information Intermediary Measures, to regulate the business activities of online lending information intermediary institutions. The “online lending” as specified in the Interim Online Lending Information Intermediary Measures refers to direct lending between peers, which can be natural persons, legal persons or other organizations, through Internet platforms, which we understand is equivalent to the “online peer-to-peer lending” as defined in the Internet Finance Guidelines. According to the Interim Online Lending Information Intermediary Measures, “online lending information intermediary institution” refer to financial information intermediaries that are engaged in the lending information business and directly provide peers, which can be natural persons, legal persons or other organizations, with lending information services, such as information collection and publication, credit rating, information interaction and loan facilitation between borrowers and lenders for them to form direct peer-to-peer lending relationships. The Interim Online Lending Information Intermediary Measures are only applicable to private lending transactions according to relevant interpretations by the China Banking Regulatory Commission. Loans funded by financial institutions which are licensed by financial regulatory authorities are not private lending transactions within the meaning of the Private Lending Judicial Interpretation issued by the Supreme People’s Court of the PRC in August 2015, which has been amended in December 2020.

The Interim Online Lending Information Intermediary Measures generally require that online lending information intermediary institutions shall not engage in credit enhancement services, direct or indirect cash concentration or illegal fundraising, and stipulate a supervisory system and list the administrative responsibilities of different supervisory authorities, among others, the banking regulatory authority of the State Council and its dispatching offices are responsible for formulating a regulatory and administrative system for the business activities of online lending information intermediary institutions and to regulate the behaviors thereof, and the provincial-level governments are responsible for institutional regulation of the online lending information intermediary institutions within their respective jurisdictions. Furthermore, an online lending information intermediary institution and its branches are required, within 10 working days after obtaining the business license, to complete record-filing and registration with the local financial regulatory department of the place of the industrial and commercial registration by presenting relevant materials. After completing the record-filing and registration with the local financial regulatory authority, they are required to apply for an appropriate telecommunication business operation permit in accordance with relevant provisions of competent communication departments, and to include serving as an Internet lending information intermediary in its business scope. An intermediary institution that fails to apply for telecommunication business operation permit as required cannot carry out an online lending information intermediary business.

According to these Interim Online Lending Information Intermediary Measures, online lending information intermediary institutions cannot directly or indirectly engage in the following activities: (1) financing their own operations with the funds of lenders; (2) accepting or collecting directly or indirectly the funds of lenders; (3) providing lenders with a guarantee or promise to guarantee principal and interest thereon directly or in disguised form; (4) publicizing or promoting financing projects by themselves or by delegating or authorizing a third party at physical places other than by electronic means such as the Internet, landlines, mobiles etc.; (5) extending loans, except otherwise provided by applicable laws and regulations; (6) splitting the term of any financing project; (7) offering wealth management and other financial products by themselves to raise funds, and selling as agent bank wealth management, securities company asset management, fund, insurance or trust

products and other financial products; (8) conducting asset securitization business or transferring of creditors' rights in the forms of assets packaging, asset securitization, trust asset, fund shares etc.; (9) engaging in any form of mixture, bundling or agency with other institutions in investment, agency in sale, brokerage and other business except as permitted by laws, regulations and relevant regulatory provisions on online lending; (10) falsifying or exaggerating the truthfulness and earnings outlook of financing projects, concealing the defects and risks of financing projects, making false advertising or promotion, etc., by using ambiguous words or other fraudulent means, fabricating or spreading false or incomplete information, impairing the business reputation of others or misleading lender or borrowers; (11) providing information intermediary services for the high-risk financing with the borrowed funds to be used for investment in stocks, over-the-counter fund distribution, futures contracts, structured funds and other derivative products; (12) engaging in a business such as crowd-funding in equity; and (13) other activities prohibited by laws and regulations. The Interim Online Lending Information Intermediary Measures also stipulate the following obligations as the business principles of online lending information intermediary institutions: (1) providing, in accordance with laws, regulations and contracts, lenders and borrowers with collection, arrangement, identification, screening and online publication of direct lending information as well as the relevant services such as credit assessment, matching between borrowing and lending, financing consulting and online dispute resolution; (2) conducting necessary examination of the qualification and eligibility of lenders and borrowers, authenticity of information as well as the authenticity and legitimacy of financing projects; (3) taking reasonable measures to prevent fraudulent behaviors and announcing and terminating relevant network-based lending activities in a timely manner upon discovery of any fraudulent behaviors or any other circumstances impairing the interests of lenders; (4) conducting continuously the activities for popularization of the knowledge and education of the risks of network-based lending, strengthening risk disclosure, guiding lenders to participate in network-based lending in small-amount and scattered manner and ensuring that lenders are fully aware of lending risks; (5) submitting relevant information in accordance with laws, regulations and relevant regulatory provisions on network-based lending, of which the information on creditors' rights and liabilities in connection with network-based lending shall be submitted to and registered with the relevant data statistical departments in a timely manner; (6) keeping proper custody of the data and transaction information of lenders and borrowers without deleting, tampering with, illegally selling or divulging the basic information and transaction information of lenders and borrowers; (7) performing according to law the anti-money laundering and anti-terrorist financing obligations, such as client identity identification, suspicious transaction reporting, keeping the identity data and transaction records of clients, etc.; (8) cooperating with relevant departments in properly handling the work relating to preventing, investigating and punishing the finance-related illegal activities and crimes; (9) ensuring the work relating to the Internet information content management as well as network and information security pursuant to the relevant requirements; and (10) other obligations prescribed by the banking regulatory authority of the State Council and the provincial people's governments of the places of industrial and commercial registration. Furthermore, in offline physical locations, online lending information intermediary institutions shall not operate businesses other than risk management and necessary business processes such as information collection and confirmation, post-loan tracking and pledge management in accordance with online-lending regulations. Online lending information intermediary institutions shall, based on their risk management capabilities, set upper limits on the loan balance of a single borrower borrowing both from one online lending intermediary and from all online lending information intermediary institutions. In the case of natural persons, this limit shall not be more than RMB200,000 for one online lending intermediary and not more than RMB1 million in total from all platforms, while the limit for a legal person or organization shall not be more than RMB1 million for one online lending intermediary and not more than RMB5 million in total from all platforms. For the protection of investors and borrowers, the Interim Online Lending Information Intermediary Measures require that online lending information intermediary institutions (i) separate their own capital from funds received from lenders and borrowers and (ii) select a qualified banking financial institution as their funding depository institution, which shall perform depository and administration responsibilities as required. In addition, the Interim Online Lending Information Intermediary Measures provide for other miscellaneous requirements for online lending information intermediary institutions, including but not limited to, risk assessment and disclosure, auditing and authentication, industry association, reporting obligations, information security and disclosure and legal liabilities. Online lending information intermediary institutions established prior to the effectiveness of the Interim Online Lending Information Intermediary

Measures have a transition period of twelve months to rectify any activities that are non-compliant with the Interim Online Lending Information Intermediary Measures, except with respect to criminal activity, which must be terminated immediately.

In February 2017, the CBRC released the Guidance on Depository Business of Online Lending Funds, or Depository Guidance, to regulate funds depositories for online lending information intermediary institutions. The Depository Guidance defines depositories as commercial banks that provide online lending fund depository services, and stipulates that the depositories shall not be engaged in offering any guarantee, including: (i) offering guarantees for lending transaction activities conducted by online lending information intermediary institutions, or undertaking any liability for breach of contract related to such activities; (ii) offering guarantees to lenders, guarantying principal and dividend payments or bearing the risks associated with fund lending operations for lenders. The Depository Guidance also stipulates certain conditions that must be met before depositories are entitled to develop an online lending fund depository business, including: (i) having a good credit record and not having been included on the List of Enterprises with Abnormal Operations or the List of Enterprises with Serious Illegal and Dishonest Acts; (ii) satisfying various requirements relating to the technological systems of such entity's depository fund business and general operations, including but not limited to assuming fund administration responsibilities and not outsourcing or assigning such entity's responsibilities to third parties to set up accounts, process trading information or verify trading passwords; and (iii) setting up special deposit accounts to hold online lending capital and sub-accounts for online lenders and borrowers as well as guarantors, and in order to assure fund security, use separate accounts to hold private capital of online lending information intermediary institutions.

In addition, the Depository Guidance prohibits depositories from outsourcing or assigning their responsibilities to set up capital accounts, deal with transaction information, verify trading passwords and various other services to third parties, provided, however, that certain cooperation regarding payment services with third-party payment companies and depository banks is permitted in accordance with clarifications by the CBRC. Apart from the requirements set forth in the Interim Online Lending Information Intermediary Measures and the Registration Guidance, the Depository Guidance imposes certain responsibilities on online lending information intermediary institutions, including requiring them to enter into fund depository agreements with only one commercial bank to provide fund depository services, organize independent auditing on funds depository accounts of borrowers and investors and various other services. The Depository Guidance requires online lending information intermediary institutions to perform various obligations, and prohibits them advertising their services with the information of their depository except for in accordance with necessary exposure requirements. The Guidance also raises other business standards and miscellaneous requirements for depositories and online lending information intermediary institutions as well. Online lending information intermediary institutions and commercial banks conducting the online depository services prior to the effectiveness of the Guidance have a six-month grace period to rectify any activities not in compliance with the Guidance.

It has been reported that in May 2017, the PBOC and other PRC regulatory agencies issued the Notice on Further Effectively Conducting the Special Campaign on Reorganizing and Rectification in Respect of Risks Related to the Internet Finance Market, or Circular 119, which classified enterprises in the Internet finance market into "compliant enterprises," "enterprises to conduct rectifications" and "enterprises to be suspended." Circular 119 further stipulates various procedures to be taken with respect to these three types of enterprises, namely compliant enterprises, enterprises to conduct rectifications and enterprises to be suspended. According to the Circular 119 (as reported, same below), provincial government agencies should identify key market players engaged in internet financing and conduct on-site inspections. If finding business institutions involving in illegal operations, provincial government agencies should issue rectification notice to the institutions and require them to put together rectification plan and submit for review. An enterprise that has received rectification notices from government agencies, or an "enterprise to conduct rectifications" to promise, in its rectification plan, that it will not engage in any new non-compliant operations. Furthermore, such rectification plan shall provide a clear schedule for such enterprises to wind down and terminate all outstanding non-compliant business contracts and operations, which schedule in principal shall be no longer than one year, except if other specific regulations

stipulate otherwise. Enterprise to conduct rectifications should report regularly to the government agencies of its rectification process, finish the rectification in accordance with the rectification plan, and apply for and accept review by government agencies. Enterprises which refuse to rectify non-compliant activities, or fail to pass rectifying inspections, or engage in significant non-compliance shall be shut down in accordance with relevant regulations. During the process of the Special Campaign, provincial government agencies shall ensure that the number of enterprises in the Internet finance market and relevant business scale in such province to decrease, which is sometimes referred to as the Institutional Dual Decrease.

It has been reported that according to Circular 175, the overarching objective of Circular 175 is for PRC government agencies to effect orderly exits of certain peer-to-peer direct lending marketplaces without inducing systematic risk in the financial system or causing significant social turbulence until only those marketplaces that are strictly in compliance with all relevant laws and regulations remain in operation in the peer-to-peer direct lending industry. Circular 175 classifies peer-to-peer direct lending marketplaces into (i) marketplaces on which investors are not fully repaid or that are otherwise unable to operate their businesses and (ii) marketplaces that have not been involved in such incidents, and the latter is further classified, based on the scale of their business operations, into (a) 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, (b) small-scale marketplaces, which shall be determined based on factors including outstanding balance and number of borrowers by provincial governmental agencies, and (c) large-scale marketplaces, including marketplaces with high risks, and Normal Marketplaces that have not demonstrated any high-risk characteristics. In accordance with Circular 175, marketplaces with high risks include, for instance, marketplaces that fund loans to themselves or facilitate sham loans, marketplaces with unclear fund flows, marketplaces with massive negative publicity and complaints, marketplaces that refuse to or are reluctant to rectify non-compliant operations. Pursuant to Circular 175, except for Normal Marketplaces, other marketplaces shall exit the peer-to-peer lending industry or cease operation. Even for the Normal Marketplaces, Circular 175 requires to limit the scale of outstanding business and number of investors, which is sometimes referred as the Business Dual Decrease.

The aforementioned summaries of Circular 119 and Circular 175 are based on certain media reports, including alleged photocopies of Circular 119 and Circular 175 presented in such reports. We are aware that Circular 119 and Circular 175 have not been officially issued to the public by any government agencies, and therefore there are uncertainties as to the accuracy of the media reports, as well as the authenticity, meaning and application of Circular 119 and Circular 175.

On December 8, 2017, the Office of the Leading Group for Specific Rectification against P2P Online Lending Risks issued the Circular on Specific Rectification and Inspection Relating to P2P Online Lending Risks, or Circular 57. Circular 57 requires local regulatory authorities to jointly inspect and evaluate as to whether an online lending information intermediary has complied with in the Interim Online Lending Information Intermediary Measures. An online lending information intermediary may not complete record-filing and registration until it receives joint approval from the local financial regulator and the local branch of the CBRC as to its rectification measures. Circular 57 prohibits four forms of credit transfers: (i) asset securitization or transfer creditor's rights in form of packaged assets, securitized assets, trust assets or fund shares; (ii) loans initially funded by a management member of related party and subsequently transferred to lenders on the P2P platform; (iii) wealth management products (whether with fixed terms or redeemable on demand) that are matched with transferred loans; and (iv) using creditor's rights from P2P platforms as pledge to borrow funds from other lenders. On the other hand, Circular 57 provides that infrequent transfers of loans among lenders are deemed to be in compliance with the relevant laws and regulations.

On November 28, 2019, the Office of the Leading Group for Specific Rectification against Online Finance Risks and the Office of the Leading Group for Specific Rectification against P2P Online Lending Risks jointly issued the Guidance of Transformation of Online Lending Information Intermediaries to Small Credit Companies, or Guidance 83, which further signals the fundamental goal of the PRC government to end of P2P business. The regulatory actions under such stringent regulation on P2P lending platforms have decimated P2P

lending platforms, including many well-known or listed companies such as Yidai, LuFax, and China Rapid Finance (NYSE: XRF). As of December 31, 2020, all P2P lending platforms have been exited or have completed their business transformation. We do not engage in direct loan facilitation between peers, which can be natural persons, legal persons or other organizations. While we facilitate loans that are directly funded by certain institutional funding partners such as banks, such companies are financial institutions licensed by financial regulatory authorities to lend. Facilitation of loans pursuant to our arrangements with such licensed financial institutions is not subject to the regulation set forth in the Interim Online Lending Information Intermediary Measures. As such, we do not consider our company as an “online lending information intermediary institution” regulated under the above regulations. However, we cannot assure you that the CBRC or other PRC regulatory authorities would not expand the applicability of the Interim Online Lending Information Intermediary Measures and regard us as an “online lending information intermediary institution.” In the event that we are deemed as an online lending information intermediary institution by the PRC regulatory authorities in the future, we may have to make registration with the local financial regulatory authority and apply for telecommunication business operating licenses if required by the competent authorities, and our current business practice may be considered to be not in compliance with the Interim Online Lending Information Intermediary Measures, and accordingly, our business, results of operations and financial position will be materially and adversely affected.

Regulations Related 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, latest revised on January 8, 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.

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. 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 approved by the relevant authorities or is concealed under the guise of legitimate acts; (ii) the fund-raising employs general solicitation or advertising such as social media, promotion meetings, leafletting and short message service, or SMS, advertising; (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 (iv) the illegal fund-raising activities have caused baneful influences to the public or have led to other severe consequences. An individual offender is also subject to criminal liabilities but with lower thresholds. 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.

Regulation Related to Finance Lease

The Measures on the Administration of Foreign Investment in the Leasing Industry, or the Measures, were promulgated by the MOFCOM on February 3, 2005 and amended on October 28, 2015 to regulate the operations of foreign-invested finance lease businesses. The Measures apply to the establishment of foreign-invested enterprises by foreign investors such as foreign companies, enterprises and other economic organizations in the form of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises in the PRC to engage in the finance lease business as well as to carry out business activities. Under the Measures, the total assets of the foreign investors of a foreign-funded finance lease company may not be less than five million U.S. dollars. Foreign-invested finance lease enterprises must satisfy the following conditions: (i) the term of operation of a foreign-invested finance lease company in the form of a limited liability company shall not normally exceed 30 years; and (ii) it shall be staffed by appropriate professionals and its senior management personnel shall possess the appropriate professional qualifications and not less than three years' experience in the business. Since our Company was converted from a limited liability company into a joint stock limited company in September 2015, the condition referred to in condition (i) above no longer applies to us as we have ceased to be a limited liability company.

Foreign-invested finance lease enterprises may conduct the following businesses: (i) finance lease business; (ii) leasing business; (iii) purchasing properties to be leased from PRC or overseas; (iv) residual disposal of and maintenance of leased properties; (v) consultancy and guarantee of lease transactions and (vi) other businesses approved by the examination and approval authority. "Finance lease business" refers to the trading activities in which a lessor, based on a lessee's designation with respect to the seller and the leased object, agrees to purchase the assets underlying the leases from a seller and makes the leased object available to the lessee for use and collects rent thereon from the lessee. Foreign-invested finance lease enterprises may carry out finance lease activities by way of direct leasing, sub-leasing, sale-leaseback, leveraged leasing, entrusted leasing and joint leasing transactions. For the purpose of the Measures, the leasing property includes: (i) movable properties such as manufacturing equipment, telecommunication equipment, medical devices, scientific and research equipment, inspection and testing equipment, engineering and machinery equipment and office equipment; (ii) transportation equipment, such as airplanes, automobiles and ships; and (iii) intangible properties such as software and technology that are attached to the moveable properties and transportation equipment mentioned above, provided that the value of such attached intangible properties shall not exceed half of the value of the leased properties that can qualify as leased properties under a finance lease.

For the purposes of risk prevention and guaranteeing the security of business operations, generally, the risk assets of a finance lease company shall not exceed 10 times of the total amount of its net assets. The risk assets shall be determined based on residual assets, namely, the result after deducting cash, bank deposits, PRC treasury securities and entrusted leased assets from the total assets of the company.

A foreign-invested finance lease company shall submit the business operation report of the previous year and the financial statement of the previous year audited by an accounting firm to the MOFCOM no later than March 31 of each year.

The Administrative Measures of Supervision on Finance Lease Enterprises, or the Administrative Measures, was formulated by the MOFCOM and became effective on October 1, 2013. According to the Administrative Measures, the MOFCOM and the provincial-level commerce authorities are in charge of the supervision and administration of finance lease enterprises. A finance lease company shall report, according to the requirements of the MOFCOM, the relevant data in a timely and truthful manner through the National Finance Lease Company Management Information System. Specifically, a finance lease enterprise shall, submit, within 15 business days

after the end of each quarter, the statistics on and summary of its operation in the preceding quarter, and statistics on and summary of its operations in the preceding year as well as its financial and accounting report (including appended notes thereto) audited by an auditing firm for the preceding year prior to April 30 of each year. In the event of a change of name, a relocation to another region, an increase or decrease of registered capital, a change of organizational form, an adjustment of ownership structure or other changes, a finance lease company shall report to the competent provincial-level commerce authority in advance. A foreign-invested finance lease company that undergoes such changes shall go through approval and other procedures according to the relevant provisions. A finance lease company shall, within five business days after registering such changes, log into the National Finance Lease Company Management Information System to modify the above information.

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

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

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

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

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The PRC Civil Code was promulgated by the National People's Congress on May 28, 2020 and became effective from January 1, 2021, and the PRC Civil Code regulates the civil contractual relationship among natural persons, legal persons and other organizations. Chapter 15 of the Part III Contracts of PRC Civil Code sets forth mandatory rules about finance lease contracts including that finance lease contracts shall be in written form and shall include terms such as the name, quantity, specifications, technical performance and inspection method of the leased property, the lease term, the composition, payment term, payment method and currency of the rent and the ownership of the leased property upon expiration of the lease.

Under finance lease contracts, the lessor shall conclude a purchase contract based on the lessee's selections in respect of the seller and the leased property, and the seller shall deliver the leased property to the lessee as agreed. The lessee has the rights of a buyer when taking delivery of the leased property.

Without the consent of the lessee, the lessor may not modify relevant details related to the lessee of the purchase contract that has been concluded based on the lessee's selections in respect of the seller and the leased property. The lessor is not liable for injury to the body or damage to the property of a third party caused by the leased property while in the possession of the lessee. However, the ownership of the leased property vests in the lessor. If they have not stipulated in which party ownership shall vest upon expiration, if such stipulation is not clear, or if ownership cannot be determined in accordance with the PRC Civil Code, the ownership of the leased property shall vest in the lessor.

Pursuant to the PRC Civil Code, unless otherwise agreed upon by the parties, the rental shall be determined according to the major part or whole of the costs for the purchasing the leased property and reasonable profits of the lessor.

Our subsidiary Xiamen Qudian Financial Lease Ltd. has obtained the approval to operate finance lease business as issued by the MOFCOM.

Anti-money Laundering Regulations

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

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

We have implemented various policies and procedures, such as internal controls and "know-your-customer" procedures, for anti-money laundering purposes. However, as the implementing rules of the Internet Finance

Guidelines have not been published, there is uncertainty as to how the anti-money laundering requirements in the Guidelines will be interpreted and implemented, and whether online consumer finance service providers like us must abide by the rules and procedures set forth in the PRC Anti-money Laundering Law that are applicable to non-financial institutions with anti-money laundering obligations. We cannot assure you that our existing anti-money laundering policies and procedures will be deemed to be in full compliance with any anti-money laundering laws and regulations.

Regulations Related to Intellectual Property Rights

The Standing Committee of the National People's Congress, or the SCNPC, the State Council and the National Copyright Administration, or the NCAC, have promulgated various rules and regulations relating to the protection of software in China, including without limitation the PRC Copyright Law, adopted in 1997 and revised in 2001, 2010, and 2020 respectively, with its implementation rules adopted in 1991 and revised in 2002 and 2013 respectively, and the Regulations for the Protection of Computer Software as promulgated on June 4, 1991 and revised on December 20, 2001, January 30, 2013, respectively. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the NCAC or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process to enjoy the better protections afforded to registered software rights.

The PRC Trademark Law, adopted in 1982 and revised in 1993, 2001, 2013 and 2019 respectively, with its implementation rules adopted in 2002 and revised in 2014, protects registered trademarks. The PRC Trademark Office of the State Administration for Industry and Commerce, or the SAIC, handles trademark registrations and grants a protection term of ten years to registered trademarks.

Domain names are protected under the Administrative Measures on Internet Domain Names, which was promulgated by the MIIT on August 24 and became effective on November 1, 2017. The MIIT is in charge of the overall administration of domain names in China. The registration of domain names in PRC is on a "first-apply-first-registration" basis. A domain name applicant will become the domain name holder upon the completion of the application procedure.

Regulations Related to Employment

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

According to the Social Insurance Law promulgated by SCNPC and effective from July 1, 2011 and was revised in 2018, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, Regulation of Unemployment Insurance, the Decision of the State Council on Setting Up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns, the Interim Regulation on the Collection and Payment of Social Insurance Premiums and the Interim Provisions on Registration of Social Insurance, an employer is required to contribute the social insurance for its employees in the PRC, including the basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and injury insurance. Under the Regulations on the Administration of Housing Funds, promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002 and March 24, 2019, an employer is required to make contributions to a housing fund for its employees.

Regulations Related to Foreign Exchange Regulation on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, most recently amended in August 2008. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

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

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

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

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

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

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

Regulations Related to Stock Incentive Plans

SAFE promulgated the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Overseas, or the Stock Option Rules in February 2012, replacing the previous rules issued by SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC

residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of the participants. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or other material changes. The PRC agent must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

We have adopted the 2016 Equity Incentive Plan, under which we have the discretion to grant a broad range of equity-based awards to eligible participants. See "Item 6. Directors, Senior Management and Employees — B. Compensation — 2016 Equity Incentive Plan." We have advised the recipients of awards under our 2016 Equity Incentive Plan to handle foreign exchange matters in accordance with the Stock Option Rules. However, we cannot assure you that they can successfully register with SAFE in full compliance with the Stock Option Rules. Any failure to complete their registration pursuant to the Stock Option Rules and other foreign exchange requirements may subject these PRC individuals to fines and legal or administrative sanctions, and may also limit our ability to contribute additional capital to our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us or otherwise materially adversely affect our business.

Regulations Related to Dividend Distribution

Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from Ganzhou Qufenqi and Xiamen Youxiang, which are wholly foreign-owned enterprises incorporated in China, to fund any cash and financing requirements we may have. Prior to January 1, 2020 when the 2019 Law of Foreign Investment came into effect, the principal regulations governing distribution of dividends of foreign holding companies include the Wholly Foreign-invested Enterprise Law, issued in 1986 and amended in 2000 and 2016, and the Implementation Rules under the Wholly Foreign-invested Enterprise Law, issued in 1990 and amended in 2001 and 2014 respectively. Under these regulations, foreign investment enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise shall, upon payment of income tax on its profits pursuant to the provisions of China tax laws, make apportionment to its reserve fund as well as employees' bonus and welfare fund. The percentage to be apportioned to the reserve fund shall not be less than 10% of the after-tax profits; when the cumulative apportioned amount attains 50% of the registered capital, the enterprise may stop making apportionment. The percentage of apportionment to the employees' bonus and welfare fund shall be determined by the wholly foreign-owned enterprise. These reserves are not distributable as cash dividends.

A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

The 2019 Law of Foreign Investment was adopted at the second meeting of the thirteenth National People's Congress on March 15, 2019, which became effective on January 1, 2020. On December 26, 2019, the State Council issued the Regulations on Implementing the Law of Foreign Investment of the PRC, which came into effect on January 1, 2020. The 2019 Law of Foreign Investment and its implementation rule replaced the trio of laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The regulations mentioned above in the Wholly Foreign-invested Enterprise Law will be no longer applicable. Under the 2019 Law of Foreign Investment, the organization form and structure and operating rules of foreign-funded enterprises are subject to

the provisions of the Company Law of the People's Republic of China, the Partnership Enterprise Law of the People's Republic of China and other applicable laws. Therefore, under PRC laws and regulations, any companies within the PRC may pay dividends only out of its respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a PRC company is required to set aside at least 10% of its annual after-tax profits, if any, to fund the statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may or may not allocate certain portion of its after-tax profits to the discretionary reserve fund. The statutory reserve fund and discretionary reserve fund (if any) are not distributable as cash dividends.

Regulations Related to Taxation

Enterprise Income Tax

Under the Enterprise Income Tax Law, effective on January 1, 2008 and last amended on December 29, 2018, enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules of the Enterprise Income Tax Law, which took effect on January 1, 2008 and were last amended on April 23, 2019, 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.

According to the Enterprise Income Tax Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Furthermore, the State Administration of Taxation, or the SAT, promulgated the Announcement on Issues Concerning "Beneficial Owners" in Tax Treaties in February 2018, which stipulates that non-resident enterprises that cannot provide valid supporting documents as "beneficial owners" may not be approved to enjoy tax treaty benefits. Specifically, it expressly excludes an agent or a "conduit company" from being considered as a "beneficial owner" and a "beneficial owner" analysis is required to be conducted on a case-by-case basis. This announcement also stipulates that where an applicant has the identity as a "beneficial owner," but the tax authority finds that the primary purpose test clause in tax treaties or the general rules on anti-tax avoidance in domestic tax laws shall apply, the general anti-tax avoidance investigation procedures may apply.

On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or SAT Circular 37, which was revised on June 15, 2018, to completely repeal SAT Circular 698 and the second paragraph of Section 8 of Bulletin 7. Under Bulletin 7, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by a non-resident enterprise may be re-characterized and treated as a direct transfer of PRC taxable assets, if such transfer does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to SAT Circular 37, the amount of taxable income equals the remainder after deducting the net equity value from the equity transfer income. Equity transfer income means the consideration collected by the transferor from the equity transfer, including income in both monetary form and non-monetary form. Net equity value means the tax basis for acquiring such equity. The tax basis for the equity is the capital contribution costs actually paid by the equity transferor to a PRC resident enterprise at the time of the investment and equity participation, or the equity transfer costs actually paid at the time of acquisition of such equity to the original transferor of such equity.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate with respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice on the Issues concerning the Application of the Dividend Clauses of Tax Agreements issued by the SAT on February 20, 2009, or SAT Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to apply the reduced withholding tax rate: (i) it must be a company; (ii) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. On August 27, 2015, the SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Tax Treaties, or SAT Circular 60, which became effective on November 1, 2015. SAT Circular 60 provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. SAT Circular 60 has been replaced by the Measures for the Administration of Non-resident Taxpayers' Enjoyment of Treaty Benefits, or SAT Circular 35, which was promulgated by the State Administration of Taxation on October 14, 2019 and became effective on January 1, 2020. SAT Circular 35 provides that non-resident taxpayers' enjoyment of treaty benefits shall be handled in the manner of "self-assessment, claim for and enjoyment of treaty benefits, and retention of relevant materials for review." If a non-resident taxpayer determines through self-assessment that he or she is eligible for treaty benefits, he or she may, when filing tax returns, or when a withholding agent files withholding returns, enjoy tax treaty benefits, and collect and retain relevant materials for review in accordance with the provisions of SAT Circular 35 and accept the follow-up administration of tax authorities. According to SAT Circular 81, and SAT Circular 35, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

Value-Added Tax and Business Tax

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

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax. In March 2016, the Ministry of Finance and the State Administration of Taxation further promulgated the Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax, which became effective on May 1, 2016 and was amended in 2019. Pursuant to the pilot plan and relevant notices, VAT is generally imposed in lieu of business tax in the modern service industries, including the VATS, on a nationwide basis. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs jointly issued the Announcement on Issuing Relevant Policies for Deepening the

Reform of Value-Added Tax, which became effective on April 1, 2019. According to the above-mentioned Announcement, the current VAT rate of 16% related to certain categories of sale and imported goods will be reduced to 13%, and the current VAT rate of 10% related to other categories of sale and imported goods will be reduced to 9% from April 1, 2019. In addition, the scope of business VAT deductions will be expanded under the above-mentioned Announcement. Furthermore, the refund system of the period-end excess input VAT for trial implementation will be adopted from April 1, 2019. However, it may be difficult to predict the trends of the VAT rates in the future. We cannot assure you that the VAT rates will not be raised in the future, which could have a material adverse effect on our financial condition and results of operations.

Regulations Relating to E-Commerce

The Administrative Measures on Online Transactions issued by the State Administration for Market Regulation, or SAMR, on January 26, 2014 which became effective on March 15, 2014, or the Online Trading Measures. According to the Online Trading Measures, enterprises or other operators which engage in online commodities trading and other services and have been registered with SAMR or its local branches must make the information stated in their business licenses available to the public or provide links to their business licenses on their websites. Online distributors must adopt measures to ensure the safety of online transactions, protect online shoppers' rights and prevent the sale of counterfeit goods. Information on products and transactions released by online distributors must be authentic, accurate, complete and sufficient. Under the Online Trading Measures, e-commerce platform operators are required to examine, register and archive the identity information of the merchants applying for access to their platforms as sellers, and verify and update such information regularly. The Online Trading Measures also provide that e-commerce platform operators must make publicly available (i) the link to or the information contained in the business licenses of the merchants, in the case of business entities, or (ii) a label confirming the verified identity of the merchants, in the case of individuals. In addition, operators are prohibited from setting forth provisions in contracts or other terms that are not fair or reasonable to consumers such as those excluding or restraining consumers' rights, relieving or exempting operators' responsibilities, and increasing the consumers' responsibilities, or conducting transactions in a forcible manner taking advantage of contractual terms or technical means. We are subject to such rules as a result of our online merchandise sales.

In March 2016, the State Administration of Taxation, or SAT, the Ministry of Finance and the General Administration of Customs jointly issued the Circular on Tax Policy for Cross-Border E-Commerce Retail Imports, which took effect in April 2016. Pursuant to this circular, goods imported through the cross-border e-commerce retail are subject to tariff, import value-added tax, and consumption tax based on the types of goods. Individuals purchasing any goods imported through cross-border e-commerce retail are taxpayers, and e-commerce companies, companies operating e-commerce transaction platforms or logistic companies are required to withhold the taxes.

On August 31, 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which became effective on January 1, 2019. The E-Commerce Law sets forth a series of requirements on e-commerce platform operators. According to the E-Commerce Law, e-commerce platform operators shall verify and register platform merchants, and cooperate with the market regulatory administrative department and tax administrative department to conduct industry and commerce registrations and tax registrations for merchants. The e-commerce platform operators shall also prepare a contingency plan for cybersecurity events and take technological measures and other measures to prevent online illegal and criminal activities. The E-Commerce Law also expressly requires platform operators to take necessary actions to ensure fair dealing on their platforms to safeguard the legitimate rights and interests of consumers, including to prepare platform service agreements and transaction information record-keeping and transaction rules, to prominently display such documents on the platform's website, and to keep such information for no less than three years following the completion of a transaction. To legally handle intellectual property infringement disputes, upon receipt of the notice specifying preliminary evidence for alleged infringement, the platform operators are required to take necessary measures in a timely manner, such as deleting, blocking and disconnecting the hyperlinks, terminating transactions and services, and to forward notices to merchants on its platform. If an

e-commerce platform operator fails to take necessary measures when it knows or should have known that a merchant on the platform infringes any third-party intellectual property rights, products or services provided by a merchant on its platform do not meet the requirements regarding personal or property safety, or any merchant otherwise impairs the lawful rights and interests of consumers, the e-commerce platform operator will be held jointly liable with the merchants on its platform.

The Law of the People's Republic of China on the Protection of Rights and Interests of Consumers, or the Consumer Protection Law, as amended on October 25, 2013, sets out the obligations of business operators and the rights and interests of the consumers. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about the commodities, and guarantee the quality, function, usage and term of validity of the commodities. The amendment in 2013 further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on the businesses operating through the Internet. For example, when a consumer purchases products (including cosmetics and food) or accepts services via an online trading platform and his or her interests are prejudiced, if the online trading platform provider fails to provide the name, address and valid contact information of the seller, the manufacturer or the service provider, the consumer is entitled to demand compensation from the online trading platform provider. Failure to comply with the Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, replacement of commodities, repairing or ceasing damages, compensation, and restoring reputation, and could subject the business operators or the responsible individuals to criminal penalties when personal damages are involved or if the circumstances are severe.

Regulations Relating to Cross-border Trading

The Customs Law, effective as of July 1, 1987 and amended on July 8, 2000, June 29, 2013, December 28, 2013, November 17, 2016 and November 4, 2017, divides imported and exported items into "means of transports", "goods" and "articles" based upon the nature and purpose of such items. Under the Customs Law, "goods" and "articles" are not defined, but these concepts are clarified in the Implementation Regulations of Administrative Punishments Under the Customs Law, effective as of November 1, 2004. The regulation describes "articles" as postal items and travelers' luggage that are brought in and out of the PRC on an individual's person or luggage. When the quantity of articles is higher than a reasonable amount for personal use, it will be regarded as "goods." "Personal use" means that the traveler or consignee will use the items themselves or give the items as gifts, rather than selling or renting the items. "Reasonable amount" means the regular amount determined in accordance with the traveler or consignee's situation, purpose of travel and duration of stay.

The Foreign Trade Law, effective as of July 1, 2004 and amended on November 7, 2016, governs international trade in services and the import and export of goods and technologies. Under this law, goods and technologies are categorized as (i) permitted, which may be freely imported and exported, (ii) restricted, which require advance approval or (iii) prohibited, which may not be imported or exported at all. Furthermore, an "import and export trader", or any company or individual engaging in the import or export of goods or technologies, must register with the administrative department of foreign trade under the State Council or any of its authorized bodies in order to be qualified as a foreign trade business operator. According to current foreign trade laws, the Ministry of Commerce and its competent local branches are the authorized bodies to conduct qualification filings and registrations for foreign trade business operators.

The Customs Law requires that importers and exporters make true declarations of their goods and technologies to customs. The Imported and Exported Commodity Inspection Law, issued February 21, 1989 and amended on April 28, 2002, June 29, 2013, April 27, 2018 and December 29, 2018, also requires that certain items listed in the Catalog of Import and Export Commodities for Inspection, or the Customers Catalog, must be inspected by a commodity inspection organization authorized by the State Administration for Commodity Inspection before they can be exported. For import and export commodities not listed in the Customers Catalog, the commodity inspection authorities may conduct random inspections pursuant to the Measures for the

Administration of Random Inspection of Import and Export Commodities, issued as of December 31, 2002 and amended as of April 28, 2018. Further, the Ministry of Commerce and the General Administration of Customs jointly adopted a mandatory licensing system for the export of certain merchandise, which exporters must comply with depending on the commodities they export. Further, the Administration for Industry promulgated Measures for Penalties for Infringement upon Rights and Interests of Consumers which requires strict compliance with the Law on Protection of Rights and Interest of Consumers and related laws and regulations for the purpose of stopping infringement upon rights and interests of consumers pursuant to the law, protecting the legitimate rights and interests of consumers, and safeguarding social and economic order. On October 23, 2020, under State Administration for Market Regulation Decree No.31, Measures for Penalties for Infringement upon Rights and Interests of Consumers was revised and further focuses on the disclosure of its information to consumers. The information that must be disclosed includes but not limited to: (i) information on grant, alteration, or renewal or renewal of administrative permit; (ii) information on administrative punishment; (iii) other information to be announced pursuant to the law; (iv) registration and filing information; (v) registration information for chattel mortgage; (vi) registration information for pledge of equity; (vii) information on administrative punishment and (viii) other information to be announced pursuant to law . Violation against such requirements would constitute a direct violation of both Provisional Regulations on Enterprise Information Disclosure and Measures for Penalties for Infringement upon Rights and Interests of Consumers and would be punished severely.

The customs declaration, clearance and inspection procedures for goods and articles are different. The declaration of import or export of goods may be made by the consignees or consigners themselves or by customs brokers that have registered with the permission of the customs. The consignees, consigners or customs brokers shall make true declarations and submit the import or export license for restricted goods and relevant documentation to the customs for inspection. Where the commodities are imported or exported by means of express delivery, the consignees or consignor shall entrust an entry-exit express delivery enterprise with the inspection declaration, pursuant to the Regulations on the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection, effective as December 1, 2005 and amended on February 6, 2016, March 1, 2017 and March 2, 2019. In addition, a new information management system for express delivery consignments was established on November 30, 2018, according to the Announcement on Initiating the Application of the Information Management System for Inward and Outward Postal Items issued on November 8, 2018, requiring express delivery operators to collect data of each item of mail and submit it to the information management system.

On November 24, 2015, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China issued the Work Norms for Cross-border E-commerce Business Entities and Commodity Record Management, which became effect on January 1, 2016. Pursuant to the work norms, if a cross-border e-commerce business entity develops a cross-border e-commerce business, it shall provide the inspection and quarantine institution with the business entity's record information.

On November 28, 2018, the Ministry of Commerce, National Development and Reform Commission, Ministry of Finance, General Administration of Customs, State Taxation Administration and State Administration for Market Regulation promulgated the Circular on Improving the Regulation of Cross-border E-Commerce Retail Imports, which took effect on January 1, 2019. Pursuant to this circular, cross-border e-commerce operator shall (i) engage a PRC-incorporated company as its domestic agent, (ii) be responsible for product quality and safety and its consumers' rights and interests, (iii) provide adequate disclosures to consumers, (iv) establish a risk prevention and control system and a quality assurance system for products that are subject to bonded import procedure, and (v) transmit real-time electronic transaction data to the customs.

The Announcement on Regulatory Matters Relating to Cross-border E-commerce Retail Imports and Exports, which was issued by General Administration of Customs on December 10, 2018 and has come into effect on January 1, 2019 requires that (i) enterprises participating in cross-border e-commerce retail importation and exportation business, such as cross-border e-commerce platform enterprises, logistics enterprises, payment

enterprises, shall register with the customs at the locality pursuant to the relevant provisions on registration and administration of customs declaration; (ii) prior to declaration for cross-border e-commerce retail imports, the cross-border e-commerce platform enterprise or the domestic agent of cross-border e-commerce enterprise, the payment enterprise, and the logistics enterprise shall respectively transmit electronic information on transaction, payment and logistics through the international trade “single window” or the cross-border e-commerce customs clearance service platform to the customs, and bear the corresponding legal liability for veracity of the data; (iii) cross-border e-commerce platform enterprises carrying out cross-border e-commerce retail importation business and domestic agents of cross-border e-commerce enterprises shall verify the veracity of the transaction and the identity information of the consumer (purchaser), and bear the corresponding liability; where the identity information has not been authenticated by the state authorities in charge or the agency authorized thereby, the purchaser and the payor shall be the same person; (iv) for cross-border e-commerce retail imports, the customs shall levy customs duties and import value-added tax and consumption tax in accordance with state tax policies for cross-border e-commerce retail importation; the dutiable price shall be the actual transaction price, including the retail price of the goods, shipping fee and insurance premium, and the cross-border e-commerce platform enterprises, logistics enterprises or declaration enterprises registered with the customs shall be withholding agents, pay tax on behalf of the taxpayers, and bear the corresponding obligation to pay overdue tax and the relevant legal liability. Furthermore, on December 29, 2018, General Administration of Customs issued the Announcement on Matters Relating to Customs Registration and Administration for Cross-border E-commerce Enterprises, which has come into effect on January 1, 2019. Pursuant to the Announcement, cross-border e-commerce payment enterprises, logistics enterprises shall obtain the relevant qualification certificate pursuant to the provisions of the Announcement on Regulatory Matters Relating to Cross-border E-commerce Retail Imports and Exports and submit the relevant qualification certificate pursuant to the relevant provisions of the authorities in charge when completing customs registration formalities.

Regulations Related to M&A and Overseas Listings

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

The Anti-Monopoly Law promulgated by the Standing Committee of the National People’s Congress on August 30, 2007 and effective on August 1, 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by MOFCOM before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Lenders, or Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on August 25, 2011, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Lenders, or the MOFCOM Security Review Regulations, which became effective on September 1, 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the MOFCOM Security Review Regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM

decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the National Development and Reform Commission, or NDRC, and MOFCOM under the leadership of the State Council, to carry out the security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

Regulations Related to Education

On March 18, 1995, the PRC National People's Congress, or the NPC, promulgated the Education Law of the PRC, or the Education Law. The Education Law stipulates that the government formulates plans for the development of education, establishes and operates business of education, and in principle, enterprises, institution, social organizations and individuals are encouraged to operate various types of educational businesses. It is provided in the Education Law that no organization or individual may establish or operate a school or any other educational institution for commercial purposes. On December 27, 2015, the NPC Standing Committee, published the Decision on Amendment of the Education Law, which took effect on June 1, 2016. The NPC Standing Committee narrowed the provision prohibiting the establishment or operation of schools or other educational institutions for commercial purposes to only restricting a school or other educational institution founded with governmental funds or donated assets in the amended Education Law.

On December 28, 2002, the NPC Standing Committee promulgated the Law for Promoting Private Education, and was last amended on December 29, 2018, the amendment of which also took effect on December 29, 2018. On March 5, 2004, the PRC State Council promulgated the Implementation Rules for the Law for Promoting Private Education, which became effective on April 1, 2004, or the Private Education Implementation Rules. On August 10, 2018, the Ministry of Justice has published Regulations on the Implementation of the Law of the People's Republic of China on the Promotion of Private Education (Draft Revision) (Draft for Examination), or Regulations on the Implementation of the Law of the Promotion of Private Education (Draft Revision), for public comments. According to the Private Education Law, establishment of private institution for academic education, pre-school education, self-taught examination support and other cultural education shall be subject to approval by the authorities in charge of education. A duly approved private school will be granted operating permit, and shall be registered as a legal person at the competent registration authorities. Sponsors of private schools may set up, at their sole discretion, non-profit or commercial private schools. Nonetheless, sponsors may not establish commercial private schools providing compulsory education. Article 15(2) of Regulations on the Implementation of the Law of the Promotion of Private Education (Draft Revision) (Draft for Examination) provides that private training and education institutions that implement educational and teaching activities that contribute to quality improvement and personality development, such as language proficiency, art, sports, science and technology, research and study, as well as private training and education institutions that provide cultural education and non-academic continuing education for adults, may apply directly for registration as legal persons, and the approval by the authorities in charge of education is not required.

On June 18, 2012, the Ministry of Education, or the MOE, issued the Implementation Opinions of MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education to encourage private investment and foreign investment in the field of education. According to these laws, regulations and opinions, the proportion of foreign capital in a PRC-foreign cooperative education institute shall be less than 50%.

On December 27, 2020, the MOFOCOM and the NDRC jointly promulgated the Catalog of Industries Encouraging Foreign Investment (2020 Version), or the 2020 Encouraged Catalog, which became effective on January 27, 2021 and replaced the previous list of the industries where foreign investment is encouraged under the 2019 Encouraged Catalog. According to the Catalogue of Industries Encouraging Foreign Investment (2020 Version), non-school-based vocational training institutions are among the industries encouraging foreign investment.

Regulation Relating to After-school Tutoring and Education

On September 4, 1991, the 21st Session of the Standing Committee of the Seventh National People's Congress issued the Law of the People's Republic of China on the Protection of Minors, or the Law on Protection of Minors. On the October 17, 2020, the law was amended, focusing on time arrangement of the minors especially in terms of their lessons taken after class, which will take effect on the June 1, 2021. The amended Law on Protection of Minors orders that educational institutions shall not organize lessons such as English lessons that teach pre-school kids contents included in primary school education schedule in any forms.

On February 13, 2018, the MOE, the Ministry of Civil Affairs, the Ministry of Human Resources and Social Security and the SAMR jointly promulgated the Circular on Alleviating After-school Burden on Primary and Secondary School Students and Implementing Inspections on After-school Training Institutions, pursuant to which the government authorities will carry out a series of inspections on after-school training institutions and order those with material potential safety risks to suspend business for self-inspection and rectification and those without proper establishment licenses or school operating permits to apply for relevant qualifications and certificates under the guidance of competent government authorities. After-school training institutions are prohibited from providing academic training services beyond the scope or above the level of school textbooks, or organizing any academic competitions (such as Olympiad competitions) or level tests for students of primary and secondary schools. In addition, primary and secondary schools may not reference the student's performance in the after-school training institutions as one of admission criteria.

On August 6, 2018, the General Office of the State Council issued Opinions of the State Council on regulating the development of out-of-school training institutions ("State Council Circular 80") with a view to effectively reduce the excessive extracurricular burden of primary and secondary school students and promote the standardized and orderly development of out-of-school training institutions. State Council Circular 80 sets out a number of operating standards for after-school tutoring institutions to adhere, including, among others, that: (i) an average student area of not less than 3 square meters during the same training period, to ensure that it is not crowded and easy to evacuate; they must meet national requirements on fire prevention, environmental protection, health, food operation and other management regulations.; (ii) through the purchase of personal safety insurance for the participants and other necessary ways to prevent and resolve the risk of safety accidents; (iii) in terms of teacher conditions, off-campus training institutions must have a relatively stable teaching staff, and may not employ primary or secondary school teachers in service ; (iv) training institutions should sign employment contracts, labor contracts or labor agreements with the personnel hired in accordance with the law. The employment of foreign personnel shall comply with the relevant national regulations. In addition, after-school training institutions are prohibited from carrying out exam-oriented training, training that goes beyond the school syllabus, training in advance of the corresponding school schedule or any training activities associated with student admission, and they are not allowed to organize any level test, rank examination or competition on academic subjects for primary and secondary students. The training content of after-school training institutions cannot exceed the corresponding national curricular standards and training progress shall not be more accelerated than the corresponding progress of local schools. According to State Council Circular 80, after-school training institutions are also required to disclose and file relevant information regarding the institution, including their training content, schedule, targeted students and school timetable to the relevant education authority, and their training classes may not end later than 8:30 p.m. each day or otherwise conflict with the teaching time of local primary and secondary schools. Course fees can only be collected for courses in three months or shorter installments. Moreover, State Council Circular 80 requests that competent local authorities formulate relevant local standards for after-school training institutions within their administrative area. If an overseas listed after-school training institution publicizes overseas any periodical report, or any interim report on material adverse effect on its operation, it must concurrently publish the information in Chinese on its official website (or on the disclosure platform for securities exchange information in the absence of an official website).

On June 10, 2020, the General Office of MOE and the General Office of SAMR promulgated the Notice on Issuing the Form of Service Contract for After-school Training Provided to Primary and Secondary School

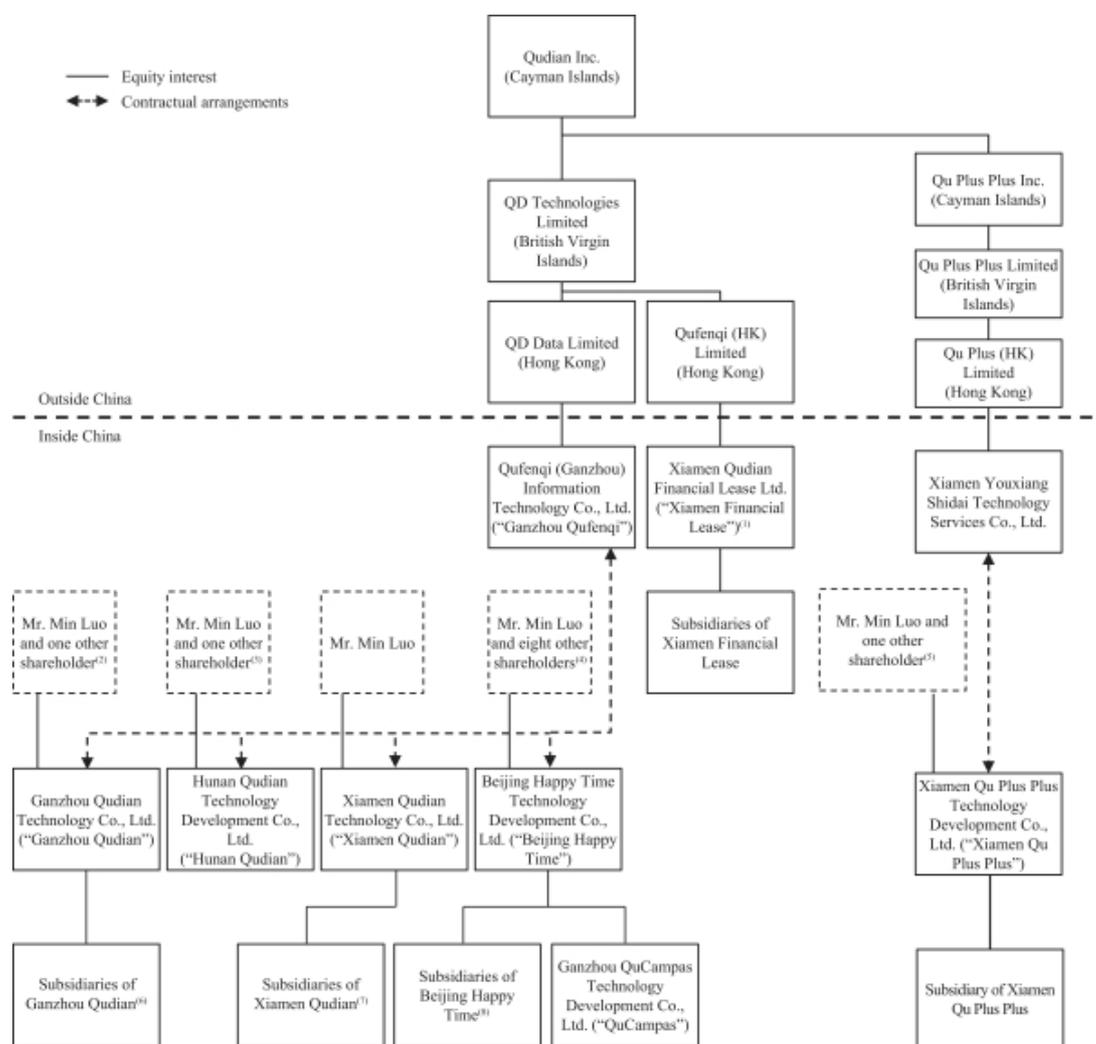
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Students, which requires the local competent regulatory authorities to guide the relevant parties to use the form of service contract for after-school training activities provided to primary and secondary school students. The form of service contract covers the obligations and rights of parties involved in the after-school training, including detailed provisions on training fees, refund arrangement and default liabilities.

Relating to after-school tutoring and education, (i) as Regulations on the Implementation of the Law of the Promotion of Private Education (Draft Revision) has not yet come into force, market administrative departments in each region have different understandings of whether various types of private for-profit training institutions need to obtain the operating permit by the authorities in charge of education, and even though Wanlimu Kids Club is not currently required by the competent authorities to obtain the license, it does not exclude the risk that it may be required to obtain the license in the future; (ii) the limited space and size of Wanlimu Kids Club's educational facilities may lead to a drain of our students to our competitors; (iii) accidents or injuries suffered by our students, our employees or other people at Wanlimu Kids Club may adversely affect our reputation and subject us to liability; (iv) we are at risk of outbreaks related to the new coronavirus and other epidemics, which may result in reduced attendance or closures.

C. Organizational Structure

The following diagram illustrates our company's organizational structure, and the place of formation, ownership interest and affiliation of each of our principal subsidiaries and affiliated entities as of December 31, 2020. It omits certain entities that are immaterial to our results of operations, business and financial condition, such as Xiamen Weipujia, which do not currently engage in material business operations. Except as otherwise specified, equity interests depicted in this diagram are held as to 100%. The relationships between each of Ganzhou Qudian, Xiamen Weipujia, Xiamen Qudian and Beijing Happy Time and Ganzhou Qufenqi, and the relationship between Xiamen Youxiang and Xiamen Qu Plus Plus are governed by contractual arrangements and do not constitute equity ownership.



- (1) Includes subsidiaries of Xiamen Financial Lease located in various cities across China. Xiamen Financial Lease and its subsidiaries were primarily involved in operating Dabai Auto, our budget auto financing business. We ceased offering auto financing products in the second quarter 2019, and we are on the process of winding down certain subsidiaries of Xiamen Financial Lease.
- (2) Mr. Min Luo, our founder, chairman and chief executive officer, and Mr. Lianzhu Lv, our head of user experience department, respectively hold 99.0% and 1.0% of equity interests in Ganzhou Qudian.
- (3) Mr. Min Luo and Mr. Hongjia He, our vice president, respectively hold 99.0% and 1.0% of equity interests in Hunan Qudian.
- (4) The following table sets forth the shareholders of Beijing Happy Time, their respective equity interests in Beijing Happy Time and their respective relationships with shareholders of Qudian Inc. as of the date of this annual report. For further information as to the principal shareholders of Qudian Inc., see "Item 6. Directors, Senior Management and Employees — E. Share Ownership."

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Shareholders	Relationship with shareholders of Qudian Inc.	Amount of Registered Capital RMB	Percentage of Equity Interests
Mr. Min Luo	Holds 100% equity interests in Qufenqi Holding Limited	5,025,579	21.0
Phoenix Auspicious Internet Investment L.P. and Shenzhen Guosheng Qianhai Investment Co., Ltd.	Affiliates of Phoenix Auspicious FinTech Investment L.P. and Guosheng (Hong Kong) Investment Limited (formerly known as Wa Sung Investment Limited), or Guosheng HK, collectively referred to as Phoenix Entities	4,596,670	19.2
Beijing Kunlun Tech Co., Ltd.	Affiliate of Kunlun Group Limited	4,587,496	19.2
Ningbo Yuanfeng Venture Capital L.P.(a)	Affiliate of Source Code Accelerate L.P.	3,757,355	15.7
Shanghai Yunxin Venture Capital Co., Ltd.(a)	Affiliate of API (Hong Kong) Investment Limited	2,985,744	12.5
Jiaxing Blue Run Quchuan Investment L.P. and Tianjin Blue Run Xinhe Investment Center L.P.(a)	Affiliates of Ever Bliss Fund, L.P. and Joyful Bliss Limited, collectively referred to as Zhu Entities	1,681,366	7.0
Tianjin Happy Share Asset Management L.P., referred to as Tianjin Happy Share(b)	Not applicable	1,251,742	5.2

- (a) Ningbo Yuanfeng Venture Capital L.P., Shanghai Yunxin Venture Capital Co., Ltd., Jiaxing Blue Run Quchuan Investment L.P. and Tianjin Blue Run Xinhe Investment Center L.P. entered into a series of agreements to transfer their respective equity interest in Beijing Happy Time to Mr. Min Luo in October 2020. We are still in the process of completing the registration of such share transfer with the relevant regulatory authorities.
- (b) Tianjin Happy Share was established in connection with the share incentive plan of Beijing Happy Time. For more information, see “Item 6. Directors, Senior Management and Employees — B. Compensation — 2015 Share Incentive Plan.”
- (5) Mr. Min Luo, our founder, chairman and chief executive officer, and Mr. Long Xu, our director, respectively hold 99.9% and 0.1% of equity interests in Xiamen Qu Plus Plus Technology Development Co., Ltd.
- (6) Material subsidiaries of Ganzhou Qudian include Xiamen Qudian Commercial Factoring Co., Ltd., Jiangxi Chunmian Technology Development Co., Ltd., Ganzhou Qudian Commerce Development Co., Ltd., Xiamen Junda Network Technology Co., Ltd., Xinjiang Qudian Technology Co., Ltd. and Xiamen Wanlimu Growth, which we expect to utilize to explore new business opportunities.
- (7) Material subsidiaries of Xiamen Qudian include Xiamen Wanlimu Technology Co., Ltd., Xiamen Qudian Culture and Technology Co., Ltd., Global Select (HK) Limited, Qu Plus Plus (HK) Limited and Xiamen Wanlimu Luxuries Co., Ltd.
- (8) Material subsidiaries of Beijing Happy Time include Fuzhou Happy Time Technology Development Co., Ltd., Tianjin Happy Time Technology Development Co., Ltd., Tianjin Qufenqi Technology Co., Ltd, Ganzhou Happy Fenqi Network Service Co., Ltd., Ganzhou and Fuzhou High-tech Zone Microcredit Co., Ltd. Beijing Happy Time currently operates our websites and mobile apps under the Laifenqi brand and Qudian brand.

We launched Wanlimu Kids Clubs, an early childhood education business, in January 2021. We currently operate the early childhood education business through Xiamen Wanlimu Growth, a subsidiary of Ganzhou Qudian. To facilitate offshore financing for the new business, we have established a wholly-owned subsidiary under the laws of the Cayman Islands, Wanlimu Cayman, in February 2021. Through a wholly-owned subsidiary of Wanlimu Cayman to be established in China, we plan to enter into a series of contractual arrangements with Xiamen Wanlimu Growth and its shareholder, which will allow us to continue to exercise effective control over Xiamen Wanlimu Growth and realize substantially all of the economic risks and benefits arising from Xiamen Wanlimu Growth.

Our Contractual Arrangements with Consolidated VIEs and Their Shareholders

Due to PRC legal restrictions on foreign ownership and investment in, among other areas, VATS, which include the operations of Internet content providers, or ICPs, we, similar to all other entities with foreign-incorporated holding company structures operating in our industry in China, currently conduct these activities mainly through Beijing Happy Time and its subsidiaries. We established three additional consolidated VIEs, Ganzhou Qudian, Hunan Qudian and Ganzhou Qudian, in 2017. In addition, Xiamen Weipujia also became one of our consolidated VIEs in 2018 and Xiamen Qu Plus Plus became our sixth consolidated VIEs in 2019. In January 2021, we completed the dissolution of Hunan Qudian and terminated the contractual arrangements with Hunan Qudian and its shareholders. We effectively control each consolidated VIE through a series of contractual arrangements with such VIE, its shareholders and Ganzhou Qufenqi or Xiamen Youxiang, as applicable, as described in more detail below, which collectively enables us to:

- exercise effective control over each of our consolidated VIEs and its subsidiaries;
- receive substantially all the economic benefits of each of our consolidated VIEs; and
- have an exclusive option to purchase all or part of the equity interests in the equity interest in or all or part of the assets of each of our consolidated VIEs when and to the extent permitted by PRC law.

In addition, pursuant to the resolutions of the board of directors of Qudian Inc. and/or the resolutions of all shareholders of Qudian Inc., the board of directors of Qudian Inc. or any officer authorized by such board shall cause Ganzhou Qufenqi and Xiamen Youxiang to exercise their rights under the power of attorney agreements entered into among Ganzhou Qufenqi or Xiamen Youxiang, as applicable, each of our consolidated VIEs and the nominee shareholders of each of our consolidated VIEs and the rights of Ganzhou Qufenqi and Xiamen Youxiang under the exclusive call option agreement between Ganzhou Qufenqi or Xiamen Youxiang, as applicable, and each of our consolidated VIEs. As a result of these resolutions and the provision of unlimited financial support from the Company to each of our consolidated VIEs, Qudian Inc. has been determined to be most closely associated with each of our consolidated VIEs within the group of related parties and was considered to be the primary beneficiary of each of our consolidated VIEs. We have consolidated their financial results in our consolidated financial statements in accordance with U.S. GAAP.

In the opinion of Tian Yuan Law Firm, our PRC legal counsel:

- the ownership structures of Ganzhou Qufenqi, Xiamen Youxiang and our consolidated VIEs in China do not violate any applicable PRC law, regulation, or rule currently in effect; and
- the contractual arrangements among Ganzhou Qufenqi or Xiamen Youxiang, as applicable, each of our consolidated VIEs and its shareholders governed by PRC laws are valid, binding and enforceable in accordance with their terms and applicable PRC laws, rules, and regulations currently in effect, and will not violate any applicable PRC law, regulation, or rule currently in effect.

However, we have been further advised by our PRC legal counsel, Tian Yuan Law Firm, that there are uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations. The 2019 Law of Foreign Investment became effective on January 1, 2020. The 2019 Law of Foreign Investment has replaced the trio of laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The 2019 Law of Foreign Investment does not mention concepts including “de facto control” and “controlling through contractual arrangements,” nor does it specify the regulation on controlling through contractual arrangements. Specifically, it does not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the arrangements comprising our Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties. Notwithstanding the above, the 2019 Law of Foreign Investment stipulates that “foreign investment includes foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council.” Therefore,

there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment and our Contractual Arrangements will be regarded as foreign investment. If that is the case, whether our contractual arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are subject to uncertainties. The PRC regulatory authorities may in the future take a view that is contrary to the opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the aforesaid business we engage in, we could be subject to severe penalties including being prohibited from continuing operations. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Corporate Structure.”

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Ganzhou Qufenqi or Xiamen Youxiang, as applicable, the applicable consolidated VIEs, and their respective shareholders.

Agreements that Provide Us with Effective Control over Our Consolidated VIEs and Their Subsidiaries

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, the shareholders of our consolidated VIEs have pledged all of their equity interest in our consolidated VIEs as a continuing first priority security interest, as applicable, to respectively guarantee our consolidated VIEs and their shareholders’ performance of their obligations under the relevant contractual arrangements, which include the exclusive business cooperation agreements, exclusive call option agreements and power of attorney agreements. If our consolidated VIEs or any of their shareholders breach their contractual obligations under these agreements, Ganzhou Qufenqi or Xiamen Youxiang, as applicable, as pledgee, will be entitled to certain rights regarding the pledged equity interests. In the event of such breaches, the rights of Ganzhou Qufenqi and Xiamen Youxiang include forcing the auction or sale of all or part of the pledged equity interests of the applicable consolidated VIE and receiving proceeds from such auction or sale in accordance with PRC law. Upon purchase of equity interests in the applicable consolidated VIE by other persons, Ganzhou Qufenqi or Xiamen Youxiang, as applicable, and such persons will need to enter into contractual arrangements that are similar to existing ones in order for Ganzhou Qufenqi or Xiamen Youxiang, as applicable, to effectively control such consolidated VIE. Each of the shareholders of our consolidated VIEs agrees that, during the term of the applicable equity interest pledge agreement, such shareholder will not dispose of the pledged equity interests or create or allow creation of any encumbrance on the pledged equity interests without the prior written consent of Ganzhou Qufenqi or Xiamen Youxiang, as applicable. Ganzhou Qufenqi and Xiamen Youxiang are entitled to all dividends and other distributions declared by our consolidated VIEs except as it agrees otherwise in writing. Each equity interest pledge agreement will remain effective until the applicable consolidated VIE and its shareholders discharge all their obligations under the contractual arrangements. We have registered pledges of equity interest in each of our consolidated VIEs with the relevant offices of the administration for industry and commerce in accordance with the PRC Property Rights Law.

Power of Attorney Agreements. Pursuant to the power of attorney agreements, each shareholder of our consolidated VIEs has irrevocably appointed the Ganzhou Qufenqi or Xiamen Youxiang, as applicable, to act as such shareholder’s exclusive attorney-in-fact to exercise all shareholder rights, including the right to attend and vote on shareholder’s meetings and appoint directors and executive officers. In the absence of contrary written instructions of Ganzhou Qufenqi or Xiamen Youxiang, as applicable, each power of attorney agreement will remain in force for so long as the shareholder remains a shareholder of the applicable consolidated VIE.

Agreements that Allow Us to Receive Economic Benefits from our Consolidated VIEs and Their Subsidiaries

Exclusive Business Cooperation Agreements. Under the exclusive business cooperation agreements, Ganzhou Qufenqi and Xiamen Youxiang have the exclusive right to provide the consolidated VIEs and their subsidiaries that generate substantial income, including Ganzhou Happy Fenqi, Ganzhou Network, and Fuzhou

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Microcredit, or the profitable consolidated VIEs and their subsidiaries, with technical support, consulting services and other services. In exchange, Ganzhou Qufenqi is entitled to receive a service fee from each of the profitable consolidated VIEs on a monthly basis and at an amount equivalent to all of its net income as confirmed by Ganzhou Qufenqi; Xiamen Youxiang is entitled to receive a service fee from Xiamen Qu Plus Plus on a monthly basis and at an amount equivalent to all of its net income as confirmed by Xiamen Youxiang. Ganzhou Qufenqi and Xiamen Youxiang own the intellectual property rights arising out of the performance of the respective exclusive business cooperation agreement. In addition, each of the consolidated VIEs and their subsidiaries has granted Ganzhou Qufenqi or Xiamen Youxiang, as applicable, an exclusive right to purchase any or all of the business or assets of each of the profitable consolidated VIEs and their subsidiaries at the lowest price permitted under PRC law. Unless otherwise agreed by the parties, this agreement will continue remaining effective.

Agreements that Provide Us with the Option to Purchase the Equity Interest in our consolidated VIEs.

Exclusive Call Option Agreements. Pursuant to the exclusive call option agreements, our consolidated VIEs and each of their shareholders have irrevocably granted Ganzhou Qufenqi or Xiamen Youxiang, as applicable, an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion at any time, to the extent permitted under PRC law, all or part of such shareholder's equity interests in the applicable, or any or all of the assets of such consolidated VIE. For reasons discussed in this section, there may be PRC legal restrictions on the ability of Ganzhou Qufenqi and Xiamen Youxiang to directly purchase such equity interests or assets. In the event such equity interests or assets are sold to persons designated by Ganzhou Qufenqi or Xiamen Youxiang, as applicable, Ganzhou Qufenqi or Xiamen Youxiang, as applicable, and such persons will need to enter into contractual arrangements that are similar to the existing ones in order for Ganzhou Qufenqi or Xiamen Youxiang, as applicable, to exercise effective control over and receive substantially all the economic benefits of such equity interests or assets. As for the equity interests in a consolidated VIE, the purchase price should be equal to the minimum price as permitted by PRC law. As for the assets of a consolidated VIE, the purchase price should be equal to the book value of the assets or the minimum price as permitted by applicable PRC law, whichever is higher. Without prior written consent of Ganzhou Qufenqi or Xiamen Youxiang, as applicable, each consolidated VIE and its shareholders have agreed that such consolidated VIE shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, provide any loans or guarantees and etc. Ganzhou Qufenqi and Xiamen Youxiang are entitled to all dividends and other distributions declared by the applicable consolidated VIE except as they agree otherwise in writing, and the shareholders of the applicable consolidated VIE have agreed to pay any such dividends or distributions to Ganzhou Qufenqi and Xiamen Youxiang, respectively. Each agreement will remain effective until all equity interests of the applicable consolidated VIE held by its shareholders and all assets of such consolidated VIE have been transferred or assigned to Ganzhou Qufenqi or Xiamen Youxiang, as applicable, or its designated person(s).

Financial Support Undertaking Letters

We executed a financial support undertaking letter addressed to each consolidated VIE, pursuant to which we irrevocably undertake to provide unlimited financial support to such consolidated VIE to the extent permissible under the applicable PRC laws and regulations, regardless of whether such consolidated VIE has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. We will not request repayment of any outstanding loans or borrowings from a consolidated VIE if it or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. Each letter is effective from the date of the other agreements entered into among Ganzhou Qufenqi, or Xiamen Youxiang, as applicable, the applicable consolidated VIE and its shareholders until the earlier of (i) the date on which all of the equity interests of such consolidated VIE have been acquired by or its designated representative(s), and (ii) the date on which we in our sole and absolute discretion unilaterally terminates the applicable financial support undertaking letter.

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

D. Facilities

Our corporate headquarters are located in Xiamen, Fujian Province, China, where we lease approximately 15,872 square meters of office space pursuant to a series of lease expiring in the second quarter of 2021 through second quarter of 2022. We also maintain leased properties of approximately 127 square meters, 100 square meters, 2,000 square meters and 799 square meters in Beijing, Tianjin, Fuzhou and Ganzhou in Jiangxi Province, respectively. We also use a property of 80 square meters in Jiangxi Province provided by the local government without rent.

In January 2018, we purchased the use rights with respect to a parcel of land of approximately 53,239 square meters located in Xiamen, Fujian Province for a price of RMB106 million. Pursuant to the contract we signed with the local government authorities, our land lease right of use asset will last for 40 years. We have commenced construction of our innovation park on such parcel of land, and the construction is expected to be completed in 2022.

We believe that we will be able to obtain adequate facilities to accommodate our future expansion plans.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information — D. Risk Factors” or in other parts of this annual report.

For comparison of our results of operations for the years ended December 31, 2019 to December 31, 2018, refer to “Item 5. Operating and Financial Review and Prospects” in the 2020 Form 20-F, filed with the SEC on April 27, 2020.

A. Operating Results

Overview

We are a leading technology platform empowering the enhancement of online consumer credit experience in China. We target hundreds of millions of young, tech-savvy and mobile-active consumers in China who are underbanked and underserved but eager to access small credit for their discretionary spending. Our technology platform enables licensed credit providers to offer instantaneous, affordable and customized consumer credit to this young generation of consumers.

Through our technology platform, we operate (i) a loan book business, whereby we offer small credit products to consumers and undertake the related credit risk, and (ii) a transaction services business, whereby we offer loan recommendation and referral services to third-party financial service providers and assume no credit risk. In 2020, we facilitated approximately RMB22.4 billion (US\$3.4 billion) in transactions, 82.1% of such

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transactions were facilitated under our loan book business, and 17.9% were facilitated under our transaction services business. As of December 31, 2020, we had served a cumulative number of borrowers of 19.1 million.

To provide consumers with a convenient experience, we offer small credit products through our online platform, with all of the transactions facilitated through mobile devices. Prospective borrowers can apply for small credit on their mobile phones and receive approval within minutes. Approved borrowers are then able to draw down on their cash credit with cash disbursed immediately into their online accounts in digital form. Borrowers also repay the credit drawdowns through their online accounts. We also offer merchandise credit products to finance borrowers' direct purchase of merchandise from the Qudian marketplace on installment basis. Through collaborating with approximately 200 merchandise suppliers, we offer a variety of merchandise ranging from consumer electronics products to watches and sports and outdoor products to capture approved borrowers' growing consumption demand and enhance their online shopping experience. In the three months ended December 31, 2020, the small credit products under our loan book business had an average size of approximately RMB2,700 (US\$416) and weighted average term of approximately 4.5 months.

We have developed our transaction services business to help financial service providers grow, while simultaneously bringing value to consumers. The transaction services business also allows us to further monetize our user base and mitigate our credit risk exposure. While our registered users grew to approximately 81.9 million as of December 31, 2020, the number of outstanding borrowers was 3.5 million as of the same date, evidencing the potential to maximize the value of our user base. We aim to further activate this user base by operating an open platform, whereby we offer transaction referral services to licensed institutional funding partners. The financial service providers take full credit risk for these referrals. We expect to create significant value for all parties involved in these initiatives: financial service providers gain access to a vast online borrower base; and consumers can access affordable, instant credit through more mobile channels. As of December 31, 2020, the cumulative amount of transactions facilitated under our transaction services business was RMB28.0 billion (US\$4.3 billion), and the cumulative number of borrowers for such transactions was 1.4 million. In the three months ended December 31, 2020, the transactions facilitated under our transaction services business had an average loan balance per borrower of approximately RMB6,800 (US\$1,042) and weighted average term of approximately 6.4 months.

We generate (i) financing income, guarantee income and loan facilitation income and other related income from cash credit products and (ii) financing income and sales commission fee from merchandise credit products. We generate transaction services fee and other related income from our transaction services business. We also generate sales income from merchandise sales on the Wanlimu e-commerce platform, which we are in the process of winding down. We historically offered budget auto financing products, from which we generated sales income and financing income. We started to wind down our budget auto financing business in the second quarter of 2019 to focus on our core consumer finance business.

Our total revenues increased from RMB7,692.3 million in 2018 to RMB8,840.0 million in 2019, and decreased to RMB3,688.0 million (US\$565.2 million) in 2020. We recorded net income of RMB2,491.3 million, RMB3,264.3 million and RMB958.8 million (US\$146.9 million) in 2018, 2019 and 2020, respectively.

Key Factors Affecting Our Results of Operations

Number and Engagement of Borrowers

We primarily engage borrowers through our mobile applications. Our ability to continue to engage borrowers efficiently is significantly affected by our ability to attract more users through our own mobile apps.

As we seek to broaden our borrower base, our success in collaborating with other leading Internet companies and other marketing efforts will affect the size and credit quality of our borrower base. In addition, our brand, reputation, user experience and the pricing of our credit products will affect our borrower retention capability and repeat transactions by borrowers.

Risk Management

While we bear credit risk for transactions under the loan book business, we do not bear credit risk for transactions under the transaction services business. Furthermore, the financial service providers perform independent credit assessment for the transactions facilitated under our transaction services business. As such, the quality of our risk management system primarily affects the delinquency rates of the transactions under the loan book business. Our ability to effectively evaluate a borrower's credit profile also affects our ability to offer attractive borrowing terms under the loan book business.

Transactions under the loan book business consist of on-balance sheet transactions, as well as off-balance sheet transactions. We periodically adjust our allowance for loan principal and financing service fee receivables when we believe that the future collection of the principal of on-balance sheet transactions is unlikely. We base the allowance for loan principal and financing service fee receivables primarily on historical loss experience using a roll rate-based model applied to our principal and financing service fee receivables portfolios and, to a lesser extent, macroeconomic factors. As such, an increase in delinquency rates of on-balance sheet transactions will result in a higher allowance for loan principal and financing service fee receivables. We recognize any increase in allowance for loan principal and financing service fee receivables as provision for loan principal and financing service fee receivables for the relevant period. We charge off loan principal and financing service fee receivables as a reduction to the allowance for loan principal and financing service fee receivables when the principal and financing service fee receivables are deemed to be uncollectible. At the inception of each off-balance sheet transaction, we record the fair value of (i) guarantee liabilities, which represent the present value of our expected payout based on the estimated delinquency rate and the applicable discount rate for time value; or (ii) risk assurance liabilities, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction, as applicable. The contingent loss arising from risk assurance liabilities is recognized when borrower default is probable, and the amount of loss is estimable. The contingent liability related to the expected credit loss for the guarantee measured was recognized at inception in accordance with ASC 326. As such, an increase in expected delinquency rates of off-balance sheet transactions will result in an increase in the amount of guarantee liabilities and risk assurance liabilities, which is recognized as changes in guarantee liabilities and risk assurance liabilities in our results of operations.

Funding Sources, Costs and Risk Transfer

The growth of our business is dependent on our ability to secure sufficient funding for the transactions that we facilitate. We primarily work with institutional funding partners to fund the credit we facilitate. We do not directly source funding from retail investors. Both our loan book business and transaction services business involve funding from institutional funding partners. The availability of funds from the institutional funding partners that we collaborate with affects our liquidity and the amount of transactions that we will be able to facilitate. The cost of capital for funds from institutional funding partners that we collaborate with during any specific period impacts our profitability.

We collaborate with institutional funding partners in several ways under our loan book business. There are credit drawdowns that are funded indirectly by institutional funding partners through trusts that we established with trust companies. For such arrangements, we recognize financing income from borrowers including interest collected on behalf of our institutional funding partners. We record interest expenses of borrowings on funds provided by such institutional funding partners as cost of revenues. For this type of transactions, we retain full credit risk and record them on our balance sheet. As we incur interest expenses of borrowings on such funding arrangement, an increase in such arrangement may adversely affect our profit margin. We also collaborate with certain institutional funding partners that provide funds directly to borrowers for credit drawdowns that we facilitate, which enables us to facilitate additional transactions without utilizing our capital resources. Such institutional funding partners deduct the principal and service fees due to them from borrowers' repayments and remit the remainder to us as our loan facilitation fees. Such loan facilitation fees, net of the fair value of guarantee liabilities and risk assurance liabilities which was deducted from the consideration, are recognized as

loan facilitation income and other related income. We do not incur interest expenses of borrowings on their funding. We record the credit drawdowns funded under such arrangements off-balance sheet, and we provide guarantees for such transactions. We record guarantee liabilities and risk assurance liabilities, as applicable, on our balance sheet. While we intend to focus on leveraging technology, rather than capital, to serve the broad consumer base in China, we also fund certain credit drawdowns indirectly through funding arrangements with banks.

In the second half of 2018, we launched an open platform for transaction services business. We perform credit assessment on users applying for credit on our platform, following which we primarily refer users that meet our credit requirements to licensed institutional funding partners that participate on the platform. We receive commissions from the institutional funding partners for such referrals. The financial service providers perform independent credit assessment for the transactions facilitated under our transaction services business, and we do not bear credit risk for the transactions. Furthermore, we do not incur material cost of operations in connection with the transaction services business. As such, an expansion of transaction services business would enhance our profit margin.

Product and Service Offerings

We offer (i) small cash and merchandise credit products under the loan book business and (ii) loan recommendation and referral services under the transaction services business. Our revenue and profitability are subject to the amount of transactions we facilitate, as well as the relative contribution in the amount of transactions facilitated under our various credit products and services. Under our loan book business, the amount of financing service fees per transaction is a function of the size and duration of credit products. Credit products of larger size and longer duration generally correspond to higher financing service fees. In addition, borrowers with strong credit profiles may be offered discounts as to financing service fees. In April 2017, we lowered the financing service fee levels for certain cash credit products to ensure that the annualized fee rates charged on all credit drawdowns do not exceed 36%. We may further lower the financing service fee levels in the future in response to customer characteristics, market demand, competition and regulations, which would impact our revenue and profitability. Under our transaction services business, we generate transaction services fee and other related income in connection with the loan recommendation and referral services we provide to financial service providers. Our ability to obtain favorable pricing terms for such services depends in part on our ability to create value for the financial service providers that participate on our open platform.

Economic Conditions and Regulatory Environment in China

The demand for credit from borrowers is dependent upon overall economic conditions in China. General economic factors, including the interest rate environment and unemployment rates, may affect borrowers' willingness to seek credit. For example, significant increases in interest rates could cause prospective borrowers to defer obtaining credit as they wait for interest rates to decrease. Additionally, a slowdown in the economy, resulting in a rise in the unemployment rate and/or a decrease in real income, may affect individuals' level of disposable income. This may affect borrowers' repayment capability and their willingness to seek credit, which may potentially affect credit drawdowns and/or delinquency rates.

The regulatory environment for the online consumer 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 consumer finance industry in China, the PRC government has not adopted a clear regulatory framework governing our industry. We will continue to make efforts to ensure that we are compliant with the existing laws, regulations and governmental policies relating to our industry and to comply with new laws and regulations or changes under existing laws and regulations that may arise in the future. While new laws and regulations or changes to existing laws and regulations could make facilitating credit to borrowers more difficult or expensive, or making such credit products more difficult for borrowers or institutional funding partners to accept or on terms favorable to us, these events could also provide new product and market opportunities.

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User Engage Metrics

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

The following table sets forth our registered users, outstanding borrowers and cumulative number of borrowers as of the dates indicated:

	As of December 31,		
	2018	2019	2020
	(in thousands)		
Registered users	71,766	79,463	81,937
Outstanding borrowers	5,260	6,116	3,472
Cumulative number of borrowers	16,716	19,037	19,067

We define “registered users” as individuals who have registered with us.

We define “outstanding borrowers” as borrowers who have outstanding loans under either the loan book business or the transaction services business as of a specified date.

We define “cumulative number of borrowers” as borrowers who have drawn down credit under either the loan book business or the transaction services business since our inception in April 2014.

Transaction Volume Metrics

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

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

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
On-balance sheet transactions	37,036,366	22,760,427	18,294,942	2,803,823
Off-balance sheet transactions	20,904,603	38,080,279	97,879	15,001
Transactions under the loan book business	57,940,969	60,840,706	18,392,821	2,818,823
Transactions under the transaction services business	—	23,683,642	4,020,778	616,211
Total	57,940,969	84,524,348	22,413,599	3,435,034

We define “amount of transactions” as the aggregate principal amount of credit drawdowns that are provided to borrowers in the specified period, which are comprised of (i) credit drawdowns that are facilitated under our loan book business and (ii) credit drawdowns that are facilitated under our transaction services business.

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The table below sets forth a breakdown for the outstanding principal of transactions we facilitated as of the dates presented:

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
On-balance sheet transactions	9,652,127	9,286,416	4,718,031	723,070
Off-balance sheet transactions	9,353,242	13,254,755	83,723	12,831
Transactions under the loan book business	19,005,369	22,541,171	4,801,755	735,901
Transactions under the transaction services business	—	15,594,775	5,135,404	787,035
Total	19,005,369	38,135,946	9,937,159	1,522,936

Credit Performance Metrics

The credit performance of the transactions we facilitate under the loan book business directly affects our financial condition and results of operations. We regularly review a number of credit performance metrics, including the following metrics, to evaluate credit performance of our loan book business, identify trends, formulate financial projections and make strategic decisions. We believe that these credit performance metrics are useful to investors because they are frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

If one payment for a credit drawdown facilitated by us is past due, the remaining payments that are not yet due are also considered past due for the purpose of evaluating the performance of the credit drawdown.

M1+ Delinquency Rate by Vintage

Based on our experience, credit drawdowns past due 1 to 30 calendar days would be largely recovered by collection, therefore our focus on credit performance are those transactions for which any installment payment was more than 30 calendar days (“M1+”) past due. We closely monitor the credit performance measured by the M1+ delinquency rates by vintage, which track the lifetime performance of the credit drawdowns originated in a certain vintage and vintage charge-off rate.

The following chart displays M1+ delinquency rate by vintage. M1+ delinquency rate by vintage (with respect to on- and off-balance sheet transactions facilitated under the loan book business during a specified time period) refers to the total outstanding principal balance of the transactions of a vintage for which any repayment is overdue for more than 30 days, divided by the total initial principal of the transactions facilitated in such vintage.

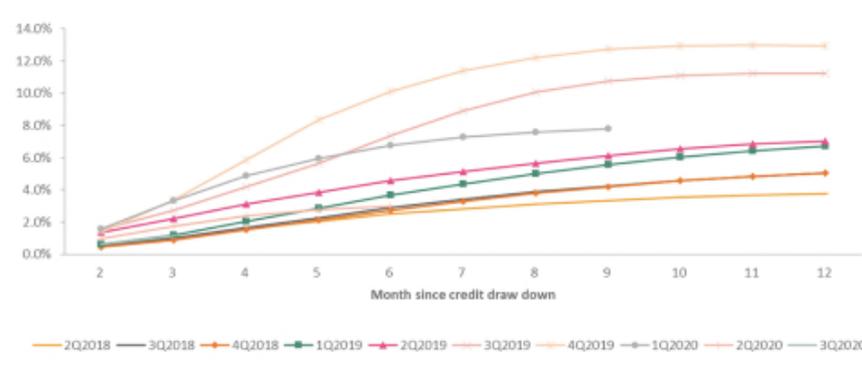
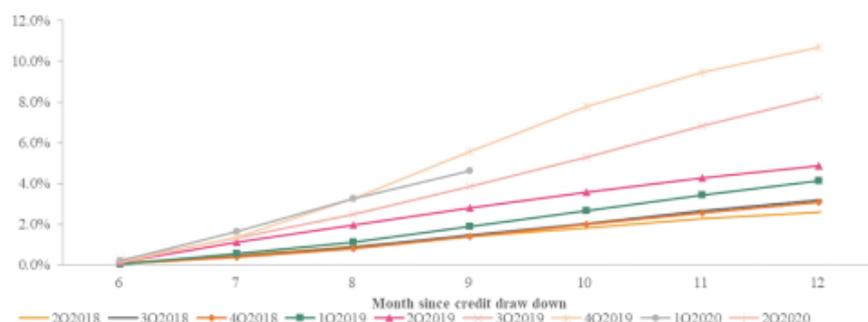


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We experienced increases in M1+ delinquency rate by vintage over time. M1+ delinquency rate by vintage for transactions in the four quarters of 2019 reached 5.6% through March 31, 2020. M1+ delinquency rate by vintage for transactions in the four quarters of 2020 reached 13.0% through March 31, 2021. Such changes were primarily attributable to higher risks in the credit market.

Vintage Charge-off Rate

The following charts display the vintage charge-off rate. Vintage charge-off (with respect to on- and off-balance sheet transactions facilitated under the loan book business during a specified time period) refers to the total outstanding principal balance of the transactions for which any repayment is overdue for more than 180 days during such period, divided by the total initial principal of the transactions facilitated in such vintage.



Outstanding Amounts Past Due

The following table provides the total balance of outstanding principal for on-balance sheet transactions where the longest past due period of an installment payment was 1 to 30, 31 to 60, 61 to 90 and more than 90 calendar days as of the dates presented:

As of	Delinquent for				Total	
	1-30 calendar days	31-60 calendar days	61-90 calendar days	More than 90 calendar days	RMB	US\$
	RMB	RMB	RMB	RMB		
	(in thousands)					
December 31, 2018	153,188	108,535	104,483	298,091	664,297	96,618
December 31, 2019	314,330	212,627	185,994	629,975	1,342,926	192,899
December 31, 2020	51,673	45,871	53,291	254,885	405,720	62,179

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The following table provides the balance of outstanding financing service fees for on-balance sheet transactions where the longest past due period of an installment payment was 1 to 30, 31 to 60 and 61 to 90 calendar days as of the dates presented⁽¹⁾:

As of	Delinquent for			Total	
	1-30 calendar days	31-60 calendar days	61-90 calendar days	RMB	US\$
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
December 31, 2018	4,328	5,545	7,108	16,981	2,470
December 31, 2019	6,233	8,118	10,669	25,019	3,594
December 31, 2020	1,109	1,551	2,557	5,217	800

(1) Financing service fees are reversed post 90 calendar days.

We actively service and collect principal and financing service fees that are past due. The following table sets forth the amount of principal and financing service fees for on-balance sheet transactions that were recovered for the periods presented:

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Amount recovered past due payments for principal	500,936	461,822	580,048	88,896
Amount recovered past due payments for financing service fees	39,878	52,730	58,223	8,923

The following table sets forth the amount of loan principal and financing service fee receivables we charged off for the periods presented:

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Amount charged off	1,077,333	1,215,718	2,127,088	325,991

We charge off loan principal and financing service fee receivables if any of the conditions specified in our charge-off policy is satisfied, including the amount remain outstanding 180 calendar days past due and therefore deemed uncollectible.

Provision Ratio

We define “provision ratio” as the amount of provision for loan principal and financing service fee receivables incurred during a period as a percentage of the total amount of on-balance sheet transactions during such period. The following table sets forth our provision ratio for the periods presented:

	Year Ended December 31,		
	2018	2019	2020
Provision ratio	3.09%	9.49%	7.84%

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We periodically adjust our allowance for loan principal and financing service fee receivables when we believe that the future collection of principal is unlikely. We base the allowance for loan principal and financing service fee receivables primarily on historical loss experience using a roll rate-based model applied to our principal and financing service fee receivables portfolios and, to a lesser extent, macroeconomic factors. We recognize any increase in allowance for loan principal and financing service fee receivables as provision for loan principal and financing service fee receivables for the relevant period. Our provision ratio decreased from 9.49% in 2019 to 7.84% in 2020 primarily due to a decrease in M1+ overdue loan principals.

M1+ Delinquency Coverage Ratio

We define “M1+ delinquency coverage ratio” as the balance of allowance for principal and financing service fee receivables at the end of a period, divided by the total balance of outstanding principal for on-balance sheet transactions for which any installment payment was more than 30 calendar days past due as of the end of such period.

	As of December 31,		
	2018	2019	2020
M1+ delinquency coverage ratio	1.1x	1.5x	2.4x

M1+ delinquency coverage ratio was above 1.1x as of December 31, 2018, 2019 and 2020, indicating that our allowance for principal and financing service fee receivables was adequate to cover delinquency balance.

Charge-Off Ratio

We define “charge-off ratio” as the amount of loan principal receivables we charged off during a period, divided by the total amount of on-balance sheet transactions during such period.

	Year Ended December 31,		
	2018	2019	2020
Charge-off ratio	2.91%	5.34%	11.63%

Components of Results of Operations Revenues

Our total revenues comprise financing income, sales commission fee, sales income, penalty fees, guarantee income, loan facilitation income and other related income and transaction services fee and other related income. Our total revenues are presented net of VAT. Financing income represents financing service fees that we collect from borrowers for on-balance sheet transactions, which we have facilitated since inception in April 2014. Sales commission fee represents fee earned from merchandise suppliers in connection with merchandise credit products. Sales income represents the sales price of cars we sell to car buyers in connection with our budget auto financing products and revenues from product sales through our Wanlimu e-commerce platform. Penalty fees represent fees we charge borrowers for late repayment. Guarantee income represents income earned from our obligation to provide risk assurance on the principal and accrued interest repayment of loans facilitated, which is recognized over the term of the arrangement as we are released from the stand ready obligation based on the borrower’s repayment of the loan principal. Loan facilitation income and other related income represent loan facilitation fees earned from certain institutional funding partners in connection with off-balance sheet transactions, a type of funding arrangement that started in September 2016. For more information, see “Item 5. Operating and Financial Review and Prospects — A. Operating Results — Critical Accounting Policies — Revenue Recognition.” Transaction services fee and other related income represent commissions and fees

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Loan Facilitation Income and Other Related Income

Loan facilitation income and others represent loan facilitation fees earned from certain institutional funding partners for credit directly funded by them and vehicle sales with guarantee. Revenues from loan facilitation services are recognized when we match borrower with the funding partners and the funds are transferred to the borrower. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

Transaction Services Fee and Other Related Income

Transaction services fee and other related income represent commissions and fees earned from financial service providers in connection with our transaction services business. Revenues from transaction services are recognized when we match borrower with the financial service provider and the funds are transferred to the borrower. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

Cost of Revenues and Operating Expenses

Our cost of revenues and operating expenses consist of cost of revenues, sales and marketing expenses, general and administrative expenses, research and development expenses, changes in guarantee liabilities, changes in risk assurance liabilities and provision for receivables and other assets. The following table sets forth our cost of revenues and operating expenses, both in absolute amount and as a percentage of our total revenues, for the periods presented:

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Cost of revenues and operating expenses:							
Cost of revenues	2,735,428	35.6	901,788	10.2	862,354	132,162	23.4
Sales and marketing	540,551	7.0	280,616	3.2	293,282	44,947	8.0
General and administrative	255,867	3.3	286,059	3.2	285,905	43,817	7.7
Research and development	199,560	2.6	204,781	2.3	170,691	26,160	4.6
Changes in guarantee liabilities and risk assurance liabilities	116,593	1.5	1,143,427	12.9	(87,894)	(13,470)	(2.4)
Provision for receivables and other assets	1,178,723	15.3	2,283,126	25.8	1,641,362	251,550	44.5
Total	5,026,722	65.3	5,099,797	57.6	3,165,700	485,166	85.8

The following table sets forth our cost of revenues and operating expenses paid to related parties for the periods presented:

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Cost of revenues and operating expenses paid to related parties:				
Cost of revenues ⁽¹⁾	147,611	—	—	—
Sales and marketing ⁽²⁾	32,542	—	—	—
Total	180,153	—	—	—

- (1) Primarily includes (i) payment processing and settlement fees to Alipay, (ii) fees related to credit analysis information provided by Zhima Credit, (iii) fees related to cloud computing services provided by Alibaba

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Cloud Computing and (iv) interest expenses of borrowings from Guosheng Financial Holding Inc. and Guosheng Securities Asset Management Co., Ltd. in connection with their investments in several trusts.

- (2) Includes borrower engagement fees to Alipay.

Alipay, Zhima Credit and Alibaba Cloud Computing ceased to be our related parties in December 2018.

No general and administrative or research and development expenses were paid to related parties during the periods presented.

Cost of Revenues

Our cost of revenues represent cost of goods sold, which primarily consists of cost of goods sold on Wanlimu e-commerce platform, cost of cars we purchase, and cost of other revenues, which includes interest expense of borrowings, which are fees paid or payable to institutional funding partners and other lending related costs, which include payment processing and settlement fees, including those paid to Alipay. The following table sets forth components of our cost of revenues, both in absolute amount and as a percentage of our total revenues, for the periods presented:

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Cost of revenues:							
Cost of goods sold	2,003,642	26.1	366,015	4.1	645,083	98,864	17.5
Cost of other revenues	731,786	9.5	535,773	6.1	217,271	33,298	5.9
Total	2,735,428	35.6	901,788	10.2	862,354	132,162	23.4

Interest expenses of borrowings depend on the institutional funding partners which we work with to fund the transactions we facilitate. Starting in December 2016, we collaborate with trust companies to enable certain institutional funding partners to provide funding to borrowers through trusts. Such trust arrangements provide a specified rate of return to the institutional funding partners. The amount accrued that reflects such pre-agreed rate of return payable to the institutional funding partners is recognized as interest expenses of borrowings. Fee rates vary among institutional funding partners. As of December 31, 2020, we did not have any outstanding borrowings under such arrangements. The interests payable to institutional funding partners are lower than financing service fees we collect from borrowers on the credit drawdowns transferred. Certain institutional funding partners provide funds directly to borrowers for credit that we facilitate, and we do not recognize interest expenses of borrowings relating to such credit drawdowns. In addition, when utilizing our own capital to fund credit, we also do not incur interest expenses of borrowings.

Sales and Marketing

Sales and marketing expenses include expenses for (i) our core online consumer finance business and consist primarily of expenses related to borrower engagement and retention, salaries, benefits and share-based compensation related to our sales and marketing staff; and (ii) our Wanlimu e-commerce platform business and consist primarily of expenses related to marketing activities we conducted to promote the platform.

General and Administrative

General and administrative expenses consist primarily of share-based compensation, salaries and benefits related to accounting and finance, business development, legal, human resources and other personnel, as well as professional service fees related to various corporate activities.

Research and Development

Research and development expenses consist primarily of share-based compensation, salaries and benefits related to technology and product development personnel, as well as rental expenses related to offices for our technology and product development personnel.

Changes in Guarantee Liabilities and Risk Assurance Liabilities

At the inception of each off-balance sheet transaction, we record the fair value of (i) guarantee liabilities, which represent the present value of our expected payout based on the estimated delinquency rate and the applicable discount rate for time value; or (ii) risk assurance liabilities, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction, as applicable. Prior to January 1, 2020, the release of the non-contingent aspect of the risk assurance liability is recognized in earnings as a reduction of changes in guarantee liabilities and risk assurance liabilities. The contingent loss arising from the obligation to make future payments is recognized when borrower default is probable, and the amount of loss is estimable. Subsequent to January 1, 2020, the non-contingent aspect of the risk assurance liability is subsequently recognized as guarantee income over the term of the arrangement as we are released from the stand ready obligation based on the borrower's repayment of the loan principal. The contingent liability relating to the expected credit losses arising from the contingent aspect of the risk assurance liability is initially measured under the CECL model. The subsequent changes in the contingent aspect of the risk assurance liability is adjusted through earnings as changes in guarantee liabilities and risk assurance liabilities. The service fees payable to us, net of guarantee liabilities and risk assurance liabilities which were deducted from the consideration in connection with such transaction, are recognized as loan facilitation income and other related income. Increases in the amount of guarantee liabilities and risk assurance liabilities are recognized as changes in guarantee liabilities and risk assurance liabilities in our results of operations. We started to facilitate such transactions in September 2016 and recognized RMB116.6 million, RMB940.0 million and RMB22.3 million (US\$3.4 million) of changes in guarantee liabilities in 2018, 2019 and 2020, respectively. We recognized nil, RMB203.5 million and a reversal of RMB110.2 million (US\$16.9 million) of changes in risk assurance liabilities in 2018, 2019 and 2020.

Provision for Receivables and Other Assets

We periodically adjust our allowance for loan principal and financing service fee receivables when we believe that the future collection of principal is unlikely. We base this allowance primarily on historical loss experience using a roll rate-based model applied to our principal and financing service fees receivables portfolios and, adjusted for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions after the adoption of ASC 326. The allowance for finance lease receivables is calculated based on historical loss experience using probability of default and loss given default methods and adjusted for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions after the adoption of ASC 326. We stratify probability of default and loss given default by the recovered rate under different scenarios (i.e., cash collection, repossessing the leased vehicle or non-recovery), and calculates allowance balance by timing exposure at default under each scenario. For information regarding our accounting policy related to allowance for receivables, see “— Critical Accounting Policies — Loan Principal and Financing Service Fee Receivables” and “— Critical Accounting Policies — Finance lease receivables.” We periodically adjust our allowance for other receivables when we believe that the future collection of receivables is unlikely. We recognize any increase in allowance for loan principal, financing service fee receivables and other receivables as provision for receivables for the relevant period.

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The following table sets forth the provision for receivables and other assets, both in an absolute amount and as a percentage of total revenues, for the periods presented.

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
Provision for receivables and other assets	1,178,723	15.3	2,283,126	25.8	1,641,362	251,550	44.5

Share-based Compensation

The following table sets forth the effect of share-based compensation expenses on our operating expenses line items, both in an absolute amount and as a percentage of total revenues, for the periods presented.

	Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Sales and marketing	5,641	0.1	4,482	0.1	1,912	293	0.1
General and administrative	38,587	0.5	74,312	0.8	40,895	6,267	1.1
Research and development	13,753	0.2	8,505	0.1	2,827	433	0.1
Total	57,981	0.8	87,299	1.0	45,634	6,994	1.3

See “— Critical Accounting Policies — Share-based Payments” for a description of what we account for the compensation cost from share-based payment transactions.

Taxation Cayman Islands

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

Hong Kong

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

China

Generally, our subsidiary and consolidated VIEs in China are subject to enterprise income tax on their taxable income in China at a rate of 25%. The enterprise income tax is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards. Our subsidiaries in Ganzhou are entitled to preferential tax rate of 15%. Xinjiang Qudian Technology Co., Ltd. is a company established in a special economic development zone and is therefore entitled to an exemption from income tax from January 1, 2017 to December 31, 2020. Xiamen Qudian was qualified as a High and New Technology Enterprise and was subject to a preferential statutory tax rate of 15% in 2020.

We are subject to VAT at a rate of 6% on the services we provide to borrowers, less any deductible VAT we have already paid or borne. We are subject to VAT at a rate of 13% on the budget auto financing services we provide to borrowers. We are also subject to surcharges on VAT payments in accordance with PRC law.

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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%.

Critical Accounting Policies

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

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

Revenue recognition

We generate revenues primarily by providing borrowers with merchandise and cash installment credit services, credit facilitation services, transaction services, automobile financing services, and e-commerce sales.

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to be entitled to in exchange for those goods or services, net of value-added tax. We determine revenue recognition through the following steps:

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

Credit facilitation

We entered into credit facilitation arrangements with various Funding Partners. We: (i) match borrowers with the Funding Partners which directly fund the credit drawdowns to the borrowers and (ii) provide post-origination services, such as short messaging reminder services throughout the term of the loans. For each successful match, we receive a recurring service fee throughout the term of the loans. When borrowers make instalment repayments directly to the Funding Partners, the Funding Partners will then remit the recurring service fees to us on a periodic basis. In addition, we provide a guarantee on the principal and accrued interest repayments of the defaulted loans to the Funding Partners.

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We consider the loan facilitation service, post-origination services and guarantee service as separate services, of which the guarantee service and the post origination service is accounted for in accordance with ASC 815, Derivatives and Hedging, (“ASC 815”), ASC 460, Guarantees, (“ASC 460”) (refer to “Guarantee liabilities” and “Risk Assurance Liabilities” for additional information) and ASC 860, Transfers and servicing of financial assets, respectively (“ASC 860”).

The transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring the promised services to the customer, net of value-added tax. The transaction price allocated to loan facilitation income and post-origination services includes variable consideration which is contingent on the borrower making timely repayments. The amount of variable consideration is limited to the amount that is probable not to be reversed in future periods. We estimated the variable consideration using the expected value method, based on historical defaults, current and forecasted borrower repayment trends and assessed whether variable consideration should be constrained. Any subsequent changes in the transaction price will be allocated to the performance obligations on the same basis as at contract inception.

We first allocate the transaction price to the guarantee liabilities or risk assurance liabilities. The remaining transaction price is then allocated to the loan facilitation services and post-origination services on a relative standalone selling price basis. We do not have observable price for the loan facilitation services and post-origination services because the services are not provided separately. As a result, the estimation of standalone selling price involves significant judgement. We estimate the standalone selling price of the loan facilitation and post-origination services using the expected cost plus a margin approach.

Revenues from loan facilitation services are recognized when we match borrowers with the Funding Partners and the funds are provided to the borrower. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

Vehicle sales with guarantee

We sell vehicles to buyers and provide loan facilitation services to Funding Partners who provides financing to the vehicle buyers. The buyer obtains control of the vehicle when the buyer physically possesses the vehicle and when we receive cash consideration for the vehicle from the buyer. We will receive recurring service fees from the Funding Partners for our loan facilitation services and post-origination services throughout the term of the loan. In addition, we provide a guarantee on the principal and accrued interest repayments of the defaulted loans to the Funding Partners. For vehicle sales, we determine the buyer to be our customer. The transaction price for the vehicle sale is the amount of consideration we receive from the buyer for the sale of the vehicle, net of value-added tax. We are the principal in the vehicle sale transaction and sales income is recognized on a gross basis when the title of the vehicle is transferred to the buyer. For the loan facilitation services, we determine both the Funding Partners and the buyer to be our customers. We consider the loan facilitation service, post-origination services and guarantee service as separate services, of which the guarantee service and the post origination service is accounted for in accordance with ASC 815 and ASC 860, respectively. The transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring the promised services to the customer, net of value-added tax. The transaction price of loan facilitation services includes variable service fees which are contingent on the borrower making timely repayments. Variable consideration is estimated using the expected value method based on historical default rate, current and forecasted repayment trends and is limited to the amount of variable consideration that is probable not to be reversed in future periods. As a result, the estimation of variable consideration involves significant judgement. We make the assessment of whether the estimate of variable consideration is constrained. Any subsequent changes in the transaction price will be allocated to the performance obligations on the same basis as at contract inception. We first allocate the transaction price to the guarantee liabilities at fair value in accordance with ASC 815. The remaining transaction price is then allocated to the loan facilitation services and post-origination services on a relative standalone selling price basis. We do not have observable price for the loan facilitation services and post-origination services because the services are not provided separately. As a result, the estimation of standalone selling price

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involves significant judgement. We estimate the standalone selling price of the loan facilitation and post-origination services using the expected cost plus a margin approach. Revenues from loan facilitation services are recognized when we provide loan facilitation services to Funding Partners and the buyer. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

E-commerce sales

We recognize revenue from product sales through our e-commerce platform. Our single performance obligation is to sell products to customers. We are the principal and record revenue on a gross basis as we control the products before transfer to the customers. Revenue is measured based on the amount of consideration we expect to receive reduced by value-added tax, discount and estimate for product returns. Product returns are estimated using the expected value method based on historical return patterns. Revenues are recognized at a point in time when the products are accepted by the customers. As of December 31, 2019 and 2020, estimated product returns were not material.

Transaction services fee

We entered into credit transaction arrangements with certain Funding Partners. We refer borrowers to the Funding Partners which directly fund the credit drawdowns to the borrowers and provides post-origination services, such as short messaging reminder services throughout the term of the loans. For each successful transaction, we typically receive a pre-agreed recurring service fee throughout the term of the loans. When borrowers make installment repayments directly to the Funding Partners, the Funding Partners will remit the recurring transaction services fees to us on a periodic basis.

The referral services are considered to be the performance obligations in the arrangement. The transaction price is the amount of consideration to which we expect to be entitled to in exchange for transferring the promised service to the customer, net of value-added tax. The transaction price allocated to the referral services and post origination services includes variable service fees which are contingent on the borrower making timely repayments to the Funding Partners. Variable consideration is estimated using the expected value method based on historical default rate, current and forecasted borrower repayment trends and is limited to the amount of variable consideration that is probable not to be reversed in future periods. We will update our estimate of the variable consideration at the end of each reporting period. The estimation of variable consideration (including the amount of variable consideration constrained) involves significant judgement. Revenues from transaction services are recognized when we successfully refer the borrower to the Funding Partner and the Funding Partner provides the funds to the borrower. Revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

Financing income

Borrowers can withdraw cash (“cash installment credit services”) or purchase products (e.g. personal consumer electronics) (“merchandise installment credit services”) up to their approved credit limit and elect the installment repayment period, ranging from one to eighteen installments repayment period (either weekly or monthly) through the our application (collectively “financing platform”) or via borrowers’ Alipay accounts. We charge financing service fees for facilitating the financing and managing the financing platform. The financing service fees are recorded as financing income in the consolidated statement of comprehensive income in accordance with ASC 310 Receivables (ASC 310) using the effective interest method.

Incentives are provided to certain borrowers and can only be applied as a reduction to the borrower’s repayments and cannot be withdrawn by the borrowers in cash. These incentives are recorded as a reduction in financing service fees using the effective interest method.

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Sales commission fees

In addition to financing income, we earn a margin from our merchandise installment credit services on the products purchased from suppliers on behalf of the borrowers. The margin earned is fixed based on the retail sales price without considering the financing terms chosen by the borrower.

Sales commission fees are recognized and recorded net of the related cost on delivery date, as we are an agent and arrange for the goods to be provided by the suppliers.

Penalty fee

We charge borrowers and lessees penalty fee for late installment payments. The penalty fee is calculated based on the number of overdue days of unpaid outstanding balance of loan principals and lease receivables at the applicable late payment rate. The penalty fee is recognized on a cash basis, which coincides with the penalty fee being probable not to be reversed.

Cost of goods sold

Cost of goods sold primarily consists of the purchase price of products, packaging material and product delivery costs.

Loan principal and financing service fee receivables

Loan principal and financing service fee receivables represent payments due from borrowers that utilize our credit services. Loan principal and financing service fee receivables are recorded at amortized cost, net of allowance for loan principal and financing service fee receivables. Deferred origination costs are netted against revenue and amortized over the financing term using the effective interest method.

Allowance for loan principal and financing service fee receivables

We consider the loans to be homogenous as they are all unsecured consumer loans of similar principal amounts. The profiles of the borrowers are also similar i.e. age, credit histories and employment status. The allowance for loan principal and financing service fee receivables losses is calculated based on historical loss experience with the entire loan portfolio, using a roll rate-based model. The roll rate-based model stratifies the loan principal and financing service fee receivables by delinquency stages (i.e., current, 1-30 days past due, and 31-60 days past due, etc.) and projected forward in one-month increments using historical roll rates. In each month of the simulation, losses on the loan principal and financing service fee receivables types are captured, and the ending delinquency stratification serves as the beginning point of the next iteration. This process is repeated on a monthly rolling basis. The loss rate calculated for each delinquency stage is then applied to the respective loan principal and service fees balance. Prior to January 1, 2020, we apply a consistent credit risk management framework to the entire portfolio of loans in accordance with ASC 450-20, Loss Contingencies (“ASC 450-20”) and adjust the allowance that is determined by the roll rate-based model for various qualitative factors. These factors may include gross-domestic product rates, per capita disposable income, consumer price indexes, regulatory impact and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Subsequent to January 1, 2020, we apply a consistent credit risk management framework to the entire portfolio of loans in accordance with Accounting Standards Update (“ASU”) No. 2016-13, Financial instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASC 326”) and adjust the allowance that is determined by the roll rate-based model for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations. We analyze a combination of qualitative factors to the change in roll rate using a regression model. Factors that had a strong correlation and economic and commercial significance were selected for the model.

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For all the years presented, loan principal and financing service fee receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when we determined the balance to be uncollectable. In general, we consider loan principal and financing service fee receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) loans that are 180 days past due.

Nonaccrual loan principal

We do not accrue financing service fee on loan principals that are considered impaired or are more than 90 days past due. Prior to January 1, 2020, a corresponding allowance is determined under ASC 450-20. Subsequent to January 1, 2020, a corresponding allowance is determined under ASC 326. After an impaired financing service fee receivable is placed on nonaccrual status, financing service fee will be recognized when cash is received on a cash basis cost recovery method by applying first to reduce principal and then to financing income thereafter. Financing service fee accrued but not received is generally reversed against financing income. Financing service fee receivables may be returned to accrual status after all of the borrower's delinquent balances of loan principal and financing service fee have been settled and the borrower remains current for an appropriate period.

Finance lease receivables

Finance lease receivables are carried at amortized cost comprising of original financing lease and direct costs, net of unearned income and allowance for finance lease receivables.

Allowance for finance lease receivables

We consider the finance lease receivables to be homogenous as they are all automotive finance lease receivables collateralized by vehicle titles of similar principal amounts.

The allowance for finance lease receivables is calculated based on historical loss experience using probability of default (PD) and loss given default (LGD) methods. We stratify PD and LGD by the recovered rate under different scenarios (i.e. cash collection, repossessing the leased vehicle or non-recovery), and calculate allowance balance by timing exposure at default under each scenario. This process is repeated on a monthly basis. LGD is projected based on historical experience of actual loss and considered proceeds from recovery of the repossessed assets.

Prior to January 1, 2020, we apply a consistent credit risk management framework to the entire portfolio of finance lease receivables in accordance with ASC 450-20 and adjust the allowance that is determined by the PD and LGD methods for various qualitative factors. These factors may include gross-domestic product rates, per capita disposable income, consumer price indexes, regulatory impact and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Subsequent to January 1, 2020, we apply a consistent credit risk management framework to the entire portfolio of finance lease receivables in accordance with ASC 326 and adjust the allowance that is determined by the PD and LGD methods for various qualitative factors that reflect reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations. We analyze a combination of qualitative factors to the change in roll rate using a regression model. Factors that had a strong correlation and economic and commercial significance were selected for the model.

For all the years presented, finance lease receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when we determined the balance to be uncollectable. In general, we consider finance fee receivables meeting any of the following conditions as uncollectable and

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charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) all finance lease receivables that are 180 days past due are therefore deemed uncollectible and charged-off; (iv) the vehicle is repossessed.

Nonaccrual finance lease receivables

A finance lease receivable is considered impaired when the lease receivables are more than 90 days past due, or when it is probable that we will be unable to collect all amounts due according to the terms of the contract. Factors such as payment history, compliance with terms and conditions of the underlying financing lease agreement and other subjective factors related to the financial stability of the borrower are considered when determining whether finance lease receivables are impaired. We do not accrue financing lease income on net investment of finance lease receivables that are considered impaired. Prior to January 1, 2020, a corresponding allowance is determined under ASC 450-20. Subsequent to January 1, 2020, a corresponding allowance is determined under ASC 326. Accrual of financing lease income is suspended on accounts that are impaired, accounts in bankruptcy and accounts in repossession. Payments received on non-accrual finance lease receivables are first applied to any fees due, then to any interest due and, finally, any remaining amounts received are recorded to principal. Interest accrual resumes once an account has received payments bringing the impaired status to current.

Guarantee liabilities

As part of our cooperation with various Funding Partners, we provide guarantee on the principal and accrued interest repayment of the defaulted loans to the Funding Partners, even if the loans are subsequently sold by the Funding Partners.

The financial guarantee is accounted for as a credit derivative under ASC 815 because the scope exemption in ASC 815-10-15-58(c) is not met. The guarantee liabilities are remeasured at each reporting period. The change in fair value of the guarantee liabilities is recorded as changes in guarantee liabilities in the consolidated statements of comprehensive income. When we settle the guarantee liabilities through performance of the guarantee by making requisite payments on the respective defaulted loans, we record a corresponding deduction to the guarantee liabilities. Subsequent collection from the borrower through the Funding Partners will be recognized as a reversal of the deduction to guarantee liabilities.

Risk assurance liabilities

In April 2019, we and various Funding Partners entered into contracts to provide risk assurance on the principal and accrued interest repayment of loans facilitated through the platform we operate. The risk assurance liability is exempted from being accounted for as a derivative in accordance with ASC 815-10-15-58.

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

Prior to January 1, 2020, the release of the non-contingent aspect of the risk assurance liability is recognized in earnings as a reduction of changes in guarantee liabilities and risk assurance liabilities. The contingent obligation relating to the contingent loss arising from the arrangement is accounted for in accordance with ASC 450, Contingencies. The contingent loss arising from the obligation to make future payments is recognized when borrower default is probable, and the amount of loss is estimable. The contingent loss is calculated based on the expected future payouts, adjusted for various qualitative factors. These factors may include gross-domestic product rates, per capita disposable income, consumer price indexes, regulatory impact and other considerations.

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Subsequent to January 1, 2020, the non-contingent aspect of the risk assurance liability is subsequently recognized as guarantee income over the term of the arrangement as we are released from the stand ready obligation based on the borrower's repayment of the loan principal. The contingent liability relating to the expected credit losses arising from the contingent aspect of the risk assurance liability is initially measured under the CECL model. The subsequent changes in the contingent aspect of the risk assurance liability is adjusted through earnings as changes in guarantee liabilities and risk assurance liabilities. The contingent loss is calculated based on the expected future payouts, adjusted for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations. We analyze a combination of qualitative factors to the change in roll rate using a regression model. Factors that had a strong correlation and economic and commercial significance were selected for the model.

Income taxes

We account for income taxes using the liability approach and recognize deferred tax assets and liabilities for the expected future consequences of events that have been recognized in the consolidated financial statements or in our tax returns. Deferred tax assets and liabilities are recognized on the basis of the temporary differences that exist between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements using enacted tax rates in effect for the year in which the differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in earnings. Deferred tax assets are reduced by a valuation allowance through a charge to income tax expense when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. Potential for recovery of deferred tax assets is evaluated by estimating the future taxable profits expected and considering prudent and feasible tax planning strategies. The components of the deferred tax assets and liabilities are classified as non-current.

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, 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 is more-likely-than-not to be realized upon ultimate settlement. Our estimated liability for unrecognized tax benefits which is included in the income tax payable in the consolidated balance sheets is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. We elect to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income. We did not recognize any income tax due to uncertain tax position nor incurred any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2018, 2019 and 2020.

Share-based payments

Share-based payment transactions with employees and independent directors, such as share options are measured based on the grant date fair value of the equity instrument. We recognize the compensation costs net of estimated forfeitures using the accelerated recognition method, over the applicable vesting period for each separately vesting portion of the award. The estimate of forfeitures is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment in the period of change and also impact the amount of share-based compensation expense to be recognized in future periods.

A change in any of the terms or conditions of share options is accounted for as a modification of share options. We calculate the incremental compensation cost of a modification as the excess of the fair value of the

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modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, we recognize incremental compensation cost in the period the modification occurred. For unvested options, we recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

Prior to January 1, 2019, we account for share options issued to non-employees in accordance with the provisions of ASC 505-50, Equity: Equity-based Payments to Non-Employees. We use the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. Subsequent to January 1, 2019, ASC 718 requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item. The cumulative effect of this accounting change is immaterial.

Results of Operations for Continuing Operations

The following tables set forth a summary of our consolidated results of operations for the periods presented. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)			
Revenues:				
Financing income	3,535,276	3,510,055	2,102,665	322,248
Sales commission fee	307,492	356,812	80,992	12,413
Sales income	2,174,789	431,946	610,793	93,608
Penalty fees	28,013	44,354	72,235	11,070
Guarantee income	—	—	826,198	126,620
Loan facilitation income and other related income	1,646,773	2,297,413	131,633	20,174
Transaction services fee and other related income	—	2,199,464	(136,542)	(20,926)
Total revenues	7,692,343	8,840,044	3,687,974	565,207
Cost of revenues and operating expenses:				
Cost of goods sold	(2,003,642)	(366,015)	(645,083)	(98,864)
Cost of other revenues	(731,786)	(535,773)	(217,271)	(33,298)
Total cost of revenues	(2,735,428)	(901,788)	(862,354)	(132,162)
Operating expenses:				
Sales and marketing	(540,551)	(280,616)	(293,282)	(44,947)
General and administrative	(255,867)	(286,059)	(285,905)	(43,817)
Research and development	(199,560)	(204,781)	(170,691)	(26,160)
Changes in guarantee liabilities and risk assurance liabilities	(116,593)	(1,143,427)	87,894	13,470
Provision for receivables and other assets	(1,178,723)	(2,283,126)	(1,641,362)	(251,550)
Total operating expenses	(2,291,294)	(4,198,009)	(2,303,346)	(353,003)
Other operating income	23,748	108,508	343,324	52,617
Income from operations	2,689,369	3,848,755	865,598	132,659
Interest and investment income, net	47,060	24,292	708,251	108,544
Loss from equity method investments	(11,319)	(3,420)	(370,039)	(56,711)
Foreign exchange gain/(loss), net	(90,771)	6,635	(107)	(16)
Other income	15,231	24,583	26,358	4,040
Other expenses	(522)	(10,323)	(9,263)	(1,420)
Net income before income taxes	2,649,047	3,890,522	1,220,798	187,095
Income tax expenses	(157,731)	(626,234)	(261,979)	(40,150)
Net income	2,491,316	3,264,288	958,819	146,945

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	Year Ended December 31,		
	2018	2019	2020
	%		
Revenues:			
Financing income	46.0	39.7	57.0
Sales commission fee	4.0	4.0	2.2
Sales income	28.3	4.9	16.5
Penalty fees	0.4	0.5	2.0
Guarantee income	—	—	22.4
Loan facilitation income and other related income	21.3	26.0	3.6
Transaction services fee and other related income	—	24.9	(3.7)
Total revenues	100.0	100.0	100.0
Cost of revenues and operating expenses:			
Cost of goods sold	(26.1)	(4.1)	(17.5)
Cost of other revenues	(9.5)	(6.1)	(5.9)
Total cost of revenues	(35.6)	(10.2)	(23.4)
Operating expenses:			
Sales and marketing	(7.0)	(3.2)	(8.0)
General and administrative	(3.3)	(3.2)	(7.7)
Research and development	(2.6)	(2.3)	(4.6)
Changes in guarantee liabilities and risk assurance liabilities	(1.5)	(12.9)	2.4
Provision for receivables and other assets	(15.3)	(25.8)	(44.5)
Total operating expenses	(29.8)	(47.5)	(62.4)
Other operating income	0.3	1.2	9.3
Income from operations	35.0	43.5	23.5
Interest and investment income, net	0.6	0.3	19.2
Loss from equity method investments	(0.1)	(0.1)	(10.0)
Foreign exchange gain/(loss), net	(1.2)	0.1	(0.0)
Other income	0.2	0.3	0.7
Other expenses	(0.0)	(0.1)	(0.3)
Net income before income taxes	34.5	44.0	33.1
Income tax expenses	(2.1)	(7.1)	(7.1)
Net income	32.4	36.9	26.0

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

Total revenues. Our total revenues in 2020 decreased by 58.3% to RMB3,688.0 million (US\$565.2 million) from RMB8,840.0 million in 2019, primarily due to the decrease in the amount of transactions. Financing income decreased by 40.1% from RMB3,510.1 million in 2019 to RMB2,102.7 million (US\$322.2 million) in 2020 primarily due to the decrease in the average on-balance sheet loan balance. Loan facilitation income and other related income decreased by 94.3% to RMB131.6 million (US\$20.2 million) in 2020 from RMB2,297.4 million in 2019, primarily as a result of the reduction in transaction volume of off-balance sheet loans during 2020. In 2020, we recorded an amount of RMB826.2 million (US\$ 126.6 million) guarantee income with the non-contingent aspect of the risk assurance liability amortized over the term of the arrangement as we are released from the stand ready obligation based on the borrower's repayment of the loan principal. We also recorded transaction services fee and other related loss of RMB136.5 million (US\$20.9 million) in 2020, mainly as a result of a revaluation loss for contract assets incurred for the transactions facilitated in the past year. Sales income increased to RMB610.8 million (US\$93.6 million) in 2020 from RMB431.9 million for 2019 primarily due to the launch of the Wanlimu e-commerce platform, which recorded sales income of RMB488.0 million (US\$74.8 million), partially offset by the winding down of the Dabai Auto business. Sales commission fee decreased by 77.3% to RMB81.0 million (US\$12.4 million) in 2020 from RMB356.8 million in 2019, as a result of the

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decrease in the amount of merchandise credit transactions.

Total cost of revenues and operating expenses. Total cost of revenues and operating expenses decreased by 37.9% to RMB3,165.7 million (US\$485.2 million) in 2020 from RMB5,099.8 million in 2019.

- *Cost of revenues.* Our cost of revenues decreased by 4.4% to RMB862.4 million (US\$132.2 million) from RMB901.8 million for 2019, primarily due to the decrease in funding costs associated with the on-balance sheet loan book business and the decrease in costs of Dabai Auto business, partially offset by the increase in cost of goods sold related to the Wanlimu e-commerce platform.
- *Sales and marketing expenses.* Our sales and marketing expenses increased by 4.5% to RMB293.3 million (US\$44.9 million) from RMB280.6 million for 2019. The increase was primarily due to marketing expenses incurred by the Wanlimu e-commerce platform.
- *General and administrative expenses.* Our general and administrative expenses decreased by 0.1% to RMB285.9 million (US\$43.8 million) from RMB286.1 million for 2019.
- *Research and development expenses.* Our research and development expenses decreased by 16.6% to RMB170.7 million (US\$26.2 million) from RMB204.8 million for 2019. The decrease was primarily due to the decrease in staff salaries.
- *Changes in guarantee liabilities and risk assurance liabilities.* We recorded a gain from changes in guarantee liabilities and risk assurance liabilities of RMB87.9 million (US\$13.5 million) in 2020, as compared to a loss from changes in guarantee liabilities and risk assurance liabilities of RMB1,143.4 million we recognized in 2019, primarily due to the decrease of off-balance sheet transactions.
- *Provision for receivables and other assets.* Our provision for receivables and other assets decreased by 28.1% to RMB1,641.4 million (US\$251.5 million) from RMB2,283.1 million for 2019. The decrease was primarily due to the decrease in past-due on-balance sheet outstanding principal receivables as compared to that of 2019.

Income from operations. Our income from operations decreased by 77.5% to RMB865.6 million (US\$132.7 million) from RMB3,848.8 million for 2019.

Income tax expenses. Our income tax expenses decreased by 58.2% to RMB262.0 million (US\$40.2 million) in 2020 from RMB626.2 million in 2019, primarily due to a decrease in taxable income.

Net income. Our net income decreased by 70.6% to RMB958.8 million (US\$146.9 million) in 2020 from RMB3,264.3 million in 2019. Net income attributable to the Company's shareholders per diluted share was RMB3.59 (US\$0.55), compared with RMB10.94 in the prior year.

Adjusted net income. Our adjusted net income attributable to the Company's shareholders, which excludes share-based compensation expenses and convertible senior notes buyback income, decreased by 88.6% to RMB382.3 million (US\$58.6 million) from RMB3,351.6 million in the prior year. Adjusted net income attributable to the Company's shareholders per diluted share decreased to RMB1.49 (US\$0.23) from RMB11.23 in the prior year.

B. Liquidity and Capital Resources

Our primary sources of liquidity have been cash provided by operating activities and funds provided by our investors, including through the issuance of equity securities and convertible debt securities, which have historically been sufficient to meet our working capital and substantially all of our capital expenditure requirements. In October 2017, we completed our initial public offering in which we issued and sold an aggregate of 35,625,000 ADSs, representing 35,625,000 Class A ordinary shares, resulting in net proceeds to us of approximately US\$799.6 million.

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In 2018, 2019 and 2020, we had net cash provided by operating activities of RMB3,332.3 million, RMB5,503.4 million and RMB2,471.7 million (US\$378.8 million), respectively.

As of December 31, 2020, we had cash and cash equivalents of RMB1,537.6 million (US\$235.6 million), as compared to cash and cash equivalents of RMB2,860.9 million as of December 31, 2019.

As of December 31, 2020, we had short-term amounts due from Alipay of RMB323.6 million (US\$49.6 million), as compared to short-term amounts due from Alipay of RMB439.5 million as of December 31, 2019. These represent amounts deposited in our Alipay accounts, and are unrestricted as to withdrawal and use and readily available to us on demand.

In February and March 2019, Xiamen Qudian, our consolidated VIE, entered into two term loans with China Construction Bank with an aggregate principal amount of RMB195.0 million. Each term loan has a fixed interest rate of 3.915% per annum and a term of 12 months. As collateral for such borrowings, our subsidiary Qufenqi (HK) Limited deposited US\$33.2 million in a bank account designated by China Construction Bank. We receive interest on such deposits at rates ranging from 3.279% to 3.292% per annum. We had fully repaid such borrowings as of March 31, 2020.

In July 2019, we issued US\$345 million aggregate principal amount of convertible senior notes due 2026 (including full exercise of the initial purchasers' option to purchase additional notes), raising US\$334.2 million in net proceeds to us after deducting underwriting discounts and commissions and other offering expenses. In connection with the offering of the convertible senior notes, we entered into capped call transactions with the initial purchasers and/or their respective affiliates and used approximately US\$28.2 million of the net proceeds of the offering to pay the cost of such transactions. The convertible notes bear interest at a rate of 1.00% per year, payable on July 1 and January 1 of each year, beginning on January 1, 2020. The convertible notes will mature on July 1, 2026, unless earlier redeemed, repurchased or converted in accordance with their terms. As of March 31, 2021, we have repurchased US\$217.0 million aggregate principal amount of convertible notes, and the outstanding principal amount was US\$128.0 million. The convertible notes may be converted into our ADSs, at the option of the holders, at an initial conversion rate of 106.2756 ADSs per US\$1,000 principal amount of notes, or approximately 13,603,277 ADSs, assuming conversion at the initial conversion rate of the entire US\$128.0 million aggregate principal amount outstanding as of March 31, 2021.

In November 2019, Xiamen Qudian, our consolidated VIE, entered into an eight-year term and revolving syndicated facility agreement with China Construction Bank and Bank of China, pursuant to which Xiamen Qudian is entitled to borrow a secured loan of RMB1,200 million to be used in connection with the construction in progress, which is guaranteed by Xinjiang Qudian Technology Co., Ltd. and Qufenqi (Ganzhou) Information Technology Co., Ltd. and collateralized by the land-use-right with a carrying amount of RMB101.1 million (US\$15.5 million) as of December 31, 2020. Outstanding borrowings will accrue interest at a rate equal to the loan prime rate of China plus 0.295%. Xiamen Qudian is required to comply with certain financial covenants, which had been met as of December 31, 2020. As of December 31, 2020, the aggregate amount of unused lines of credit for such long-term loan was RMB1,097.6 million (US\$168.2 million).

The following table sets forth our total assets, total liabilities and total net assets as of the dates indicated.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Total assets	16,253,375	18,361,604	13,398,032	2,053,338
Total liabilities	5,432,762	6,437,552	1,488,188	228,075
Total net assets	10,820,613	11,924,052	11,909,844	1,825,263

(1) Defined as total assets minus total liabilities.

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Our total net assets increased from RMB10,820.6 million as of December 31, 2018 to RMB11,924.1 million as of December 31, 2019, primarily as a result of increase in net income of RMB3,264.3 million in 2019, which was partially offset by the repurchases of Class A ordinary shares of RMB2,087.2 million under the share repurchase program. Our total net assets decreased from RMB11,924.1 million as of December 31, 2019 to RMB11,909.8 million (US\$1,825.3 million) as of December 31, 2020.

The table below sets forth certain balance sheet items related to cash and merchandise credit products. The decrease in such line items since December 31, 2018 is in line with our increasingly stringent credit approval strategy.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Short-term loan principal and financing service fee receivables	8,417,821	7,894,697	3,940,461	603,902
Long-term loan principal and financing service fee receivables	665,653	424	—	—
Short-term borrowings and interest payables	3,860,441	1,049,570	—	—
Long-term borrowings and interest payables	413,400	—	102,415 ⁽¹⁾	15,696 ⁽¹⁾

(1) Long-term borrowings and interest payable as of December 31, 2020 represent borrowings in connection with the construction in progress and do not relate to cash and merchandise credit products.

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

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

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

	Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flow Data:				
Net cash provided by operating activities	3,332,319	5,503,389	2,471,712	378,806
Net cash used in investing activities	(2,790,734)	(929,559)	(3,269,876)	(501,130)
Net cash used in financing activities	(6,727,839)	(3,372,335)	(1,591,272)	(243,873)
Cash and cash equivalents, and restricted cash and cash equivalent at beginning of period	9,084,952	2,841,015	4,118,587	631,201
Cash and cash equivalents, and restricted cash and cash equivalent at beginning of period	2,841,015	4,118,587	1,672,962	256,393

Operating Activities

Net cash provided by operating activities was RMB2,471.7 million (US\$378.8 million) in 2020, mainly attributable to net income of RMB958.8 million (US\$146.9 million), adjusted for (i) provision for receivables and other assets of RMB1,641.4 million (US\$251.5 million), (ii) income from the repurchase of convertible senior notes of RMB622.1 million (US\$95.3 million), (iii) share of loss from equity method investment of RMB370.0 million (US\$56.7 million). Adjustment for changes in working capital primarily consisted of (i) a decrease in risk assurance liabilities of RMB2,328.0 million (US\$356.8 million) primarily due to a decrease in the off-balance sheet transaction for which we provide risk assurance, (ii) a decrease in contract assets of RMB2,899.5 million (US\$444.4 million), (iii) a decrease in other current and non-current liabilities of RMB879.0 million (US\$134.7 million) and (iv) a decrease in other current and non-current assets of RMB438.9 million (US\$67.3 million).

Net cash provided by operating activities was RMB5,503.4 million in 2019, primarily due to net income of RMB3,264.3 million, adjusted for (i) provision for receivables and other assets of RMB2,283.1 million, (ii) share-based compensation expenses of RMB87.3 million, (iii) interest expense of convertible senior notes of RMB23.9 million, and (iv) changes in working capital. Adjustment for changes in working capital primarily consisted of (i) an increase in risk assurance liabilities of RMB1,254.4 million primarily due to an increase in the off-balance sheet transaction for which we provide risk assurance, (ii) an increase in other current and non-current liabilities of RMB439.7 million, (iii) a decrease in finance lease receivables of RMB330.2 million primarily as a result of the winding-down of Dabai Auto business and (iv) a decrease in deferred tax assets and liabilities of RMB132.1 million, which was partially offset by (i) an increase in contract assets of RMB2,096.5 million and (ii) an increase in other current and non-current assets of RMB119.6 million.

Net cash provided by operating activities was RMB3,332.3 million in 2018, primarily due to net income of RMB2,491.3 million, adjusted for (i) provision for receivables of RMB1,178.7 million, (ii) share-based compensation expenses of RMB58.0 million, (iii) share of loss from equity method investment of RMB11.3 million, and (iv) changes in working capital. Adjustment for changes in working capital primarily consisted of (i) a decrease in financing service fee receivables of RMB112.1 million, which was primarily due to the decrease in amount of transactions we facilitated, (ii) an increase in guarantee liabilities of RMB255.6 million, which was primarily due to an increase in the amount of off-balance sheet transactions and (iii) an increase in other current and non-current liabilities of RMB262.7 million, which was primarily due to (i) an increase in tax payable of RMB127.0 million, (ii) an increase in accrued payroll of RMB10.4 million and (iii) an increase in payable to external service providers of RMB7.3 million, which was partially offset by (i) an increase in contract assets of RMB800.0 million, (ii) a decrease in interest payables of RMB62.5 million, which was primarily due to a decrease in borrowings from institutional funding partners, (iii) an increase in deferred tax assets of RMB128.0 million and (iv) an increase in other current and non-current assets of RMB137.1 million, which was primarily due to (i) an increase in inventory of RMB128.0 million and (ii) an increase in receivables from service providers of RMB108.1 million, which was partially offset by a decrease in prepayments for vehicles of RMB110.1 million.

Investing Activities

Net cash used in investing activities was RMB3,269.9 million (US\$501.1 million), mainly due to (i) investments in short-term wealth management products of RMB16,802.9 million (US\$2,575.2 million), (ii) payments to originate loan principal of RMB18,294.9 million (US\$2,803.8 million) and (iii) purchase of equity method investment of RMB738.8 million (US\$113.2 million), partially offset by (i) proceeds from redemption of short-term investments of RMB11,815.2 million (US\$1,810.8 million) and (ii) proceeds from collection of loan principal of RMB20,724.8 million (US\$3,176.2 million).

Net cash used in investing activities was RMB929.6 million in 2019, which was attributable to (i) RMB22,760.4 million in payments to originate loan principal, (ii) RMB454.2 million in purchases of short-term investments and (iii) RMB222.7 million in purchases of long-term investments, which was partially offset by (i) RMB22,140.9 million in proceeds from collection of loan principal and (ii) RMB457.8 million in proceeds from redemption of short-term investments.

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Net cash used in investing activities was RMB2,790.7 million in 2018, which was attributable to (i) RMB37,036.4 million in payments to originate loan principal, and (ii) RMB1,322.0 million in purchases of current assets held for lease, and (iii) RMB1,352.6 million in purchases of short-term investments, which was partially offset by (i) RMB35,184.8 million in proceeds from collection of loan principal and (ii) proceeds from redemption of short-term investments of RMB1,662.7 million.

Financing Activities

Net cash used in financing activities was RMB1,591.3 million (US\$243.9 million), mainly due to repayments of borrowings of RMB1,038.7 million (US\$159.2 million) and repurchases of convertible senior notes of RMB859.2 million (US\$131.7 million).

Net cash used in financing activities was RMB3,372.3 million in 2019, which was primarily attributable to (i) repayments of borrowings of RMB5,402.4 million and (ii) repurchase of ordinary shares of RMB2,087.2 million, which was partially offset by (i) proceeds from convertible senior notes net of issuance cost of RMB2,289.6 million and (ii) proceeds from borrowings of RMB2,251.6 million.

Net cash used in financing activities was RMB6,727.8 million in 2018, which was primarily attributable to (i) repayments of borrowings of RMB8,025.9 million, (ii) repurchase of ordinary shares of RMB1,410.2 million, which was partially offset by (i) proceeds from borrowings of RMB2,644.7 million.

Capital Expenditures

We made capital expenditures of RMB140.4 million, RMB76.4 million and RMB221.8 million (US\$34.0 million) in 2018, 2019 and 2020, respectively. In these periods, our capital expenditures were mainly used for building construction and purchase of equipment and intangible assets, land lease right of use asset and leasehold improvements. We will continue to make capital expenditures to meet the expected growth of our business.

Holding Company Structure

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

Recent Accounting Pronouncements

A list of recent accounting pronouncements that are relevant to us is included in note 2 to our consolidated financial statements, which are included in this annual report.

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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.

D. Trend Information

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

E. Off-Balance Sheet Arrangements

Since September 2016, we have entered into several arrangements with financial institutions that provides funding directly to borrowers for transactions that we facilitate. From April 2018 to the second quarter of 2019, we also entered into vehicle sales with guarantee arrangements with financial institutions that provides funding directly to car buyers. As of December 31, 2020, guarantee liabilities and risk assurance liabilities related to such arrangement were RMB31.4 million (US\$4.8 million). As of December 31, 2020, the maximum potential undiscounted future payment we would be required to make was RMB274.0 million (US\$42.0 million). See “Item 5. Operating and Financial Review and Prospects — A. Operating Results.”

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our operating lease commitments and long-term borrowings and interest payable as of December 31, 2020.

	Payment due by period					
	Total		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	RMB	US\$	(in thousands)			RMB
Operating lease commitments	130,252	19,962	35,896	32,277	25,104	36,975
Long-term borrowings and interest payable	125,480	19,231	5,064	30,147	47,166	43,103

Operating lease obligations represent leasing arrangements relating to the lease of our office premises.

Our capital commitments relate primarily to commitments in connection with our plan to build an office building and innovation center. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB1,250.1 million (US\$191.6 million) as of December 31, 2020. All of the commitments relating to the construction will be settled in installments.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of March 31, 2021.

Name	Age	Position/Title
Min Luo	38	Chairman and Chief Executive Officer
Long Xu	38	Director and Senior Vice President
Yingming Li	43	Director
Shengwen Rong	53	Independent Director
Yifan Li	54	Independent Director
Yan Gao	40	Vice President of Finance

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Mr. Min Luo is our founder, chairman of our board of directors, and, since the inception of our company in 2014, has served as our chief executive officer. Prior to founding our company, Mr. Luo served as a vice president of marketing of OkBuy.com, an online marketplace for apparel and shoe products in China, from 2010 to 2013. Mr. Luo was a founder and chief executive officer of Jiyiri.com, an online birthday-related service provider, from 2007 to 2009, and a co-founder of dipian.com, an online social platform for college students, from 2006 to 2007. Mr. Luo received a bachelor's degree in telecommunication engineering from Jiangxi Normal University in 2004.

Mr. Long Xu has served as our director since November 2019. He joined our company in 2016 as the senior vice president. Mr. Xu has extensive management experience in start-up companies. Before joining us, Mr. Xu cofounded Quwan.com from 2009 to 2015, a retail platform focusing on creative life products. From 2007 to 2009, Mr. Xu and Mr. Min Luo founded Jiyiri.com, a reminder service for anniversary through Internet and mobile communication technology. Between 2005 and 2007, Mr. Xu founded Beijing Time Film Network Technology Co., Ltd., which provides resource liaisons between enterprises and campus, and Mr. Xu served as the chief executive officer. Mr. Xu received his bachelor's degree in resource environment and urban and rural planning from Peking University in 2005.

Mr. Yingming Li has served as our director since December 2019. Currently he holds the position of director and deputy general manager of Guosheng Financial Holding in charge of investments and is the general manager of Shenzhen Guo Sheng Sea Before Investment Co., Limited. Mr. Li has rich experience in enterprise consultancy, valuation, investment banking and equity investments. Mr. Li graduated from Fudan University with a master degree in economics.

Mr. Shengwen Rong has served as our independent director since August 2018. From February 2017 to September 2018, Mr. Rong served as senior vice president and then Chief Financial Officer of 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 and audit committee chair of X Financial (NYSE: XYF), Mogu Inc. (NYSE: MOGU) and BlueCity Holdings Limited (Nasdaq: BLCT). 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 Rong is a Certified Public Accountant in the United States.

Mr. Yifan Li has served as our independent director since October 2017. Mr. Li is Chief Financial Officer of Human Horizons Holdings Co. Ltd., a premium luxury electric vehicle manufacturer, since April 2021. Prior to that, he had served as a board director and a vice president of Geely Holding Group Co., Ltd., an automotive manufacturing company, since October 2014. From May 2014 to September 2014, he was vice president and international chief financial officer of Sanpower Group Co., Ltd., a company in the technology and modern service industries. From December 2010 to February 2014, he served as vice president and chief financial officer of China Zenix Auto International Co., Ltd., a manufacturer of commercial vehicle wheels listed on the NYSE. Mr. Li is also currently a director and a member of the audit committee for a number of companies, including Xinyuan Real Estate Co., Ltd., a real estate developer listed on the NYSE, Shanghai International Port (Group) Co., Ltd., a port management company listed on the Shanghai Stock Exchange, Heilongjiang Interchina Water Co., Ltd., a water supply and treatment company listed on the Shanghai Stock Exchange. Mr. Li received his MBA from the University of Chicago Booth School of Business in 2000, his master's degree in accounting from University of Texas at Dallas in 1994, and his bachelor's degree in economics from Fudan University in 1989. Mr. Li is a Certified Public Accountant in the United States and a Chartered Global Management Accountant. His business address is Building N, 668 Changyang Road, Yangpu District, Shanghai, PRC, 200082.

Mr. Yan Gao has been our vice president of finance since March 2020 and has served as the financial director of our company since 2017. Prior to joining our company, Mr. Gao worked at PricewaterhouseCoopers from 2003 to 2016, where he rose to the position of senior manager. Mr. Gao received his master's degree in Statistic from Dongbei University of Finance and Economic, and his bachelor's degree in accounting from the Dongbei University of Finance and Economic.

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The business address for all of our executive officers and directors is Tower A, AVIC Zijin Plaza, Siming District, Xiamen, Fujian Province 361000, the People's Republic of China.

B. Compensation

In 2020, we and our subsidiaries and consolidated VIEs paid aggregate cash compensation of approximately RMB11.9 million (US\$1.8 million) to our directors and executive officers as a group. We did not pay any other cash compensation or benefits in kind to our directors and executive officers. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries and consolidated VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. Our board of directors may determine compensation to be paid to the directors and the executive officers. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors and the executive officers.

Employment Agreements and Indemnification Agreements

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

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

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach borrowers, institutional funding partners, merchandise suppliers or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

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

2014 Share Incentive Plan

In August 2014, Qufenqi Inc., the former holding company of Beijing Happy Time, adopted the 2014 Share Incentive Plan, which allows us to grant share awards of such company to our employees, officers, directors and individual consultants who render services to us. The maximum number of shares that may be issued pursuant to all awards under the 2014 plan is 20,824,447 ordinary shares of the former holding company of Beijing Happy Time. On various dates from August 2014 to December 2014, 18,373,219 share options were granted to certain of our employees and a third-party consultant at exercise prices of RMB0.0 per share, which have vesting periods of four years. On various dates in 2015, 2,449,800 share options were granted to certain of our employees at exercise prices of RMB0.0 per share, which have vesting periods of four years. The 2014 Share Incentive Plan was subsequently terminated in 2015.

2015 Share Incentive Plan

On December 26, 2015, Beijing Happy Time adopted the 2015 Share Incentive Plan, which allows us to grant equity awards of virtual shares of Tianjin Happy Share to employees, officers, directors and individual consultants. Tianjin Happy Share is a limited partnership established under the laws of PRC, which owns 5.24% of the equity interest in Beijing Happy Time as of the date of this annual report. We divided the partnership interest in Tianjin Happy Share into 15,814,019 virtual shares and awarded the options to purchase virtual shares to grantees of the 2015 Share Incentive Plan, which enabled the grantees to enjoy beneficial ownership of Beijing Happy Time through their respective virtual shares in Tianjin Happy Share. On December 26, 2015, all options to purchase 15,814,019 virtual shares were issued to certain of our employees and a third-party consultant to replace the 15,814,019 share options granted to such individuals under the 2014 Share Incentive Plan. All share options granted under the 2014 Share Incentive Plan were canceled.

As of the date of this annual report, the sole general partner of Tianjin Happy Share is Mr. Lianzhu Lv, and the limited partners are certain employees and a third party consultant.

As part of our restructuring in 2016, Tianjin Happy Share, as a shareholder of Beijing Happy Time, entered into the contractual arrangements with Ganzhou Qufenqi and Beijing Happy Time and its other shareholders, according to which Ganzhou Qufenqi will exercise effective control over Beijing Happy Time and realize substantially all of the economic risks and benefits arising from Beijing Happy Time and its subsidiaries in lieu of Tianjin Happy Share and other shareholders of Beijing Happy Time. See “Item 4. Information on the Company — B. Business Overview — Overview — Our Contractual Arrangements with Consolidated VIEs and Their Shareholders,” for more information.

Furthermore, as part of the restructuring in 2016, Tianjin Happy Share entered into a share entrustment agreement with Qufenqi Holding Limited, pursuant to which Qufenqi Holding Limited holds 15,814,019 ordinary shares of Qudian Inc. as the nominal shareholder on behalf of Tianjin Happy Share. Qufenqi Holding Limited is entitled to exercise the voting rights as the nominal shareholder with regard to these 15,814,019 ordinary shares of Qudian Inc., while the pecuniary interests of these shares belong to Tianjin Happy Share. As such, grantees of the 2015 Share Incentive Plan enjoy the pecuniary interests of the 15,814,019 shares, representing 5.24% of the equity interest of Qudian Inc. in proportion to their relevant numbers of options to purchase virtual shares of Tianjin Happy Share.

As of December 2016, the 2015 Share Incentive Plan was terminated. In April 2017, Tianjin Happy Share and Qufenqi Holding Limited terminated the share entrustment agreement, and we canceled the 15,814,019 shares that Qufenqi Holding Limited holds on behalf of Tianjin Happy Share.

2016 Equity Incentive Plan

On December 9, 2016, Qudian Inc. adopted the 2016 Equity Incentive Plan, which allows us to grant share options, restricted shares, restricted share units and other share-based awards to our employees, directors and

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consultants. The maximum number of ordinary shares may be subject to equity awards pursuant to the 2016 Equity Incentive Plan is 15,814,019 initially. On January 1, 2018, and on every January 1 thereafter for eight years, the aggregate number of ordinary shares reserved and available for issuance pursuant to awards granted under the 2016 Equity Incentive Plan will be increased by 1.0% of the total number of ordinary shares outstanding on December 31 of preceding calendar year. Unless terminated earlier, the 2016 Equity Incentive Plan will terminate automatically in 2026.

Administration

The 2016 Equity Incentive Plan is administered by (i) the compensation committee, (ii) such other committee of the board to which the board delegates the power to administer the 2016 Equity Incentive Plan or (iii) the board. The administrator will determine the provisions and terms and conditions of each equity award.

Change in Control

In the event of a change in control, the administrator may provide for acceleration of equity awards, purchase of equity awards from holders or replacement of equity awards.

Term

Unless terminated earlier, the 2016 Equity Incentive Plan will continue in effect for a term of ten years from the date of its adoption.

Award Agreements

Generally, equity awards granted under the 2016 Equity Incentive Plan are evidenced by an award agreement providing for the number of ordinary shares subject to the award, and the terms and conditions of the award, which must be consistent with the 2016 Equity Incentive Plan.

Vesting Schedule

The administrator determines the vesting schedule of each equity award granted under the 2016 Equity Incentive Plan, which vesting schedule will be set forth in the award agreement for such equity award.

Amendment and Termination

The board of directors may at any time amend or terminate the 2016 Equity Incentive Plan, subject to certain exceptions.

Granted Options

We have granted options to purchase our Class A ordinary shares to certain of our officers, directors, employees and a third-party consultant pursuant to the 2016 Equity Incentive Plan. Certain options previously granted were subsequently canceled. As of March 31, 2021, options to purchase 3,656,219 Class A ordinary shares remained unvested.

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The table below summarizes, as of the date of this annual report, the options we have granted to our directors and executive officers.

Name	Position	Ordinary Shares Underlying Options Awarded	Option Exercise Price	Grant Date	Option Expiration Date
Long Xu	Director	*	US\$0.0	February 23, 2016	February 23, 2026
		*	US\$0.0	December 20, 2018	December 20, 2028
		*	US\$0.0	September 22, 2019	September 22, 2029
		*	US\$0.0	December 25, 2019	December 25, 2029
		*	US\$0.0	March 26, 2020	March 26, 2030
Yifan Li	Independent director	*	US\$0.0	October 17, 2017	December 8, 2026
		*	US\$0.0	June 14, 2019	June 14, 2029
Rocky Ta-Chen Lee ⁽¹⁾	Independent director	*	US\$0.0	October 17, 2017	December 8, 2026
		*	US\$0.0	June 14, 2019	June 14, 2029
Shengwen Rong	Independent director	*	US\$0.0	November 30, 2018	November 30, 2028
		*	US\$0.0	June 14, 2019	June 14, 2029
Yan Gao	Vice President of Finance	*	US\$0.0	May 3, 2017	May 3, 2027
		*	US\$0.0	March 12, 2018	March 12, 2028
		*	US\$0.0	December 20, 2018	December 20, 2028
		*	US\$0.0	September 22, 2019	September 22, 2029
		*	US\$0.0	December 25, 2019	December 25, 2029
		*	US\$0.0	March 26, 2020	March 26, 2030

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

(1) Mr. Rocky Ta-Chen Lee ceased to be a director of our company in September 2020.

Equity Incentive Trust

The Qudian Inc. Equity Incentive Trust, or the Equity Incentive Trust, is a trust established by a deed dated December 30, 2016 between us and Ark Trust (Hong Kong) Limited, or Ark Trust, as trustee of the Equity Incentive Trust, through which our ordinary shares, dividends and other rights and interests under awards granted pursuant to our equity incentive plans may be provided to certain of recipients of equity awards granted pursuant to our share incentive plans.

Participants in the Equity Incentive Trust transfer their equity awards to Ark Trust to be held for their benefit. Upon satisfaction of vesting conditions and request by grant recipients, Ark Trust will exercise the equity awards and transfer the relevant ordinary shares, dividends and other rights and interest under the equity awards to the relevant grant recipients.

In April 2017, we directly issued 13,865,219 ordinary shares pursuant to our 2016 Equity Incentive Plan to Ark Trust in its capacity as trustee of the Equity Incentive Trust. As of March 31, 2021, the Equity Incentive Trust held 4,498,108 Class A ordinary shares. The trust deed provides that Ark Trust shall not exercise the voting rights attached to such ordinary shares unless otherwise directed by the plan administrator, which is our board of directors as of the date of this annual report, or its authorized representative.

Wanlimu Cayman Share Incentive Plan

We have established Wanlimu Cayman as a holding company for our early childhood education business. For further information, see “Item 4. Information on the Company—A. History and Development of the Company.”

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In April 2021, the board of directors of Qudian Inc. approved WLM Kids Inc. 2021 Share Incentive Plan, or the Wanlimu Plan, which allows Wanlimu Cayman to grant share options, restricted shares, restricted share units and other share-based awards to its employees, directors and consultants. The maximum number of ordinary shares of Wanlimu Cayman that may be subject to equity awards pursuant to the Wanlimu Plan is 400,000,000, which represents 50% of outstanding shares of Wanlimu Cayman on a diluted basis as of the date of this annual report.

Mr. Min Luo has been granted options to purchase 100,000,000 ordinary shares of Wanlimu Cayman with an exercise price of US\$0.00001 per share. The share options will be exercisable upon Wanlimu Cayman achieving valuation of US\$3 billion.

Mr. Min Luo has been appointed as the administrator with respect to the remaining 300,000,000 ordinary shares of Wanlimu Cayman reserved under the Wanlimu Plan, which have been allocated for equity awards to management members and other employees of Wanlimu Cayman and its consolidated entities. As the administrator, Mr. Luo has the power and authority to, among other things, (i) select individuals to whom awards may be granted, (ii) determine the type or types of awards to be granted to each grantee and (iii) determine the terms and conditions of each award.

C. Board Practices

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

Committees of the Board of Directors

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

Audit Committee

Our audit committee consists of Yifan Li and Shengwen Rong. Yifan Li is the chairperson of our audit committee. Yifan Li satisfies the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Each of Yifan Li and Shengwen Rong satisfies the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and will meet the criteria for independence set forth in Rule 10A-3 of the Exchange Act. Our audit committee will consist solely of independent directors within one year of our initial public offering.

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

- selecting the independent auditor;

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- pre-approving auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor’s report describing the auditing firm’s internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors and all relationships between the independent auditor and our company;
- setting clear hiring policies for employees and former employees of the independent auditors;
- reviewing with the independent auditor any audit problems or difficulties and management’s response;
- reviewing and, if material, approving all related party transactions on an ongoing basis;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;
- discussing policies with respect to risk assessment and risk management with management, internal auditors and the independent auditor;
- timely reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of Yifan Li and Shengwen Rong. Yifan Li is the chairperson of our compensation committee. Each of Yifan Li and Shengwen Rong satisfies the requirements for an “independent director” within the meaning of Section 303A of the NYSE Listed Company Manual.

Our compensation committee is responsible for, among other things:

- reviewing, evaluating and, if necessary, revising our overall compensation policies;

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

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Yifan Li and Min Luo is the chairperson of our nominating and corporate governance committee. Yifan Li satisfies the "independence" requirements of Section 303A of the NYSE Listed Company Manual. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

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

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

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

Terms of Directors and Executive Officers

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

Guosheng HK is a principal shareholder of our company. On April 25, 2020, Guosheng HK, its parent company Guosheng Financial Holding Inc. and Mr. Min Luo (solely in his capacity as our director and the chairman of our board of directors) entered into a deed of undertaking, or the deed. Pursuant to the deed, for a period of three years, Mr. Luo undertakes (i) not to remove the director designated by Guosheng HK and (ii) in the event such designee no longer serves our director, to nominate another designee of Guosheng HK to fill such vacancy and vote in favor of such nomination. Furthermore, for a period of three years, Mr. Luo undertakes to keep the number of directors designated by Guosheng HK equal to one sixth of the total number of directors of our company (rounded down the nearest whole number), provided that such number will in no event be less than one. Mr. Luo's undertakings pursuant to the deed are subject to his duties and obligations as our director and the chairman of our board of directors. Currently, Mr. Yingming Li is the director designated by Guosheng HK. Guosheng HK is further described under "Item 6. Directors, Senior Management and Employees — E. Share Ownership."

Pursuant to the deed, Guosheng Financial Holdings Inc. agrees to use its reasonable commercial efforts to establish comprehensive business cooperation with our Company. The scope of such cooperation will include, among other things, introduction of institutional funding partners for our consumer credit business.

The undertakings by (i) Mr. Luo on the one hand and (ii) Guosheng Financial Holdings Inc, on the other hand are mutually conditioned upon the relevant counterparty's compliance with its own undertakings under the deed.

D. Employees

As of December 31, 2020, we had a total of 1,047 employees. The following table sets forth the breakdown of our employees as of December 31, 2020 by function:

<u>Number of Function</u>	<u>Employees</u>	<u>% of Total</u>
Risk management	131	12.5
Technology and product development	285	27.2
Finance	85	8.1
Operation management	106	10.1
General administrative and others	189	18.1
New businesses	4	0.4
Sales and marketing	24	2.3
Dabai Auto	50	4.8
Wanlimu Kids project	173	16.5
Total	<u>1,047</u>	<u>100.0</u>

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As of December 31, 2020, a majority of our employees were based in Xiamen in Fujian Province and Fuzhou in Jiangxi Province. The remainders of our employees were based in various other locations across China.

The number of our employees increased from 947 as of December 31, 2019 to 1,047 as of December 31, 2020, primarily due to the launch of Wanlimu Kids Clubs.

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

As required by PRC regulations, we participate in various statutory employee benefit plans, including social insurance funds, namely a pension contribution 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. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. In addition, we purchased employer's liability insurance and additional commercial health insurance to increase insurance coverage of our employees. We enter into standard labor, confidentiality and non-compete agreements with our employees. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

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

E. Share Ownership

The following table sets forth information as of March 31, 2021 with respect to the beneficial ownership of our ordinary shares by:

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

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to, or the power to receive the economic benefit of ownership of the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option or other right or the conversion of any other security.

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The total number of ordinary shares outstanding as of March 31, 2021 was 253,088,198, comprising 189,597,026 Class A ordinary shares and 63,491,172 Class B ordinary shares, excluding (i) ordinary shares represented by the ADSs repurchased by the Company, (ii) ordinary shares issuable upon the exercise of outstanding share options and (iii) ordinary shares reserved for future issuance under our share incentive plans:

	Ordinary Shares Beneficially Owned			Percentage of aggregate voting power**
	Class A ordinary shares	Class B ordinary shares	Percentage of total ordinary shares	
Directors and Executive Officers:				
Min Luo ⁽¹⁾		63,491,172	25.1	77.0
Long Xu	*	—		*
Yingming Li	—	—	—	—
Shengwen Rong	*	—	*	*
Yifan Li	*	—	*	*
Rocky Ta-Chen Lee ⁽²⁾	*	—	*	*
Yan Gao	*	—	*	*
Directors and Executive Officers as a Group	1,007,750	63,491,172	25.5	77.1
Principal Shareholders				
Qufenqi Holding Limited	—	63,491,172	25.1	77.0
Guosheng HK ⁽³⁾	12,670,000	4,125,698	6.6	6.5

* Beneficially owns less than 1% of our 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 ten 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.

- (1) Represents 63,491,172 Class B ordinary shares held by Qufenqi Holding Limited, a limited liability company established in the British Virgin Islands. Qufenqi Holding Limited is indirectly wholly owned by a trust of which Mr. Min Luo and his wife are the beneficiaries. Mr. Min Luo is our founder, chairman of the board and chief executive officer. The registered address of Qufenqi Holding Limited is Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. Pursuant to a proxy and power of attorney dated April 25, 2020, or the Guosheng proxy, Qufenqi Holding Limited appointed Guosheng HK as its proxy and attorney-in-fact with respect to 4,125,698 Class B ordinary shares held by Qufenqi Holding Limited. The Guosheng proxy provides Guosheng HK with the power to exercise the voting rights relating to the 4,125,698 Class B ordinary shares. Guosheng HK is further described in footnote 3 below.
- (2) Mr. Rocky Ta-Chen Lee ceased to be a director of our company in September 2020.
- (3) Represents (i) 12,670,000 Class A ordinary shares held by Guosheng HK and (ii) 4,125,698 Class B ordinary shares subject to the Guosheng proxy. The Guosheng proxy is further described in footnote 1 above. Information regarding beneficial ownership in Class A ordinary shares is reported as of December 31, 2019, based on the information contained in the Schedule 13G/A filed by Guosheng HK and its affiliates on February 11, 2020, or the Guosheng 13G/A. Guosheng HK is a limited liability company incorporated under the laws of Hong Kong and a subsidiary of Guosheng Financial Holding Inc., or Guosheng, a public company listed on the Shenzhen Stock Exchange. Based on Guosheng's public filings, Mr. Li Du has control over Guosheng as of the date of this annual report. The registered address of Guosheng HK is Unit 606, 6th Floor, Alliance Building, 133 Connaught Road Central, Hong Kong. According to the Guosheng 13G/A, Phoenix Auspicious Fintech Investment L.P. held 22,367,426 Class A ordinary shares as of December 31, 2018 and held no equity interest in our company as of December 31, 2019.

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Source Code Accelerate L.P. which used to hold approximately 13.7% of our total ordinary shares as of March 31, 2018, has ceased to be a major shareholder of our company and held no equity interest in our company as of December 31, 2018, according to a Schedule 13G it filed on February 13, 2019.

According to the relevant Schedule 13G/A filings made by API (Hong Kong) Investment Limited held 37,720,709 Class A ordinary shares as of December 31, 2017 and held no equity interest in our company as of April 30, 2019.

Based on a Schedule 13G filed by on February 1, 2019, Kunlun Group Limited held 37,294,934 Class A ordinary shares as of December 31, 2018. Based on a Schedule 13G filed on February 13, 2018, Ever Bliss Fund, L.P. held 18,449,253 Class A ordinary shares as of December 31, 2017, and Joyful Bliss Limited held 1,930,098 Class A ordinary shares as of December 31, 2017. Ever Bliss Fund, L.P. and Joyful Bliss Limited are collectively referred to as Zhu Entities. Both Kunlun Group Limited and the Zhu Entities have ceased to be our principal shareholders.

We are not aware of any of our shareholders being affiliated with a registered broker-dealer or being in the business of underwriting securities.

Except as otherwise disclosed in this annual report on Form 20-F, none of our existing shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Transactions and Agreements with Ant Financial and Its Related Parties

We have been collaborating with Ant Financial in multiple areas of our business. Ant Financial ceased to be a related party since December 8, 2018.

We incurred RMB58.8 million of payment processing and settlement fees to Alipay in the period from January 1, 2018 to December 8, 2018.

We incurred RMB9.3 million of fees related to credit analysis information provided by Zhima Credit in the period from January 1, 2018 to December 8, 2018.

We incurred RMB32.5 million of borrower engagement fees to Alipay in the period from January 1, 2018 to December 8, 2018.

We incurred RMB30.3 million of fees related to cloud computing services provided by Alibaba Cloud Computing Co., Ltd. in the period from January 1, 2018 to December 8, 2018.

In August 2018, our agreement with Ant Financial relating to user engagement through Alipay’s dedicated channel for online third-party service providers expired and both parties have decided not to renew the agreement.

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Transactions with Guosheng

Guosheng Financial Holding Inc. and Guosheng Securities Asset Management Co., Ltd. were controlled by a director of our Company before August 24, 2018. These entities invested in our trusts, and such investments were recognized as borrowings by us.

We incurred RMB42.9 million of interest expenses to Guosheng Financial Holding Inc. in the period from January 1, 2018 to August 24, 2018.

We incurred RMB5.2 million of interest expenses to Guosheng Securities Asset Management Co., Ltd. in the period from January 1, 2018 to August 24, 2018.

Contractual Arrangements with Our VIEs and Their Shareholders

PRC laws and regulations currently restrict foreign ownership and foreign investment in VATS in China. As a result, we operate our relevant business through contractual arrangements among Ganzhou Qufenqi, our wholly-owned PRC subsidiary, Beijing Happy Time, our consolidated VIE, and the shareholders of Beijing Happy Time. We established four new consolidated VIEs, Ganzhou Qudian, Hunan Qudian and Xiamen Qudian in 2017 and Xiamen Weipujia in 2018. Ganzhou Qufenqi has also entered into a series of contractual arrangements with the aforementioned four consolidated VIEs and its shareholders. In addition, we established a new consolidated VIE, Xiamen Qu Plus Plus in 2019 and control it through a series of contractual arrangements among Xiamen Youxiang, our wholly-owned PRC subsidiary, Xiamen Qu Plus Plus, and the shareholders of Xiamen Qu Plus Plus. In January 2021, we completed the dissolution of Hunan Qudian and terminated the contractual arrangements with Hunan Qudian and its shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company — B. Business Overview — Overview — Our Contractual Arrangements with Consolidated VIEs and Their Shareholders.”

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

We and certain of our directors and officers were named as defendants in four putative securities class actions filed in the United States District Court for the Southern District of New York: *Ramnath v. Qudian Inc. et al.*, Civil Action No. 1:17-cv-09741-RA (S.D.N.Y.), *Maia v. Min Luo et al.*, Civil Action No. 1:17-cv-09796-RA (S.D.N.Y.), *Foat v. Qudian Inc. et al.*, Civil Action No. 1:17-cv-09875-RA (S.D.N.Y.), and *Perez v. Qudian Inc. et al.*, Civil Action No. 1:17-cv-09903-RA (S.D.N.Y.) (collectively, the “Federal Actions”). The Federal Actions — purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their purchase of our ADSs pursuant and/or traceable to our IPO — allege violations of Sections 11 and 15 of the United States Securities Act of 1933 in connection with our disclosure of business and regulatory risks.

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On March 16, 2018, the Court entered an order consolidating the Federal Actions under master caption *In re Qudian Inc. Securities Litigation*, Master File No. 1:17-cv-09741-RA (S.D.N.Y.) and appointing lead plaintiffs and lead counsel for the consolidated case. On May 18, 2018, Plaintiffs filed a Consolidated Amended Complaint, and, on July 27, 2018, Plaintiffs filed a Second Amended Complaint. On October 12, 2018, we filed a motion to dismiss the Second Amended Complaint for failure to state a claim under the federal securities laws.

On September 27, 2019, the Court issued an Order (the “Order”) granting in part and denying in part our motion to dismiss the Second Amended Complaint. The Order granted the motion to dismiss with leave to amend the Second Amended Complaint with respect to certain of Plaintiffs’ allegations, and denied the motion to dismiss with respect to the launch of the Company’s Dabai Auto business. On October 17, 2019, Plaintiffs filed a stipulation confirming that they will not seek to amend the Second Amended Complaint.

On November 8, 2019, Plaintiffs filed a motion asking the court to reconsider the Order with respect to one of the dismissed allegations. On December 6, 2019, we filed an opposition to the motion for reconsideration, and Plaintiffs filed a reply on December 20, 2019. On July 10, 2020, the court denied Plaintiffs’ motion for reconsideration.

On August 10, 2020, certain defendants filed an answer to the Second Amended Complaint. Certain remaining defendants separately moved to dismiss the Second Amended Complaint on additional grounds on the same date. Plaintiffs’ filed their opposition to the motion to dismiss on September 24, 2020.

On November 13, 2020, Plaintiffs filed an unopposed motion requesting approval for settlement pursuant to the terms stipulated by the parties. On November 16, 2020, Judge Furman preliminarily approved the stipulated settlement, certified a settlement class, and set a settlement hearing for April 27, 2021.

On November 18, 2020, certain absent class members filed a motion to compel vacatur and denial of the order preliminarily approving the settlement. On November 20, 2020, the Company and Plaintiffs filed oppositions to the motion to compel vacatur, and on November 23, 2020, Judge Furman denied the motion. On March 23, 2021, Plaintiffs filed a motion for final approval of the settlement. On April 9, 2021, the court continued the settlement hearing date to June 8, 2021.

We and certain of our directors and officers were also named as defendants in *Song v. Qudian Inc. et al.*, Case No. 18CIV01425 (Cal. Supr. Ct., San Mateo Cty.), a putative securities class action filed in the Superior Court of California, County of San Mateo (the “California Action”). The California Action — purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their purchase of our ADSs pursuant and/or traceable to our IPO — alleges violations of Sections 11, 12(a)(2), and 15 of the United States Securities Act of 1933 in connection with our disclosure of business and regulatory risks. On May 15, 2018, we filed a motion to stay the action in light of, inter alia, the Federal Actions. Plaintiff filed an opposition to the motion to stay on June 8, 2018, and we filed a reply on June 22, 2018. A hearing on the motion to stay was held on September 14, 2018. On December 21, 2018, the court granted our motion to stay.

We and certain of our directors and officers were also named as defendants in two putative securities class actions filed in New York Supreme Court, *Panther Partners Inc. v. Qudian Inc.*, Index No. 651804/2018 (N.Y. Sup. Ct., N.Y. Cty.), and *The Morrow Property Trust v. Qudian Inc.*, Index No. 653047/2018 (N.Y. Sup. Ct., N.Y. Cty.) (collectively, the “New York State Actions”). The New York State Actions — purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their purchase of our ADSs pursuant and/or traceable to our IPO — similarly allege violations of Sections 11, 12(a)(2), and 15 of the United States Securities Act of 1933 in connection with our disclosure of business and regulatory risks. On August 15, 2018, the two putative securities class actions were consolidated by joint stipulation under the master caption *In re Qudian Inc. Securities Litigation*, Index No. 651804/2018 (N.Y. Sup. Ct., N.Y. Cty.). On June 1, 2018, we filed a motion to dismiss the actions for failure to state a claim or, alternatively, to stay the actions in light of the Federal Actions. On August 24, 2018, Plaintiffs filed an opposition to our motion to dismiss or stay, and we filed a reply on October 5, 2018. A hearing was held on November 8, 2018. On November 14, 2018, the court granted our motion to stay.

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On January 24, 2020, Plaintiffs filed a motion to lift the stay and file an amended complaint. We filed an opposition to the motion on February 21, 2020, and Plaintiffs filed a reply on March 6, 2020. On April 28, 2020, the court denied Plaintiffs' motion to lift the stay. Plaintiffs noticed an appeal from the court's decision on May 15, 2020 and filed their opening brief on July 13, 2020. On August 12, 2020, we filed a responsive brief, and on August 21, 2020, Plaintiffs filed their reply brief. On December 3, 2020, the Appellate Division reversed the order denying Plaintiffs' motion to lift the stay, and on December 9, 2020, Plaintiffs filed an amended complaint.

On December 29, 2020, we filed a motion to dismiss the amended complaint for failure to state a claim or, alternatively, to stay the actions in light of the pending settlement hearing in the Federal Actions. On January 7, 2021, Plaintiffs filed an opposition to the motion, and we filed a reply on January 13, 2021. A decision on the motion is pending.

We and certain of our officers and directors were also named as defendants in a putative securities class action filed on January 22, 2020 in the United States District Court for the Southern District of New York, captioned *Greco et al v. Qudian Inc. et al*, Case 1:20-cv-00577-GHW (S.D.N.Y.) (the "Federal Exchange Act Action"). The Federal Exchange Act Action alleges violations of Sections 10(b) and 20(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder in connection with our FY19 financial guidance and certain related public statements. On April 7, 2020, the Court entered a stipulated order appointing Co-Lead Plaintiffs and Co-Lead Counsel.

On June 17, 2020, Plaintiffs filed an Amended Class Action Complaint ("AC"). On September 4, 2020, we moved to dismiss the AC for failure to state a claim under the federal securities laws. Plaintiffs filed their opposition to our motion to dismiss on October 2, 2020, and we filed a reply on October 16, 2020. A decision on the motion is pending.

For risks and uncertainties relating to the pending cases against us, please see "Item 3. Key Information — D. Risk Factors — Risks Related to Our ADSs — We have been named as a defendant in eight putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation."

Dividend Policy

Since inception, we have not declared or paid any dividends on our shares. We do not have any present plan to pay any dividends on our Class A ordinary shares or ADSs in the foreseeable future. We intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Any other future determination to pay dividends will be made at the discretion of our board of directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

We are an exempted company incorporated in the Cayman Islands. In order for us to distribute any dividends to our shareholders and ADS holders, we may rely on dividends distributed by our PRC subsidiaries. Certain payments from our PRC subsidiaries to us may be subject to PRC withholding income tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards every year to a statutory common reserve fund until the aggregate amount of such reserve fund reaches 50% of the registered capital of such subsidiary. Such statutory reserves are not distributable as loans, advances or cash dividends.

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B. Significant Changes

We have not experienced any other significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing one of our Class A ordinary share, have been listed on the New York Stock Exchange since October 18, 2017 under the symbol “QD.”

B. Plan of Distribution

Not Applicable.

C. Markets

See “— A. Offering and Listing Details.”

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our second amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-220511), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017. Our shareholders adopted our second amended and restated memorandum and articles of association by unanimous resolutions passed on May 3, 2017, and effective immediately prior to the completion of our initial public offering of common shares represented by our ADSs.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

D. Exchange Controls

See “Item 4. Information on the Company — B. Business Overview — Regulation — Regulations Related to Foreign Exchange.”

E. Taxation

The following is a general summary of the material Cayman Islands, People’s Republic of China and United States federal income tax consequences relevant to an investment in our ADSs and Class A ordinary shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address U.S. state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and Class A ordinary shares.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and Class A ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered with the United Kingdom in 2010 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to us or our operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our shares, debentures or other obligations or by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for us is for a period of twenty years from November 29, 2016.

People’s Republic of China Taxation

In March 2007, the National People’s Congress of China enacted the Enterprise Income Tax Law, which became effective on January 1, 2008. 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, which took effect on January 1, 2008 and was last amended on April 23, 2019, 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 some of our overseas subsidiaries are

located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our Cayman Islands holding company is a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. One example is a 10% withholding tax would be imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs. It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

On April 30, 1984, China and the United States (each a “Contracting State”) entered into an agreement for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income, or the Sino-US Treaty. The Sino-US Treaty provides that, among others, subject to certain conditions and limitations, dividends paid by a company which is a resident enterprise of one Contracting State, to a resident (an individual citizen or a resident enterprise) of the other Contracting State, or interest arising in one Contracting State and paid to a resident of the other Contracting State, may be taxed in that other Contracting State, such dividend or interest may also be taxed in the Contracting State where the company paying the dividends is a resident, or the interest arises, according to the laws of such Contracting State, but if the recipient of dividend or interest is the beneficial owner of the dividend or interest, the tax so charged shall not exceed 10% of the gross amount of the dividend or the interest. The Sino-US Treaty also provides several methods for the elimination of double taxation: (1) in China, (a) where a resident of China derives income from the United States, the amount of the United States income tax payable in respect of that income in accordance with the provisions of the Sino-US Treaty shall be allowed as a credit against the Chinese tax imposed on that resident. The amount of credit, however, shall not exceed the amount of the Chinese tax computed with respect to that income in accordance with the taxation laws and regulations of China; (b) where the income derived from the United States is a dividend paid by a company which is a resident of the United States to a company which is a resident of China and which owns not less than 10% of the shares of the company paying the dividend, the credit shall take into account the United States income tax payable by the company paying the dividend in respect of the profits out of which the dividends are paid; (2) in the United States, in accordance with the provisions of the law of the United States, the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income: (a) the income tax paid to China by or on behalf of such resident or citizen; and (b) in the case of a United States company owning at least 10% of the voting rights in a company which is a resident of China and from which the United States company receives dividends, the income tax paid to China by or on behalf of the distributing company with respect to the profits out of which the dividends are paid; and (3) income derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with the Sino-US Treaty shall be deemed to arise in that other Contracting State.

Certain United States Federal Income Tax Considerations

The following discussion describes certain United States federal income tax consequences of the purchase, ownership and disposition of our ADSs and Class A ordinary shares as of the date hereof. This discussion deals only with ADSs and Class A ordinary shares that are held as capital assets by a United States Holder (as defined below).

As used herein, the term “United States Holder” means a beneficial owner of our ADSs or Class A ordinary shares that is, for United States federal income tax purposes, any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or

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- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. In addition, this discussion is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer or broker in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ADSs or Class A ordinary shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock (by vote or value);
- a person required to accelerate the recognition of any item of gross income with respect to our ADSs or Class A ordinary shares as a result of such income being recognized on an applicable financial statement;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) holds our ADSs or Class A ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ADSs or Class A ordinary shares, you should consult your tax advisors.

This discussion does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income, United States federal estate and gift taxes or the effects of any state, local or non-United States tax laws. If you are considering the purchase of our ADSs or Class A ordinary shares, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the purchase, ownership and disposition of our ADSs or Class A ordinary shares, as well as the consequences to you arising under other United States federal tax laws and the laws of any other taxing jurisdiction.

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying Class A ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the discussion under “— Passive Foreign Investment Company” below, the gross amount of distributions on the ADSs or Class A ordinary shares (including any amounts withheld to reflect potential PRC withholding taxes, as discussed above under “— People’s Republic of China Taxation”) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in the tax basis of the ADSs or Class A ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain recognized on a sale or exchange. We do not, however, expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be reported as a dividend.

Any dividends that you receive (including any withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of Class A ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to applicable conditions and limitations (including a minimum holding period requirement), dividends received by non-corporate United States investors from a qualified foreign corporation may be treated as “qualified dividend income” that is subject to reduced rates of taxation. A foreign corporation generally is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs (which are listed on the NYSE) are readily tradable on an established securities market in the United States. Since we do not expect that our Class A ordinary shares will be listed on an established securities market in the United States, we do not believe that dividends that we pay on our common shares that are not represented by ADSs currently meet the conditions required for these reduced tax rates. There also can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also generally includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC resident enterprise under the Enterprise Income Tax Law, we may be eligible for the benefits of the income tax treaty between the United States and PRC, or the Treaty, and if we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by ADSs, may be eligible for reduced rates of taxation. See “Taxation — People’s Republic of China Taxation.” You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

In addition, notwithstanding the foregoing, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a passive foreign investment company (a “PFIC”) in the taxable year in which such dividends are paid or in the preceding taxable year. As discussed below under “—Passive Foreign Investment Company,” we believe that there is a significant risk that we were classified as a PFIC for 2020, and we may be classified as a PFIC in future taxable years.

Subject to certain conditions and limitations (including a minimum holding period requirement), any PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or

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Class A ordinary shares will be treated as income from sources outside the United States and will generally constitute passive category income. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Distributions of ADSs, Class A ordinary shares or rights to subscribe for ADSs or Class A ordinary shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

Passive Foreign Investment Company

In general, we will be a PFIC for United States federal income tax purposes for any taxable year in which:

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

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). In addition, cash and other assets readily convertible into cash are generally considered passive assets. If we own at least 25% (by value) of the stock of another corporation, for purposes of determining whether we are a PFIC, we will be treated as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income. However, there is uncertainty as to the treatment of our corporate structure and ownership of our consolidated VIEs for United States federal income tax purposes. For United States federal income tax purposes, we consider ourselves to own the stock of our consolidated VIEs. If it is determined, contrary to our view, that we do not own the stock of our consolidated VIEs for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

We consider ourselves as a service provider with the primary business purpose of focusing on our data technology. However, we have historically funded, and may continue to fund, credit drawdowns with our own capital. In such case, the fees received from borrowers may be treated as interest for purposes of the PFIC rules. Given the foregoing and based on the past and projected composition and classification of our income and assets, we believe that there is a significant risk that we were classified as a PFIC for 2020, and we may be classified as a PFIC in future taxable years. However, there are uncertainties in the application of the PFIC rules to a company with our particular business operations, in particular related to the classification of our income as active or passive. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that our PFIC status may change due to changes in our asset or income composition. The calculation of the value of our assets will also be based, in part, on the quarterly market value of our ADSs, which is subject to change. Therefore, a decrease in the price of our ADSs may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and you do not make a timely mark-to-market election, as described below, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of ADSs or Class A ordinary shares. Distributions received in a taxable year will be treated as excess distributions to the extent that they are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or Class A ordinary shares. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or Class A ordinary shares,

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- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year for individuals or corporations, as applicable, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Although the determination of whether we are a PFIC is made annually, if we are a PFIC for any taxable year in which you hold our ADSs or Class A ordinary shares, you will generally be subject to the special tax rules described above for that year and for each subsequent year in which you hold the ADSs or Class A ordinary shares (even if we do not qualify as a PFIC in such subsequent years). However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your ADSs or Class A ordinary shares had been sold on the last day of the last taxable year during which we were a PFIC. You are urged to consult your own tax advisor about this election.

In lieu of being subject to the special tax rules discussed above, you may make a mark-to-market election with respect to your ADSs or Class A ordinary shares provided such ADSs or Class A ordinary shares are treated as “marketable stock.” The ADSs or Class A ordinary shares generally will be treated as marketable stock if the ADSs or Class A ordinary shares are regularly traded on a “qualified exchange or other market” (within the meaning of the applicable Treasury regulations). Under current law, the mark-to-market election may be available to holders of ADSs since the ADSs are listed on the NYSE which constitutes a qualified exchange, although there can be no assurance that the ADSs will be “regularly traded” for purposes of the mark-to-market election. It should also be noted that it is intended that only the ADSs and not the Class A ordinary shares will be listed on the NYSE. Consequently, if you are a holder of Class A ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election.

If you make an effective mark-to-market election, for each taxable year that we are a PFIC you will include as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. In addition, upon the sale or other disposition of your ADSs in a year that we are a PFIC, (i) any gain will be treated as ordinary income and (ii) any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

If you make a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or other market, or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the special tax rules described above by electing to treat a PFIC as a “qualified electing fund” under Section 1295 of the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares and any of our non-United States subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

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You will generally be required to file Internal Revenue Service Form 8621 if you hold our ADSs or Class A ordinary shares in any year in which we are classified as a PFIC. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or Class A ordinary shares if we are considered a PFIC in any taxable year.

Taxation of Capital Gains

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of the ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized for the ADSs or Class A ordinary shares and your tax basis in the ADSs or Class A ordinary shares. Subject to the discussion under “— Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if you have held the ADSs or Class A ordinary shares for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax were imposed on any gain, and if you are eligible for the benefits of the Treaty, you may elect to treat such gain as PRC source gain under the Treaty. If you are not eligible for the benefits of the Treaty or if you fail to make the election to treat any gain as PRC source, then you generally would not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of ADSs or Class A ordinary shares unless such credit can be applied (subject to applicable limitations) against tax due on other income derived from foreign sources.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our ADSs or Class A ordinary shares and the proceeds from the sale, exchange or other disposition of our ADSs or Class A ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC’s

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regional offices in New York, New York and Chicago, Illinois. You also can request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC's Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site. Additionally, we will post this annual report on Form 20-F on our website at <http://ir.qudian.com>.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in Renminbi. The functional currency of our company, QD Technologies Limited and QD Data Limited is the U.S. dollar. The functional currency of our subsidiaries in the PRC, the VIEs and the VIEs' subsidiaries is the Renminbi. We use Renminbi as our reporting currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the statements of operations. Due to foreign currency translation adjustments, we had a foreign exchange loss, net, of RMB107 thousand (US\$16 thousand) in 2020.

We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, 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 Renminbi, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. In June 2010, the PRC government indicated that it would make the foreign exchange rate of the Renminbi more flexible, which increases the possibility of sharp fluctuations of the Renminbi's value in the near future and the unpredictability associated with the Renminbi's exchange rate. Since then, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing

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Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. In 2017, however, the RMB appreciated approximately 6.7% against the U.S. dollar; and in 2018, the RMB depreciated approximately 5.7% against the U.S. dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Interest Rate Risk

We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future.

After the completion of this annual report, we may invest the net proceeds we receive from the offering in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Inflation

Since inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2018, December 2019 and December 2020 were increases of 1.9%, 4.5% and 0.2%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not Applicable

B. Warrants and Rights

Not Applicable

C. Other Securities

Not Applicable

D. American Depositary Shares

Depository Fees

Under the terms of the deposit agreement for our ADSs, an ADS holder will be required to pay the following service fees to the depository and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of ADSs):

<u>Service</u>	<u>Fees</u>
• To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	• Up to US\$0.05 per ADS issued
• Cancellation of ADSs, including the case of termination of the deposit agreement	• Up to US\$0.05 per ADS canceled
• Distribution of cash dividends	• Up to US\$0.05 per ADS held
• Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	• Up to US\$0.05 per ADS held
• Distribution of ADSs pursuant to exercise of rights.	• Up to US\$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	• Up to US\$0.05 per ADS held
• Depository services	• Up to US\$0.05 per ADS held on the applicable record date(s) established by the depository

Depository Charges

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depository and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of ADSs) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the

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brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program upon such terms and conditions as we and the depositary may agree from time to time.

Payments by Depositary

In 2020, excluding withholding tax, we received US\$2.84 million cash payment from Deutsche Bank Trust Company Americas, the depositary bank for our ADR program.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.”

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File No. 333-220511) in relation to our initial public offering, which was declared effective by the SEC on October 17, 2017. In October 2017, we completed our initial public offering in which we issued and sold an aggregate of 35,625,000 ADSs, representing 35,625,000 Class A ordinary shares, resulting in net proceeds to us of approximately US\$799.6 million.

As of December 31, 2020, we had used a portion of the net proceeds received from our initial public offering, which consisted of US\$100 million for capital contribution to fund our Dabai Auto business, commission paid to brokers and US\$100 million for investment in Secoo in June 2020, and US\$574.0 million to repurchase our outstanding ADSs.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, under the supervision and with the participation of our principal executive officer and our principal accounting officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act, as of December 31, 2020. Based on that evaluation, our principal executive officer and principal accounting officer have concluded that our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Commission.

Management’s Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As required by Section 404 of the Sarbanes-Oxley Act of 2002 and

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related rules promulgated by the Securities and Exchange Commission, our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, it used the criteria established within the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2020, our internal control over financial reporting was effective. Our independent registered public accounting firm, Ernst & Young Hua Ming LLP has audited the effectiveness of our internal control over financial reporting as of December 31, 2020, as stated in its report, which appears on page F-6 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined Yifan Li, who is an independent director, qualifies as an audit committee financial expert as defined in Item 16A of the instruction to Form 20-F.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers and employees. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (File No. 333-220511), as amended, initially filed with the SEC on September 18, 2017. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our independent public accountant for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	For the Year Ended December 31,	
	2019	2020
	(in thousands of RMB)	
Audit Fees ⁽¹⁾	17,630	13,350
Tax Fees ⁽²⁾	555	100
Total	18,185	13,450

- (1) Audit fees in 2019 include the aggregate fees billed in each of the fiscal period listed for professional services rendered by our independent public accountant for the audit and review of our financial statements and services related to our issuance of the convertible senior notes. Audit fees in 2020 include the aggregate fees billed in each of the fiscal period listed for professional services rendered by our independent public accountant for the audit and the agreed upon procedures of our financial statements.
- (2) Tax fees include the aggregated fees billed in each of the fiscal periods listed for professional services rendered by our independent public accountant for tax compliance, tax advice and tax planning.

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The policy of our audit committee or our board of directors is to pre-approve all audit and non-audit services provided by our independent public accountant, including audit services, audit-related services and other services as described above. All of the services of Ernst & Young Hua Ming LLP for 2020 and 2019 described above were in accordance with the audit committee pre-approval policy.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth information about our purchases of outstanding ADSs from November 21, 2017 to March 31, 2021:

<u>Period</u>	<u>Total Number of ADSs Purchased</u>	<u>Average Price Paid per ADS⁽¹⁾</u>	<u>Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs⁽²⁾</u>	<u>Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Program⁽²⁾</u>
November 21, 2017 through November 30, 2017	2,474,836	US\$ 14.06	2,474,836	US\$ 265.2 million
December 2017	2,062,279	US\$ 13.92	2,062,279	US\$ 236.5 million
June 2018	8,958,483	US\$ 9.58	8,958,483	US\$ 150.7 million
August 2018	85,000	US\$ 6.00	85,000	US\$ 150.2 million
September 2018	9,781,767	US\$ 5.27	9,781,767	US\$ 98.6 million
October 2018	8,358,409	US\$ 4.68	8,358,409	US\$ 59.5 million
November 2018	1,702,700	US\$ 5.12	1,702,700	US\$ 50.8 million
December 2018	4,351,400	US\$ 5.34	4,351,400	US\$ 327.6 million
April 2019	18,173,885	US\$ 5.68	18,173,885	US\$ 224.4 million
August 2019	26,169,241	US\$ 7.45	26,169,241	US\$ 29.4 million
March 2020	513,990	US\$ 1.95	513,990	US\$ 499.0 million
May 2020	259,986	US\$ 1.50	773,976	US\$ 498.6 million
December 2020	721,315	US\$ 1.20	1,495,291	US\$ 497.7 million
Total	<u>83,613,291</u>	<u>US\$ 6.87</u>	<u>83,613,291</u>	<u>US\$ 497.7 million</u>

- (1) Each of our ADSs represents one Class A ordinary share. The average price per ADS is calculated using the execution price for each repurchase excluding commissions paid to brokers.
- (2) We announced a share repurchase program approved by our board of directors in November 2017, under which we may repurchase up to US\$300 million worth of our outstanding ADSs over a period of twelve months. We further announced a share repurchase program in December 2018, under which we may repurchase up to US\$300 million worth of our outstanding ADSs over a period of twelve months, in addition to any further repurchases that may be made under the program announced in November 2017. We further announced a share repurchase program in January 2020, under which we may repurchase up to US\$500 million worth of our outstanding ADSs over a period of 30 months. The repurchases have been, and will be, through various means, including open market transactions, privately negotiated transactions, tender offers or any combination thereof. The repurchases have been, and will be, effected in compliance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and our insider trading policy. The number of ADSs repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, price, trading volume and general market conditions.
- (3) On April 29, 2019, we purchased all 18,173,885 of our Class A ordinary shares then held by Kunlun at a price of US\$5.678 per share, or an aggregate consideration of US\$103.2 million.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a “foreign private issuer” (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, each representing one ordinary share, are listed on the New York Stock Exchange. Under Section 303A of the New York Stock Exchange Listed Company Manual, New York Stock Exchange listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the New York Stock Exchange with limited exceptions.

Under the New York Stock Exchange Listed Company Manual, or the NYSE Manual, U.S. domestic listed companies are required to have a compensation committee and a nominating/corporate governance committee, each composed entirely of independent directors, which are not required under the Companies Law (2018 Revision) of the Cayman Islands, our home country. Currently, our nominating and corporate governance committee is composed of three members, only two of whom are independent directors. The NYSE Manual also requires U.S. domestic listed companies to regularly hold executive sessions for non-management directors, or an executive session that only includes independent directors at least once a year. We are not subject to this requirement under the Cayman Islands law and have decided to follow our home country practice on this matter. In addition, the NYSE Manual requires shareholder approval for certain matters, such as requiring that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans, which is not required under the Cayman Islands law. We intend to follow the home country practice in determining whether shareholder approval is required.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Qudian Inc. its subsidiaries and its variable interest entities are included at the end of this annual report.

Pursuant to Rule 3-09 of Regulation S-X, we are required to file the audited financial statements of Secoo, our equity investee, as of December 31, 2019 and 2020 and for the years ended December 31, 2018, 2019 and 2020. As of the date of this annual report, Secoo's audited financial statements as of and for the year ended December 31, 2020 are unavailable, because Secoo needs additional time to prepare such financial statements. We plan to file Secoo's audited financial statements with an amendment to this annual report by June 30, 2021. If Secoo's audited financial statements as of and for year ended December 31, 2020 remains unavailable by such date, we would not be in full compliance with the reporting requirements under the Exchange Act.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Second Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.3 to the registration statement on Form F-1 (File No. 333-220511), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017)
2.1	Form of American Depositary Receipt evidencing American Depositary Shares (incorporated herein by reference to Exhibit (a) to the registration statement on Form F-6 (File No. 333-220779) filed with the Securities and Exchange Commission on October 3, 2017 with respect to American depositary shares representing our Class A ordinary shares)
2.2	Specimen of Ordinary Share Certificate (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1 (File No. 333-220511), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017)
2.3	Form of Deposit Agreement between the Registrant and Deutsche Bank Trust Company Americas, as depositary (incorporated herein by reference to Exhibit (a) to the registration statement on Form F-6 (File No. 333-220779) filed with the Securities and Exchange Commission on October 3, 2017 with respect to American depositary shares representing our Class A ordinary shares)
2.4	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated herein by reference to Exhibit 2.4 to the annual report on Form 20-F (File No. 001-38230), filed with the Securities and Exchange Commission on April 27, 2020)
4.1	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-220511), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017)
4.2	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-220511), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017)
4.3	Qudian Inc. 2016 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-220511), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017)

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- 4.4 [Amendment No. 1 to Qudian Inc. 2016 Equity Incentive Plan \(incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.5 [Amendment No. 2 to Qudian Inc. 2016 Equity Incentive Plan \(incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.6 [English Translation of Equity Interest Pledge Agreement concerning Beijing Happy Time, among Ganzhou Qufenqi, Mr. Min Luo, Tianjin Happy Share, Shanghai Yunxin Venture Capital Co., Ltd., Phoenix Auspicious Internet Investment L.P., Tianjin Blue Run Xinhe Investment Center L.P., Jiaxing Blue Run Quchuan Investment L.P., Ningbo Yuanfeng Venture Capital L.P., Shenzhen Guosheng Qianhai Investment Co., Ltd., Beijing Kunlun Tech Co., Ltd. and Beijing Happy Time, dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.7 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Tianjin Happy Share, dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.8 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Shanghai Yunxin Venture Capital Co., Ltd., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.9 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Phoenix Auspicious Internet Investment L.P., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.10 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Tianjin Blue Run Xinhe Investment Center L.P., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.11 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Jiaxing Blue Run Quchuan Investment L.P., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.12 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Ningbo Yuanfeng Venture Capital L.P., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.13 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Shenzhen Guosheng Qianhai Investment Co., Ltd., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)

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- 4.14 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Beijing Kunlun Tech Co., Ltd., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.15 [English translation of Power of Attorney Agreement concerning Beijing Happy Time, between Ganzhou Qufenqi and Mr. Min Luo, dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.16 [English translation of Exclusive Business Cooperation Agreement among Ganzhou Qufenai, Beijing Happy Time, Ganzhou Network, Ganzhou Happy Fenqi and Fuzhou Happy Time Technology Co., Ltd., dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.16 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.17 [English translation of Exclusive Call Option Agreement concerning Beijing Happy Time, among Ganzhou Qufenqi, Mr. Min Luo, Tianjin Happy Share, Shanghai Yunxin Venture Capital Co., Ltd., Phoenix Auspicious Internet Investment L.P., Tianjin Blue Run Xinhe Investment Center L.P., Jiaying Blue Run Quchuan Investment L.P., Ningbo Yuanfeng Venture Capital L.P., Shenzhen Guosheng Qianhai Investment Co., Ltd., Beijing Kunlun Tech Co., Ltd. and Beijing Happy Time, dated December 9, 2016 \(incorporated herein by reference to Exhibit 10.17 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.18 [Financial Support Undertaking Letter issued by the Registrant to Beijing Happy Time, dated February 15, 2017 \(incorporated herein by reference to Exhibit 10.18 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.19 [English translation of Equity Interest Pledge Agreement concerning Ganzhou Qudian, among Ganzhou Qufenqi, Mr. Min Luo, Mr. Lianzhu Lv and Ganzhou Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.19 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.20 [English translation of Power of Attorney Agreement concerning Ganzhou Qudian, between Mr. Min Luo and Ganzhou Qufenqi, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.20 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.21 [English translation of Power of Attorney Agreement concerning Ganzhou Qudian, between Mr. Lianzhu Lv and Ganzhou Qufenqi, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.21 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.22 [English translation of Exclusive Business Cooperation Agreement between Ganzhou Qufenai and Ganzhou Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.23 [English translation of Exclusive Call Option Agreement concerning Ganzhou Qudian, among Ganzhou Qufenqi, Mr. Min Luo, Mr. Lianzhu Lv and Ganzhou Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.23 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)

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- 4.24 [Financial Support Undertaking Letter issued by the Registrant to Ganzhou Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.24 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.25 [English translation of Equity Interest Pledge Agreement concerning Hunan Qudian, among Ganzhou Qufenqi, Mr. Min Luo, Mr. Hongjia He and Hunan Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.25 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.26 [English translation of Power of Attorney Agreement concerning Hunan Qudian, between Mr. Min Luo and Ganzhou Qufenqi, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.26 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.27 [English translation of Power of Attorney Agreement concerning Hunan Qudian, between Mr. Hongjia He and Ganzhou Qufenqi, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.27 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.28 [English translation of Exclusive Business Cooperation Agreement between Ganzhou Qufenqi and Hunan Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.28 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.29 [English translation of Exclusive Call Option Agreement concerning Hunan Qudian, among Ganzhou Qufenqi, Mr. Min Luo, Mr. Hongjia He and Hunan Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.29 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.30 [Financial Support Undertaking Letter issued by the Registrant to Hunan Qudian, dated May 1, 2017 \(incorporated herein by reference to Exhibit 10.30 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.31 [Trust Deed Constituting Qudian Inc. Equity Incentive Trust, dated December 30, 2016, between Qudian Inc. and Ark Trust \(Hong Kong\) Limited \(incorporated herein by reference to Exhibit 10.37 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.32 [English translation of Equity Interest Pledge Agreement concerning Xiamen Qudian, among Ganzhou Qufenqi, Mr. Min Luo and Xiamen Qudian, dated June 20, 2017 \(incorporated herein by reference to Exhibit 10.38 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.33 [English translation of Power of Attorney Agreement concerning Xiamen Qudian, between Ganzhou Qufenai and Mr. Min Luo, dated June 20, 2017 \(incorporated herein by reference to Exhibit 10.39 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially Filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.34 [English translation of Exclusive Business Cooperation Agreement between Ganzhou Qufenqi and Xiamen Qudian, dated June 20, 2017 \(incorporated herein by reference to Exhibit 10.40 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)

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- 4.35 [English translation of Exclusive Call Option Agreement concerning Xiamen Qudian, among Ganzhou Qufenai, Mr. Min Luo and Xiamen Qudian, dated June 20, 2017 \(incorporated herein by reference to Exhibit 10.41 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.36 [Financial Support Undertaking Letter issued by the Registrant to Xiamen Qudian, dated June 20, 2017 \(incorporated herein by reference to Exhibit 10.42 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 4.37 [English translation of Equity Interest Pledge Agreement concerning Xiamen Qu Plus Plus, among Xiamen Youxiang, Mr. Min Luo, Mr. Long Xu and Xiamen Qu Plus Plus, dated July 1, 2019 \(incorporated herein by reference to Exhibit 4.37 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.38 [English translation of Power of Attorney Agreement concerning Xiamen Qu Plus Plus, between Mr. Min Luo and Xiamen Youxiang, dated July 1, 2019 \(incorporated herein by reference to Exhibit 4.38 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.39 [English translation of Power of Attorney Agreement concerning Xiamen Qu Plus Plus, between Mr. Long Xu and Xiamen Youxiang, dated July 1, 2019 \(incorporated herein by reference to Exhibit 4.39 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.40 [English translation of Exclusive Business Cooperation Agreement between Xiamen Youxiang and Xiamen Qu Plus Plus, dated July 1, 2019 \(incorporated herein by reference to Exhibit 4.40 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.41 [English translation of Exclusive Call Option Agreement concerning Xiamen Qu Plus Plus, among Xiamen Youxiang, Mr. Min Luo, Mr. Long Xu and Xiamen Qu Plus Plus, dated July 1, 2019 \(incorporated herein by reference to Exhibit 4.41 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.42 [Financial Support Undertaking Letter issued by the Registrant to Xiamen Qu Plus Plus, dated July 1, 2019 \(incorporated herein by reference to Exhibit 4.42 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.43 [Indenture, dated July 1, 2019, between the Registrant and Deutsche Bank Trust Company Americas, as Trustee, relating to the issuance of Registrant's 1.00% Convertible Senior Notes due 2026 \(incorporated herein by reference to Exhibit 4.43 to the annual report on Form 20-F \(File No. 001-38230\), filed with the Securities and Exchange Commission on April 27, 2020\)](#)
- 4.44* [WLM Kids Inc. 2021 Share Incentive Plan](#)
- 8.1* [List of Subsidiaries](#)
- 11.1 [Code of Business Conduct and Ethics of the Registrant \(incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 \(File No. 333-220511\), as amended, initially filed with the Securities and Exchange Commission on September 18, 2017\)](#)
- 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](#)

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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 Tian Yuan Law Firm
15.2*	Consent of Independent Registered Public Accounting Firm
99.1***	Consolidated Financial Statements of Secoo Holding Limited as of December 31, 2019 and 2020 and for the years ended December 31, 2018, 2019 and 2020
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

*** To be filed by amendment within six months of December 31, 2020

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.

QUDIAN INC.

By: /s/ Min Luo

Name: Min Luo

Title: Chairman and Chief Executive Officer

Date: April 29, 2021

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Qudian Inc.

Audited Consolidated Financial Statements

31 December 2020

QUDIAN INC.
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Qudian Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Qudian Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated April 29, 2021 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for credit losses on certain financial instruments in 2020 and changed its method for accounting for leases in 2019 and 2020.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for loan principal and financing service fee receivables

Description of the Matter

At December 31, 2020, the Company's loan principal and financing service fee receivables and related allowance was RMB 4,790 million and RMB 849 million, respectively. As explained in Note 2 to the consolidated financial statements, the Company considers the loans to be homogeneous unsecured consumer loans of similar principal amounts. The allowance is calculated based on the Company's historical loss experience with the entire loan portfolio, using a roll rate-based model and adjusted for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations.

Auditing management's allowance for loan principal and financing service fee receivables was complex and subjective due to the highly judgmental nature of the qualitative factors used to adjust the allowance calculated using the roll-rate based model. Quantifying the impact of the selected qualitative factors on the allowance was also complex and highly judgmental. These qualitative factors require management to make significant judgments which could significantly affect the amount of the allowance for loan principal and financing service fee receivables.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's allowance for loan principal and financing service fee receivables. For example, we tested controls over management's review of the allowance calculations, the significant assumptions and data inputs.

To test the Company's allowance, we performed audit procedures that included, among others, evaluating the methodology used, management's selection of qualitative factors and their impact on the allowance, and the underlying data used in the calculation. We compared the selected qualitative factors to publicly available market information. We evaluated the appropriateness of the Company's methodology and model to measure expected credit loss and evaluated management's development, selection and weighting of the qualitative factors used in the expected credit loss model. In addition, we also involved valuation specialists to assist with these procedures. We evaluated the loss rate used to calculate the Company's allowance at December 31, 2020 by comparing management's estimate to subsequent results. We also tested the completeness and accuracy of the underlying data used by the Company in the roll-rate based model and recalculated the Company's calculation of the allowance for loan principal financing service fee receivables.

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Estimation of variable consideration for loan facilitation income, transaction services fees and other related income

Description of the Matter

For the year ended December 31, 2020, the Company recognized negative RMB 5 million revenue related to loan facilitation income, transaction services fees and other related income. As explained in Note 2 to the consolidated financial statements, the transaction price of loan facilitation income, transaction services fees and other related income includes variable consideration which is contingent on the borrower making timely repayments. The amount of variable consideration is limited to the amount that is probable not to be reversed in future periods. Management estimated the variable consideration using the expected value method, based on historical defaults, and current and forecasted borrower repayment trends and assessed whether variable consideration should be constrained.

Auditing management's estimation of variable consideration for loan facilitation income, transaction services fees and other related income was complex due to the highly judgmental nature of the qualitative factors used in the expected value method and quantifying the impact of the selected qualitative factors on the variable consideration. The estimation of variable consideration is also affected by future market and economic conditions. These factors combined have a significant effect on the amount of the estimated variable consideration for loan facilitation income, transaction services fees and other related income.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's estimation of variable consideration of loan facilitation income, transaction services fees and other related income. For example, we tested controls over management's review of the variable consideration calculations, the significant assumptions and data inputs.

To test the Company's estimation of variable consideration for loan facilitation income, transaction services fees and other related income, we performed audit procedures that included, among others, evaluating the methodology used and management's selection of the qualitative factors and their impact on the amount of variable consideration included in the transaction price. We compared the selected qualitative factors to publicly available market information. We assessed the historical accuracy of management's estimate by comparing the results of management's prior estimate to reversals to cumulative revenue that were recognized during the reporting period. We also tested the completeness and accuracy of the underlying data used by the Company to estimate the variable consideration and recalculated the Company's calculation of the amount required to be constrained.

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Estimation of risk assurance liabilities

Description of the Matter

At December 31, 2020, the Company's risk assurance liabilities totaled RMB 20 million. As explained in Note 2 to the consolidated financial statements, the Company provides risk assurance liabilities on the principal and accrued interest repayment of loans facilitated through the Company's platform. The contingent loss arising from the obligation to make future payments is recognized when borrower default is probable and the amount of loss is estimable. The contingent loss is calculated based on the expected future payouts, adjusted for various qualitative factors that reflect, current conditions and reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations.

Auditing management's estimation of risk assurance liabilities was complex and subjective due to the highly judgmental nature of the qualitative factors used in the measurement process and quantifying the impact of the selected qualitative factors on the risk assurance liabilities. These qualitative factors require management to make significant judgments which could significantly affect the amount of the estimation of risk assurance liabilities.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's estimation of risk assurance liabilities. For example, we tested controls over management's review of the risk assurance liabilities calculations, the significant assumptions and data inputs.

To test the Company's estimation of risk assurance liabilities, we performed audit procedures that included, among others, evaluating the methodology used and management's selection of the qualitative factors and their impact on the estimate. We compared the selected qualitative factors to publicly available market information. We evaluated the appropriateness of the Company's methodology and model to measure expected credit loss and evaluated management's development, selection and weighting of the qualitative factors used in the expected credit loss model. In addition, we also involved valuation specialists to assist with these procedures. We assessed the historical accuracy of management's estimate by comparing the results of management's prior estimate of the estimated contingent loss amount of risk assurance liabilities to the historical payouts. We also tested the completeness and accuracy of the underlying data used by the Company to develop its estimate and recalculated the recorded amount.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2016.

Shanghai, The People's Republic of China
April 29, 2021

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To the Shareholders and the Board of Directors of Qudian Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Qudian Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Qudian Inc. (the “Company”) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2020, the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated April 29, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young Hua Ming LLP

Shanghai, The People's Republic of China
April 29, 2021

QUDIAN INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	Notes	As of December 31,		
		2019 RMB	2020 RMB	US\$
ASSETS:				
Current assets: (including amounts from the consolidated trusts of RMB 4,026,001,945, and RMB 5,290,064,945 (US\$ 810,737,923) as of December 31, 2019 and 2020, respectively)				
Cash and cash equivalents		2,860,938,368	1,537,557,823	235,641,046
Restricted cash and cash equivalents		1,257,648,990	135,404,201	20,751,602
Time deposits		231,131,760	—	—
Short-term investments		—	5,042,314,438	772,768,496
Short-term loan principal and financing service fee receivables (net of allowance of RMB 1,528,818,175 and RMB 849,234,936 (US\$ 130,150,948) as of December 31, 2019 and 2020, respectively)	3	7,894,697,458	3,940,461,302	603,902,115
Short-term finance lease receivables (net of allowance of RMB 24,749,828 and RMB 21,151,963 (US\$ 3,241,680) as of December 31, 2019 and 2020, respectively; including unearned revenue of RMB 21,691,725 and RMB 7,453,471 (US\$ 1,142,295) as of December 31, 2019 and 2020, respectively)	4	398,255,871	179,612,841	27,526,872
Short-term contract assets (net of allowance of RMB nil and RMB 95,778 (US\$14,679) as of December 31, 2019 and 2020, respectively)		2,741,914,258	92,812,707	14,224,170
Other current assets (net of allowance of RMB 27,259,988 and RMB 160,745,160 (US\$ 24,635,274) as of December 31, 2019 and 2020, respectively)	5	1,638,904,061	762,312,764	116,829,542
Total current assets		17,023,490,766	11,690,476,076	1,791,643,843

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.

CONSOLIDATED BALANCE SHEETS - continued

AS OF DECEMBER 31, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	Notes	As of December 31,		
		2019 RMB	2020 RMB	2020 US\$
Non-current assets: (including amounts from the consolidated trusts of RMB 423,585 and RMB nil (US\$ nil) as of December 31, 2019 and 2020, respectively)				
Long-term loan principal and financing service fee receivables (net of allowance of RMB 34,726 and RMB nil (US\$ nil) as of December 31, 2019 and 2020, respectively)	3	423,585	—	—
Long-term finance lease receivables (net of allowance of RMB 15,183,208 and RMB 3,397,366 (US\$ 520,669) as of December 31, 2019 and 2020, respectively; including unearned revenue of RMB 50,355,135 and RMB 4,737,540 (US\$ 726,060) as of December 31, 2019 and 2020, respectively)	4	239,696,597	28,771,351	4,409,402
Operating lease right-of-use assets		148,851,099	210,898,398	32,321,594
Investment in equity method investee (including amounts measured at fair value of RMB nil and RMB 306,275,523 (US\$ 46,938,777) as of December 31, 2019 and 2020, respectively)	7	44,779,440	349,275,523	53,528,816
Long-term investments	8	223,157,973	209,868,073	32,163,689
Property and equipment, net		92,820,570	302,969,361	46,432,086
Intangible assets		6,803,258	8,478,390	1,299,370
Long-term contract assets (net of allowance of RMB nil and RMB 23,174 (US\$3,551) as of December 31, 2019 and 2020, respectively)		273,596,933	23,093,566	3,539,244
Deferred tax assets	16	290,284,829	154,959,777	23,748,625
Other non-current assets		17,698,520	419,241,195	64,251,524
Total non-current assets		1,338,112,804	1,707,555,634	261,694,350
TOTAL ASSETS		18,361,603,570	13,398,031,710	2,053,338,193

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.
CONSOLIDATED BALANCE SHEETS - continued
AS OF DECEMBER 31, 2019 AND 2020
(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	Notes	As of December 31,		
		2019 RMB	2020 RMB	2020 US\$
LIABILITIES AND EQUITY				
Current liabilities: (including amounts of the Consolidated VIEs without recourse to the Company of RMB 4,749,757,109 and RMB 1,541,885,470 (US\$ 236,304,287) as of December 31, 2019 and 2020, respectively)				
Short-term borrowings and interest payables	9	1,049,570,333	—	—
Short-term lease liabilities	6	21,918,649	23,763,237	3,641,875
Accrued expenses and other current liabilities	10	718,265,702	336,790,094	51,615,342
Guarantee liabilities and risk assurance liabilities (including amounts of guarantee liabilities of RMB 263,465,921 and RMB 11,697,633 (US\$ 1,792,741), risk assurance liabilities of RMB 1,254,361,399 and RMB 19,701,689 (US\$ 3,019,416) as of December 31, 2019 and 2020, respectively).	11	1,517,827,320	31,399,322	4,812,157
Income tax payable		589,739,224	80,655,585	12,361,009
Total current liabilities		3,897,321,228	472,608,238	72,430,383
Non-current liabilities: (including amounts of the consolidated VIEs without recourse to the Company of RMB 109,076,000 and RMB 140,400,670 (US\$ 21,517,344) as of December 31, 2019 and 2020, respectively)				
Long-term borrowings and interest payables	9	—	102,415,457	15,695,855
Convertible senior notes	12	2,339,551,570	822,004,519	125,977,704
Deferred tax liabilities	16	178,984,764	10,923,276	1,674,065
Long-term lease liabilities	6	21,694,379	80,236,369	12,296,762
Total non-current liabilities		2,540,230,713	1,015,579,621	155,644,386
Total liabilities		6,437,551,941	1,488,187,859	228,074,769

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.
CONSOLIDATED BALANCE SHEETS - continued
AS OF DECEMBER 31, 2019 AND 2020
(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	Notes	As of December 31,		
		2019	2020	
		RMB	RMB	US\$
Commitments and contingencies	21			
Equity:				
Class A Ordinary shares (US\$0.0001 par value; 656,508,828 shares authorized, 200,711,030 shares issued and 190,238,854 shares outstanding, as of December 31, 2019; 656,508,828 shares authorized, 201,304,881 shares issued and 189,514,026 shares outstanding, as of December 31, 2020)	22	131,638	132,052	20,238
Class B Ordinary shares (US\$0.0001 par value; 63,491,172 shares authorized, 63,491,172 shares issued and outstanding, as of December 31, 2019 and 2020)	22	43,836	43,836	6,718
Treasury shares	23	(362,130,324)	(371,551,131)	(56,942,702)
Additional paid-in capital		3,967,733,108	4,007,259,660	614,139,411
Accumulated other comprehensive loss		(12,965,166)	(51,419,766)	(7,880,424)
Retained earnings		8,331,238,537	8,315,379,200	1,274,387,616
Total Qudian Inc. shareholders' equity		11,924,051,629	11,899,843,851	1,823,730,857
Non-controlling Interests		—	10,000,000	1,532,567
Total equity		11,924,051,629	11,909,843,851	1,825,263,424
TOTAL LIABILITIES AND EQUITY		18,361,603,570	13,398,031,710	2,053,338,193

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	Notes	For the years ended December 31,			
		2018	2019	2020	
		RMB	RMB	RMB	US\$
Revenues:					
Financing income		3,535,275,780	3,510,054,957	2,102,664,997	322,247,509
Sales commission fee		307,492,444	356,811,512	80,991,883	12,412,549
Sales income		2,174,788,821	431,945,882	610,793,584	93,608,212
Penalty fee		28,012,630	44,354,000	72,234,947	11,070,490
Guarantee income		—	—	826,197,593	126,620,321
Loan facilitation income and other related income		1,646,772,629	2,297,413,315	131,633,096	20,173,655
Transaction services fee and other related income		—	2,199,463,876	(136,542,213)	(20,926,010)
Total revenues		7,692,342,304	8,840,043,542	3,687,973,887	565,206,726
Cost of revenues:					
Cost of goods sold		(2,003,642,524)	(366,014,556)	(645,082,780)	(98,863,261)
Cost of other revenues (including related party amounts of RMB 147,610,831, RMB nil and RMB nil (US\$ nil) for the years ended December 31, 2018, 2019 and 2020, respectively)	13	(731,785,772)	(535,772,612)	(217,271,212)	(33,298,270)
Total cost of revenues		(2,735,428,296)	(901,787,168)	(862,353,992)	(132,161,531)
Operating expenses:					
Sales and marketing (including related party amounts of RMB 32,542,281, RMB nil and RMB nil (US\$ nil) for the years ended December 31, 2018, 2019 and 2020, respectively)		(540,550,282)	(280,615,518)	(293,282,118)	(44,947,451)
General and administrative		(255,867,298)	(286,059,239)	(285,905,509)	(43,816,936)
Research and development		(199,560,164)	(204,780,905)	(170,690,876)	(26,159,521)
Changes in guarantee liabilities and risk assurance liabilities (including changes in guarantee liabilities amounts of RMB 116,592,666, RMB 939,954,125 and RMB 22,265,996 (US\$ 3,412,413), change in risk assurance liabilities amounts of RMB nil, RMB 203,473,526 and RMB -110,160,462 (US\$ -16,882,829) for the year ended December 31, 2018, 2019 and 2020, respectively).		(116,592,666)	(1,143,427,651)	87,894,466	13,470,416
Provision for receivables and other assets	14	(1,178,723,206)	(2,283,126,141)	(1,641,362,182)	(251,549,760)
Total operating expenses		(2,291,293,616)	(4,198,009,454)	(2,303,346,219)	(353,003,252)
Other operating income		23,747,754	108,508,163	343,324,461	52,616,776
Income from operations		2,689,368,146	3,848,755,083	865,598,137	132,658,719
Interest and investment income, net	15	47,059,613	24,291,607	708,250,666	108,544,164
Loss from equity method investments		(11,319,279)	(3,419,825)	(370,038,652)	(56,710,905)
Foreign exchange gain/(loss), net		(90,771,459)	6,635,208	(107,144)	(16,421)
Other income		15,231,215	24,583,469	26,357,832	4,039,514
Other expenses		(521,505)	(10,323,771)	(9,262,586)	(1,419,553)
Net income before income taxes		2,649,046,731	3,890,521,771	1,220,798,253	187,095,518
Income tax expenses	16	(157,730,518)	(626,233,846)	(261,979,592)	(40,150,129)
Net income		2,491,316,213	3,264,287,925	958,818,661	146,945,389

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	Notes	For the years ended December 31,			
		2018	2019	2020	
		RMB	RMB	RMB	US\$
Net income attributable to Qudian Inc.’s shareholders		2,491,316,213	3,264,287,925	958,818,661	146,945,389
Earnings per share for Class A and Class B ordinary shares:					
Basic	17	7.82	11.72	3.78	0.58
Diluted	17	7.74	10.94	3.59	0.55
Earnings per ADS (1 Class A ordinary share equals 1 ADSs):					
Basic	17	7.82	11.72	3.78	0.58
Diluted	17	7.74	10.94	3.59	0.55
Weighted average number of Class A and Class B ordinary shares outstanding:					
Basic	17	318,685,836	278,531,382	253,658,448	253,658,448
Diluted	17	321,955,142	300,457,711	274,333,161	274,333,161
Other comprehensive income/(loss)					
Foreign currency translation adjustment		33,089,222	31,893,073	(38,454,600)	(5,893,426)
Total comprehensive income		2,524,405,435	3,296,180,998	920,364,061	141,051,963
Total comprehensive income attributable to Qudian Inc.’s shareholders		2,524,405,435	3,296,180,998	920,364,061	141,051,963

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi ("RMB") and US dollar ("US\$"), except for number of shares and per share data)

	Class A and B Ordinary shares		Treasury shares	Additional paid-in capital	Accumulated other comprehensive loss/foreign currency translation adjustment	Retained earnings	Total Qudian Inc. shareholders' equity	Non-controlling interests	Total equity
	Number of Shares Outstanding	Amount RMB							
Balance at December 31, 2017	325,838,455	220,976	(421,164,802)	7,571,703,230	(77,947,461)	2,467,554,858	9,540,366,801	—	9,540,366,801
Adjustments due to the adoption of Topic 606	—	—	—	—	—	108,079,541	108,079,541	—	108,079,541
Repurchase of ordinary shares	(33,237,759)	—	(1,410,222,466)	—	—	—	(1,410,222,466)	—	(1,410,222,466)
Canceled shares	—	(18,088)	1,469,256,944	(1,469,238,856)	—	—	—	—	—
Vesting of share options held by Share Based Payment Trust	3,466,307	2,141	—	(2,141)	—	—	—	—	—
Exercise of share options	377,085	249	—	2,209	—	—	2,458	—	2,458
Share-based compensation (Note 20)	—	—	—	57,981,487	—	—	57,981,487	—	57,981,487
Other comprehensive income	—	—	—	—	33,089,222	—	33,089,222	—	33,089,222
Net income	—	—	—	—	—	2,491,316,213	2,491,316,213	—	2,491,316,213
Balance at December 31, 2018	296,444,088	205,278	(362,130,324)	6,160,445,929	(44,858,239)	5,066,950,612	10,820,613,256	—	10,820,613,256
Repurchase of ordinary shares	(44,343,126)	—	(2,087,241,398)	—	—	—	(2,087,241,398)	—	(2,087,241,398)
Canceled shares	—	(30,918)	2,087,241,398	(2,087,210,480)	—	—	—	—	—
Vesting of share options held by Share Based Payment Trust	1,037,500	702	—	(702)	—	—	—	—	—
Exercise of share options	591,564	412	—	3,910	—	—	4,322	—	4,322
Share-based compensation (Note 20)	—	—	—	87,299,053	—	—	87,299,053	—	87,299,053
Purchase of capped call option	—	—	—	(192,804,602)	—	—	(192,804,602)	—	(192,804,602)
Other comprehensive loss	—	—	—	—	31,893,073	—	31,893,073	—	31,893,073
Net income	—	—	—	—	—	3,264,287,925	3,264,287,925	—	3,264,287,925
Balance at December 31, 2019	253,730,026	175,474	(362,130,324)	3,967,733,108	(12,965,166)	8,331,238,537	11,924,051,629	—	11,924,051,629
Adjustments due to the adoption of ASC 326	—	—	—	—	—	(974,677,998)	(974,677,998)	—	(974,677,998)
Repurchase of ordinary shares	(1,495,291)	—	(15,528,092)	—	—	—	(15,528,092)	—	(15,528,092)
Issuance of shares by the Company's subsidiary	—	—	—	—	—	—	—	10,000,000	10,000,000
Vesting of share options held by Share Based Payment Trust	562,500	389	—	(389)	—	—	—	—	—
Exercise of share options	207,963	25	6,107,285	(6,106,879)	—	—	431	—	431
Share-based compensation (Note 20)	—	—	—	45,633,820	—	—	45,633,820	—	45,633,820
Other comprehensive loss	—	—	—	—	(38,454,600)	—	(38,454,600)	—	(38,454,600)
Net income	—	—	—	—	—	958,818,661	958,818,661	—	958,818,661
Balance at December 31, 2020	253,005,198	175,888	(371,551,131)	4,007,259,660	(51,419,766)	8,315,379,200	11,899,843,851	10,000,000	11,909,843,851

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Cash flows from operating activities:				
Net income	2,491,316,213	3,264,287,925	958,818,661	146,945,389
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for receivables and other assets	1,178,723,206	2,283,126,141	1,641,362,182	251,549,760
Depreciation and amortization	12,065,648	16,704,682	10,424,113	1,597,565
Amortization of lease right-of-use assets	—	30,856,490	33,525,924	5,138,073
Loss on disposal of property and equipment	137,268	278,718	—	—
Accrued interest of convertible senior notes	—	23,934,289	27,107,232	4,154,365
Income from the repurchase of convertible senior notes	—	—	(622,109,001)	(95,342,376)
Share-based compensation expense	57,981,487	87,299,053	45,633,820	6,993,689
Share of loss from equity method investment	11,319,279	3,419,825	370,038,652	56,710,905
Unrealized investment income of short-term investment	(10,117,286)	(3,584,153)	(45,478,742)	(6,969,922)
Foreign exchange (gain)/ loss, net	90,771,459	(6,635,208)	107,144	16,421
Changes in operating assets and liabilities:				
Financing service fee receivables	112,068,030	3,873,447	77,321,929	11,850,104
Finance lease receivables	—	330,214,661	—	—
Contract assets	(799,992,914)	(2,096,477,837)	2,899,485,965	444,365,665
Receivables from related parties	372,812	2,071	—	—
Deferred tax assets and liabilities	(127,952,203)	132,112,749	132,655,274	20,330,310
Other current and non-current assets	(137,098,248)	(119,570,060)	438,899,289	67,264,259
Interest payables	(62,457,896)	(73,479,202)	(10,843,333)	(1,661,813)
Payables to related parties	(3,108,873)	—	—	—
Guarantee liabilities	255,623,253	(39,138,657)	(251,768,288)	(38,585,178)
Risk assurance liabilities	—	1,254,361,399	(2,328,042,357)	(356,788,101)
Operating lease liabilities	—	(27,876,445)	(26,406,203)	(4,046,928)
Other current and non-current liabilities	262,667,592	439,679,436	(879,020,326)	(134,715,759)
Net cash provided by operating activities	3,332,318,827	5,503,389,324	2,471,711,935	378,806,428
Cash flows from investing activities:				
Proceeds from redemption of short-term investments	1,662,675,701	457,817,239	11,815,240,269	1,810,764,792
Proceeds from redemption of long-term investments	—	—	50,985,560	7,813,879
Proceeds from collection of loan principal	35,184,841,574	22,140,852,309	20,724,809,596	3,176,216,030
Principal collection of finance lease receivables	222,069,392	—	273,855,570	41,970,202
Proceeds from collection of loan principal due from related parties	1,000,000	—	—	—
Proceeds from disposal of long-term assets	—	530,975	—	—
Purchases of short-term investments	(1,352,558,415)	(454,233,086)	(16,802,875,965)	(2,575,153,405)
Purchases of property and equipment, intangible assets and land lease right of use asset	(140,387,756)	(76,389,281)	(221,786,498)	(33,990,268)
Purchases of long-term investments	—	(222,709,723)	(76,403,621)	(11,709,367)
Purchases of equity method investment	—	(15,000,000)	(738,758,741)	(113,219,730)
Payments to originate loan principal	(37,036,365,868)	(22,760,427,250)	(18,294,941,866)	(2,803,822,508)
Purchase of current assets held for lease	(1,332,008,977)	—	—	—
Net cash used in investing activities	(2,790,734,349)	(929,558,817)	(3,269,875,696)	(501,130,375)

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Cash flows from financing activities:				
Proceeds from deposits to funding	—	—	235,245,240	36,052,910
Proceeds from borrowings	2,644,659,751	2,251,563,000	102,415,457	15,695,855
Proceeds from convertible senior notes, net of issuance cost	—	2,289,629,341	—	—
Proceeds from related parties	513,847,929	—	—	—
Proceeds from issuance of shares of subsidiary	—	—	10,000,000	1,532,567
Refund of guarantee deposits from Funding Partners	396,555,231	—	—	—
Proceeds from exercise of share options	2,458	4,322	431	66
Payments to related parties	(2,231,923)	—	—	—
Repayment of borrowings	(8,025,871,949)	(5,402,354,040)	(1,038,727,000)	(159,191,877)
Repurchase of ordinary shares	(1,410,222,466)	(2,087,241,398)	(15,528,092)	(2,379,784)
Repurchase of convertible senior notes	—	—	(859,219,671)	(131,681,176)
Payments for interest of convertible senior notes	—	—	(25,457,967)	(3,901,604)
Payments for IPO expenditure	(1,378,058)	—	—	—
Purchase of capped call option	—	(192,804,602)	—	—
Payments of deposits to funding	—	(231,131,760)	—	—
Payments of guarantee deposits to Funding Partners	(843,200,007)	—	—	—
Net cash used in financing activities	(6,727,839,034)	(3,372,335,137)	(1,591,271,602)	(243,873,043)
Effect of exchange rate changes	(57,682,237)	76,077,072	(56,189,971)	(8,611,490)
Net increase/(decrease) in cash and cash equivalents, and restricted cash and cash equivalents	(6,243,936,793)	1,277,572,442	(2,445,625,334)	(374,808,480)
Cash and cash equivalents, and restricted cash and cash equivalents at beginning of the year	9,084,951,709	2,841,014,916	4,118,587,358	631,201,128
Cash and cash equivalents, and restricted cash and cash equivalents at end of the year	2,841,014,916	4,118,587,358	1,672,962,024	256,392,648
Reconciliation of cash and cash equivalents, and restricted cash and cash equivalents to the consolidated balance sheet				
Cash and cash equivalents	2,501,188,374	2,860,938,368	1,537,557,823	235,641,046
Restricted cash and cash equivalents	339,826,542	1,257,648,990	135,404,201	20,751,602
Total cash and cash equivalents, and restricted cash and cash equivalents	2,841,014,916	4,118,587,358	1,672,962,024	256,392,648
Supplemental disclosures of cash flow information:				
Income taxes paid, net of refunds	208,640,115	263,971,349	638,407,957	97,840,300
Interest expense paid	609,826,651	361,721,059	26,083,616	3,997,489

The accompanying notes are an integral part of these consolidated financial statements.

QUDIAN INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

1. Organization

Qudian Inc. (the “Company”, and where appropriate, the term “Company” also refers to its subsidiaries, variable interest entities (“VIEs”) and subsidiaries of the VIEs is a limited company incorporated in the Cayman Islands under the laws of the Cayman Islands on November 16, 2016. The Company, through its subsidiaries, VIEs and subsidiaries of the VIEs, are principally engaged in the operation of online platforms to provide small consumer credit products in the People’s Republic of China (the “PRC”). The Company does not conduct any substantive operations of its own. As PRC law and regulations prohibit foreign control of companies involved in internet value-added business, the Company conducts its primary business operations through its subsidiaries, its VIEs and the subsidiaries of the VIEs.

As of December 31, 2020, the Company’s main subsidiaries and VIEs are as follows:

Entity	Date of incorporation	Place of incorporation	Percentage of legal ownership by the Company	Principal activities
Subsidiaries				
QD Data Limited (“Qudian HK”)	December 2, 2016	Hong Kong (“HK”)	100%	Investment holding
QD Technologies Limited (“Qudian BVI”)	November 23, 2016	British Virgin Islands (“BVI”)	100%	Investment holding
Qufenqi (Ganzhou) Information Technology Co., Ltd. (“Qufenqi Ganzhou”)	September 5, 2016	PRC	100%	Investment holding, research and development
Qudian Inc. Equity Incentive Trust (“Share Based Payment Trust”)	December 30, 2016	HK	Nil	Employee benefits
Qufenqi (HK) Limited (“Qufenqi HK”)	April 28, 2014	HK	100%	Investment holding
Xiamen Qudian Financial Lease Co., Ltd. (“Xiamen Financial Lease”)	April 21, 2017	PRC	100%	Financial lease
Xiamen Happy Time Technology Co., Ltd. (“Xiamen Happy Time”)	September 5, 2018	PRC	100%	Technology development and service
Qu Plus Plus Inc. (“Qu Plus Plus”)	June 28, 2018	Cayman Islands	100%	Investment holding
Qu Plus Plus Limited (“Qu Plus Plus BVI”)	June 29, 2018	BVI	100%	Investment holding
Qu Plus HK (Limited) (“Qu Plus HK”)	May 12, 2020	HK	100%	Investment holding
Xiamen Youxiang Time Technology Service Co., Ltd. (“Xiamen Youxiang Time”)	August 3, 2018	PRC	100%	Technology development and service, research and development
Xiamen Xincheng Youda Financing Guarantee Co., Ltd. (“Xiamen Xincheng Youda”)	March 7, 2019	PRC	100%	Financing guarantee service

QUDIAN INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

1. Organization - continued

Entity	Date of incorporation	Place of incorporation	Percentage of legal ownership by the Company	Principal activities
VIEs				
Beijing Happy Time Technology Development Co., Ltd. (“Beijing Happy Time”)	April 9, 2014	PRC	Nil	Technology development and service, sale of products
Ganzhou Qudian Technology Co., Ltd. (“Ganzhou Qudian”)	November 25, 2016	PRC	Nil	Technology development and service, sale of products
Hunan Qudian Technology Development Co., Ltd. (“Hunan Qudian”)	November 2, 2016	PRC	Nil	Technology development and service, sale of products
Xiamen Qudian Technology Co., Ltd. (“Xiamen Qudian”)	April 1, 2017	PRC	Nil	Technology development and service, sale of products
Xiamen Weipujia Technology Co., Ltd. (“Xiamen Weipujia”)	June 6, 2018	PRC	Nil	Household service
Xiamen Qu Plus Plus Technology Development Co., Ltd. (“Xiamen Qu Plus Plus”)	June 5, 2019	PRC	Nil	Technology development and service, sale of products

The Company, through Qufenqi Ganzhou and Xiamen Youxiang Time (collectively the “WFOEs”) entered into power of attorney and an exclusive call option agreement with the nominee shareholders of the VIEs that gave the WFOEs the power to direct the activities that most significantly affect the economic performance of the VIEs and acquire the equity interests in the VIEs when permitted by the PRC laws, respectively. Certain exclusive agreements have been entered into with the VIEs through the WFOEs, which obligate the WFOEs to absorb a majority of the risk of loss from the VIEs’ activities and entitle the WFOEs to receive a majority of their residual returns. In addition, the Company has entered into share pledge agreements for the equity interests in the VIEs held by the nominee shareholders of the VIEs. The Company agreed to provide unlimited financial support to the VIEs for their operations. In addition, pursuant to the resolutions of all shareholders of the Company and the resolutions of the board of directors of the Company (the “Resolutions”), the board of directors of the Company (the “Board of Directors”) or any officer authorized by the Board of Directors (the “Authorized Officer”) shall cause the WFOEs to exercise the rights under the power of attorney entered into among the WFOEs, the VIEs and the nominee shareholders of the VIEs and the WFOEs’ rights under the exclusive call option agreement between the WFOEs and the VIEs. As a result of the Resolutions and the provision of unlimited financial support from the Company to the VIEs, the Company has been determined to be most closely associated with the VIEs within the group of related parties and was considered to be the Primary Beneficiary.

Despite the lack of technical majority ownership, the Company has effective control of the VIEs through the VIE Agreements and a parent-subsidiary relationship exists between the Company and the VIEs. Through the VIE Agreements, the shareholders of the VIEs effectively assigned all of their voting rights underlying their equity interest in the VIEs to the Company. In addition, through the other exclusive agreements, which consist of

QUDIAN INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

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1. Organization - continued

exclusive option agreement, exclusive business cooperation agreement, and equity pledge agreement, the Company, through its wholly-owned subsidiaries in the PRC, has the right to receive economic benefits from the VIEs that potentially could be significant to the VIEs. Lastly, through the financial support undertaking letter, the Company has the obligation to absorb losses of the VIEs that could potentially be significant to the VIEs. Therefore, the Company is considered the primary beneficiary of the VIEs and consolidates the VIEs and its consolidated subsidiaries as required by SEC Regulation S-X Rule 3A-02 and ASC topic 810 (“ASC 810”), *Consolidation*.

The following is a summary of the VIE Agreements:

(1) Power of Attorney Agreements:

Pursuant to the power of attorney agreements signed between the VIEs’ nominee shareholders and WFOEs, each nominee shareholder irrevocably appointed WFOEs as its attorney-in-fact to exercise on each shareholder’s behalf any 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 purchase agreements, the voting rights and the right to appoint directors and executive officers of the VIEs). The agreements are effective and irrevocable as long as the nominee shareholder remains a shareholder of the VIEs.

(2) Exclusive Call Option Agreements:

Pursuant to the exclusive call option agreements entered into between the VIEs’ nominee shareholders and WFOEs, the nominee shareholders irrevocably granted WFOEs a call option to request the nominee shareholders to transfer or sell any part or all of its equity interests in the VIEs, or any or all of the assets of the VIEs, to WFOEs, or their designees. The purchase price of the equity interests in the VIEs shall be equal to the minimum price required by PRC law. As for the assets of the VIEs, the purchase price should be equal to the book value of the assets or the minimum price as permitted by applicable PRC law, whichever is higher. Without WFOEs’ prior written consent, the VIEs and their nominee shareholders shall not amend their articles of association, increase or decrease the registered capital, sell or otherwise dispose of their assets or beneficial interests, create or allow any encumbrance on their assets or other beneficial interests and provide any loans or guarantees, etc. The nominee shareholders cannot request any dividends or other form of assets. If dividends or other form of assets were distributed, the nominee shareholders shall transfer all received distribution to WFOEs or their designees. The agreements are not terminated until all of the equity interests of the VIEs have been transferred to WFOEs or the person(s) designated by WFOEs. None of the nominee shareholders have the right to terminate or revoke the agreements under any circumstance unless otherwise regulated by law.

(3) Exclusive Business Cooperation Agreements:

Pursuant to the exclusive business cooperation agreements entered into by WFOEs and the VIEs and their subsidiaries, WFOEs provides exclusive technical support and consulting services in return for fees based on 100% of the VIEs’ profit before tax, which is adjustable at the sole discretion of WFOEs. Without WFOEs’ consent, the VIEs and their subsidiaries cannot procure services from any third party or enter into similar service

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1. Organization - continued

arrangements with any other third party, except for those from WFOEs. In addition, the profitable consolidated VIEs and their subsidiaries have granted WFOEs an exclusive right to purchase any or all of the business or assets of each of the profitable consolidated VIEs and their subsidiaries at the lowest price permitted under PRC law. The agreements are irrevocable or can only be unilaterally revoked/amended by WFOEs.

(4) Equity Pledge Agreements:

Pursuant to the equity interest pledge agreements, each nominee shareholder of the VIEs has pledged all of its respective equity interests in the VIEs to WFOEs as continuing first priority security interest to guarantee the performance of their and the VIEs’ obligations under the power of attorney agreements, the exclusive call option agreements and the exclusive business cooperation agreements. WFOEs is entitled to all dividends during the effective period of the share pledge except as it agrees otherwise in writing. If the VIEs or any of the nominee shareholder breaches its contractual obligations, WFOEs will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of the VIEs in accordance with PRC law. None of the nominee shareholders shall, without the prior written consent of WFOEs, assign or transfer to any third party, distribute dividends and create or cause any security interest and any liability in whatsoever form to be created on, all or any part of the equity interests it holds in the VIEs. The agreements are not terminated until all of the technical support and consulting and service fees have been fully paid under the exclusive business cooperation agreements and all of VIEs’ obligations have been terminated under the other controlling agreements.

In addition, the Company entered into following agreements:

(1) Financial support undertaking letters

Pursuant to the financial support undertaking letters, the Company is obligated and hereby undertakes to provide unlimited financial support to the VIEs, to the extent permissible under the applicable PRC laws and regulations, whether or not any such operational loss is actually incurred. The Company will not request repayment of the loans or borrowings if the VIEs or their shareholders do not have sufficient funds or are unable to repay.

(2) Resolutions of all shareholders and resolution of the board of directors of Qudian Inc.

The shareholders and the Board of Directors resolved that the Board of Directors or any officer authorized by the Board of Directors shall cause WFOEs to exercise its rights under the power of attorney agreements and the exclusive call option agreements when the Board of Directors or the Authorized Officer determines that such exercise is in the best interests of the Company and WFOEs to do so.

In the opinion of the Company’s legal counsel, (i) the ownership structure of the PRC subsidiaries and the VIEs, both currently does not violate applicable PRC laws and regulations; (ii) each of the VIE Agreements is valid, binding and enforceable in accordance with its terms and applicable PRC laws or regulations and will not violate applicable PRC laws or regulations and (iii) the financial support letters issued by the Company to the VIEs, does not violate the PRC laws and regulations.

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1. Organization - continued

However, uncertainties in the PRC legal system could cause the Company’s current ownership structure to be found in violation of existing and/or future PRC laws or regulations and could limit the Company’s ability to enforce its rights under these contractual arrangements. Furthermore, the nominee shareholders of the VIEs may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the contractual agreements with the VIEs.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC laws or regulations, the Company could be subject to penalties, which could include, but not be limited to, revocation of business and operating licenses, discontinuing or restricting business operations, restricting the Company’s right to collect revenues, temporary or permanent blocking of the Company’s internet financial services platforms, restructuring of the Company’s operations, imposition of additional conditions or requirements with which the Company may not be able to comply, or other regulatory or enforcement actions against the Company that could be harmful to its business. The imposition of any of these or other penalties could have a material adverse effect on the Company’s ability to conduct its business.

Except for the deposits that were held by banks and other institutions, trust beneficiaries and other funding partners (collectively referred as the “Funding Partners”) as guarantee deposits, all assets of the consolidated trusts, and the collateralization of the land lease right of use asset as described in Note 9, there was no other pledge or collateralization of the VIEs’ assets. Creditors of the VIEs have no recourse to the general credit of the Company, who is the primary beneficiary of the VIEs, through its WFOEs. The Company has not provided any financial or other support that it was not previously contractually required to provide to the VIEs during the periods presented. The table sets forth the assets and liabilities of the VIEs included in the Company’s consolidated balance sheets:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Short-term loan principal and financing service fee receivables	7,788,585,617	3,916,692,275	600,259,352
Other current assets	7,095,745,062	7,128,274,773	1,092,455,904
Total current assets	14,884,330,679	11,044,967,048	1,692,715,256
Total non-current assets	967,471,254	1,316,328,345	201,736,145
Total assets	15,851,801,933	12,361,295,393	1,894,451,401
Total current liabilities	4,749,757,109	1,541,885,470	236,304,287
Total non-current liabilities	109,076,000	140,400,670	21,517,344
Total liabilities	4,858,833,109	1,682,286,140	257,821,631

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1. Organization - continued

The following table sets forth the results of operations of the VIEs included in the Company’s consolidated statements of comprehensive income:

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Revenues	5,112,097,579	8,049,577,016	3,549,458,230	543,978,273
Net income	2,558,375,744	3,440,929,911	562,471,865	86,202,585

The table sets forth the cash flows of the VIEs included in the Company’s consolidated statements of cash flows:

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Net cash provided by operating activities	3,375,764,483	4,362,960,828	2,250,346,449	344,880,682
Net cash used in investing activities	(1,789,268,184)	(842,120,427)	(2,252,529,599)	(345,215,264)
Net cash used in financing activities	(4,568,154,072)	(2,855,955,341)	(1,429,389,722)	(219,063,559)

The amount of the net assets of the VIEs were RMB 10,993 million and RMB 10,679 million (US\$ 1,637 million) as of December 31, 2019 and 2020. The creditors of the VIEs’ third-party liabilities did not have recourse to the general credit of the Primary Beneficiary in the normal course of business.

Consolidated Trusts

The Company established several trusts to invest in loans through the Company’s platform using both funds from third party and the Company. Such trusts are administered by third party trust companies as the trustees. The Company provides loan facilitation service and financial guarantee to the trusts.

All assets of the consolidated trusts are collateral for the trusts’ obligations and can only be used to settle the trusts’ obligations.

Share Based Payment Trust

On December 30, 2016, the board of the Company approved and set up Qudian Inc. Equity Incentive Trust (the “Share Based Payment Trust”) for the purpose of holding options awarded to certain employees and the underlying shares before they are exercised as instructed by the employees. Upon the exercise of the options, the shares will be transferred to the relevant employees. As the Company has the power to govern the financial and operating policies of the Share Based Payment Trust and derives benefits from the contributions of the employees who have been awarded the options of the Company through their continued employment with the Company, the assets and liabilities of the Share Based Payment Trust are included in the consolidated balance sheets.

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2. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and the subsidiaries of the VIEs. For controlled subsidiaries that are not wholly-owned, the noncontrolling interests are included in Net income and Total equity. All inter-company transactions and balances have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Company’s consolidated financial statements include, but are not limited to, allowance for loan principal and financing service fee receivables, allowance for finance lease receivables, allowance for contract assets, allowance for other assets, incremental borrowing rates for lease liabilities, share-based compensation, impairment of equity investment, valuation allowance for deferred tax assets, uncertain tax positions, estimate of variable considerations of revenue recognition, estimate of risk assurance liabilities, fair value of guarantee liabilities and fair value of investments. Actual results could differ from these estimates.

Revenue recognition

The Company generates revenues primarily by providing borrowers with merchandise and cash installment credit services, credit facilitation services, transaction services, automobile financing services, and e-commerce sales.

Under ASC 606, revenue is recognized when control of the promised goods or services is transferred to the Company’s customers, in an amount that reflects the consideration that the Company expects to be entitled to in exchange for those goods or services, net of value-added tax. The Company determines revenue recognition through the following steps:

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

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2. Summary of Significant Accounting Policies - continued

Revenue recognition - continued

Credit facilitation

The Company entered into credit facilitation arrangements with various Funding Partners. The Company: (i) matches borrowers with the Funding Partners which directly fund the credit drawdowns to the borrowers and (ii) provides post-origination services, such as short messaging reminder services throughout the term of the loans. For each successful match, the Company receives a recurring service fee throughout the term of the loans. When borrowers make instalment repayments directly to the Funding Partners, the Funding Partners will then remit the recurring service fees to the Company on a periodic basis. In addition, the Company provides a guarantee on the principal and accrued interest repayments of the defaulted loans to the Funding Partners.

The Company considers the loan facilitation service, post-origination services and guarantee service as separate services, of which the guarantee service and the post origination service is accounted for in accordance with ASC 815, *Derivatives and Hedging*, (“ASC 815”), ASC 460, *Guarantees*, (“ASC 460”) (refer to “Guarantee liabilities” and “Risk Assurance Liabilities” for additional information) and ASC 860, *Transfers and servicing of financial assets*, respectively (“ASC 860”).

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised services to the customer, net of value-added tax. The transaction price allocated to loan facilitation income and post-origination services includes variable consideration which is contingent on the borrower making timely repayments. The amount of variable consideration is limited to the amount that is probable not to be reversed in future periods. Management estimated the variable consideration using the expected value method, based on historical defaults, current and forecasted borrower repayment trends and assessed whether variable consideration should be constrained. Any subsequent changes in the transaction price will be allocated to the performance obligations on the same basis as at contract inception.

The Company first allocates the transaction price to the guarantee liabilities or risk assurance liabilities. The remaining transaction price is then allocated to the loan facilitation services and post-origination services on a relative standalone selling price basis. The Company does not have observable price for the loan facilitation services and post-origination services because the services are not provided separately. As a result, the estimation of standalone selling price involves significant judgement. The Company estimates the standalone selling price of the loan facilitation and post-origination services using the expected cost plus a margin approach.

Revenues from loan facilitation services are recognized when the Company matches borrowers with the Funding Partners and the funds are provided to the borrower. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

Vehicle sales with guarantee

The Company sells vehicles to buyers and provides loan facilitation services to Funding Partners who provides financing to the vehicle buyers. The buyer obtains control of the vehicle when the buyer physically possesses the vehicle and when the Company receives cash consideration for the vehicle from the buyer. The Company will

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2. Summary of Significant Accounting Policies - continued

Revenue recognition - continued

Vehicle sales with guarantee - continued

receive recurring service fees from the Funding Partners for its loan facilitation services and post-origination services throughout the term of the loan. In addition, the Company provides a guarantee on the principal and accrued interest repayments of the defaulted loans to the Funding Partners.

For vehicle sales, the Company determines the buyer to be its customer. The transaction price for the vehicle sale is the amount of consideration the Company receives from the buyer for the sale of the vehicle, net of value-added tax. The Company is the principal in the vehicle sale transaction and sales income is recognized on a gross basis when the title of the vehicle is transferred to the buyer.

For the loan facilitation services, the Company determines both the Funding Partners and the buyer to be its customers. The Company considers the loan facilitation service, post-origination services and guarantee service as separate services, of which the guarantee service and the post origination service is accounted for in accordance with ASC 815 and ASC 860, respectively.

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

The Company first allocates the transaction price to the guarantee liabilities at fair value in accordance with ASC 815. The remaining transaction price is then allocated to the loan facilitation services and post-origination services on a relative standalone selling price basis. The Company does not have observable price for the loan facilitation services and post-origination services because the services are not provided separately. As a result, the estimation of standalone selling price involves significant judgement. The Company estimates the standalone selling price of the loan facilitation and post-origination services using the expected cost plus a margin approach.

Revenues from loan facilitation services are recognized when the Company provides loan facilitation services to Funding Partners and the buyer. Additionally, revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

E-commerce sales

The Company recognizes revenue from product sales through its e-commerce platform. The Company's single performance obligation is to sell products to customers. The Company is the principal and records revenue on a

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2. Summary of Significant Accounting Policies - continued

Revenue recognition - continued

E-commerce sales - continued

gross basis as it controls the products before transfer to the customers. Revenue is measured based on the amount of consideration the Company expects to receive reduced by value-added tax, discounts and estimates for product returns. Product returns are estimated using the expected value method based on historical return patterns. Revenues are recognized at a point in time when the products are accepted by the customers. As of December 31, 2019 and 2020, estimated product returns were not material.

Transaction services fee

The Company entered into credit transaction arrangements with certain Funding Partners. The Company refers borrowers to the Funding Partners which directly fund the credit drawdowns to the borrowers and provides post-origination services, such as short messaging reminder services throughout the term of the loans. For each successful transaction, the Company typically receives a pre-agreed recurring service fee throughout the term of the loans. When borrowers make installment repayments directly to the Funding Partners, the Funding Partners will remit the recurring transaction services fees to the Company on a periodic basis.

The referral services are considered to be the performance obligations in the arrangement. The transaction price is the amount of consideration to which the Company expects to be entitled to in exchange for transferring the promised service to the customer, net of value-added tax. The transaction price allocated to the referral services and post origination services includes variable service fees which are contingent on the borrower making timely repayments to the Funding Partners. Variable consideration is estimated using the expected value method based on historical default rate, current and forecasted borrower repayment trends and is limited to the amount of variable consideration that is probable not to be reversed in future periods. The Company will update its estimate of the variable consideration at the end of each reporting period. The estimation of variable consideration (including the amount of variable consideration constrained) involves significant judgement. Revenues from transaction services are recognized when the Company successfully refers the borrower to the Funding Partner and the Funding Partner provides the funds to the borrower. Revenues from post-origination services are recognized evenly over the term of the loans as the services are performed.

Financing income

Borrowers can withdraw cash (“cash installment credit services”) or purchase products (e.g. personal consumer electronics) (“merchandise installment credit services”) up to their approved credit limit and elect the installment repayment period, ranging from one to eighteen installments repayment period (either weekly or monthly) through the Company’s application (collectively “financing platform”) or via borrowers’ Alipay accounts. The Company charges financing service fees for facilitating the financing and managing the financing platform. The financing service fees are recorded as financing income in the consolidated statement of comprehensive income in accordance with ASC 310 *Receivables* (ASC 310) using the effective interest method.

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2. Summary of Significant Accounting Policies - continued

Revenue recognition - continued

Financing income - continued

Incentives are provided to certain borrowers and can only be applied as a reduction to the borrower’s repayments and cannot be withdrawn by the borrowers in cash. These incentives are recorded as a reduction in financing service fees using the effective interest method.

Sales commission fees

In addition to financing income, the Company earns a margin from its merchandise installment credit services on the products purchased from suppliers on behalf of the borrowers. The margin earned is fixed based on the retail sales price without considering the financing terms chosen by the borrower.

Sales commission fees are recognized and recorded net of the related cost on delivery date, as the Company is an agent and arranges for the goods to be provided by the suppliers.

Penalty fee

The Company charges borrowers and lessees penalty fee for late installment payments. The penalty fee is calculated based on the number of overdue days of unpaid outstanding balance of loan principals and lease receivables at the applicable late payment rate. The penalty fee is recognized on a cash basis, which coincides with the penalty fee being probable not to be reversed.

Cost of goods sold

Cost of goods sold primarily consists of the purchase price of products, packaging material and product delivery costs.

Lease

Sales-type leases – Lessor under ASC 842

The Company purchases cars from car dealers and leases them to car buyers. Each car buyer is required to make a down payment and pay installments throughout the term of the lease. The lease agreements include lease payments that are largely fixed, do not contain residual value guarantees or variable lease payments. The lease terms are based on the non-cancellable term of the lease and the buyer may have options to terminate the lease in advance when meets certain conditions. The buyer obtains control of the car when the buyer physically possesses the car and when the Company receives cash consideration for the car from the buyer.

A lease arrangement that transfers substantially all of the benefits and risks incident to the ownership of property and that give rise to a dealer’s profit or loss is classified as a sales-type lease. For sales-type leases, when collectability is probable at lease commencement, the Company derecognizes the underlying asset and recognizes the net investment in the lease which is the sum of the lease receivable and the unguaranteed residual asset and

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2. Summary of Significant Accounting Policies - continued

Lease - continued

Sales-type leases – Lessor under ASC 842 - continued

recognizes in net income any selling profit or loss. Initial direct costs are expensed, at the commencement date, if the fair value of the underlying asset is different from its carrying amount. Interest income is recognized in financing income over the lease term using the interest method.

Sales-type lease under ASC 840

Before January 1, 2019, the Company determines the classification of the lease in accordance with ASC 840, *Leases*. A lease arrangement that transfers substantially all of the benefits and risks incident to the ownership of property and that give rise to a dealer’s profit or loss is classified as a sales-type lease. The sales income recognized is the present value of the minimum lease payments computed at the interest rate implicit in the lease, and sales income is recognized on gross basis, as the Company acts as the principal in the transaction. The Company’s net investment in a sales-type lease consists of the gross investment minus the unearned income. The unearned income on a sales-type lease is subsequently amortized to financing income over the lease term using the interest method.

Operating Leases – Lessee under ASC 842

The Company has operating leases for certain office rentals as a lessee. At inception of a contract, the Company determines whether that contract is, or contains a lease. For each lease arrangement identified, the Company determines its classification as an operating or finance lease.

The Company records a lease liability and corresponding operating lease right-of-use (“ROU”) asset at lease commencement. Lease liabilities represent the present value of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement. The Company’s lease agreements include lease payments that are largely fixed, do not contain material residual value guarantees or variable lease payments. The discount rate is determined using the Company’s incremental borrowing rate at lease commencement since the rate implicit in the lease is not readily determinable. The incremental borrowing rate is the rate of interest that the Company could borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. The weighted average discount rate as of December 31, 2020 is 3.20%. ROU asset represents the right to use an underlying asset for the lease term and are recognized in an amount equal to the lease liability adjusted for any lease payments made prior to commencement date, less any lease incentives received, and any initial direct costs incurred by the Company. The weighted average remaining lease term as of December 31, 2020 is 50 months. Lease terms are based on the non-cancellable term of the lease and may contain options to extend the lease when it is reasonably certain that the Company will exercise the option, however none of these have been recognized in the Company’s right-of-use assets or lease liabilities since those options were not reasonably certain to be exercised.

Besides, operating lease expense is recognized as a single lease cost on a straight-line basis over the lease term and is included in general and administrative expenses, on the consolidated statements of comprehensive income. Lease liabilities that become due within one year of the balance sheet date are classified as current liabilities.

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2. Summary of Significant Accounting Policies - continued

Lease - continued

Operating leases under ASC 840

Before January 1, 2019, leases where the Company is the lessee, and substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are recognized on a straight-line basis over the lease term. Certain of the operating lease agreements contain rent holidays. Rent holidays are considered in determining the straight-line rent expense to be recorded over the lease term.

Land lease right of use asset

All land in the PRC is owned by the PRC government. The PRC government may sell land use rights for a specified period of time. Land use rights represent operating leases in accordance with ASC 842, *Leases* (ASC 842). The purchase price of land use rights represents lease prepayments to the PRC government and is recorded as an operating lease right-of-use (“ROU”) asset on the consolidated balance sheet. The ROU asset is amortized over the remaining lease term – 37 years.

Foreign currency translation and transactions

The functional currency of the Company, and the subsidiaries in the Cayman Islands, British Virgin Islands and Hong Kong is US\$. The Company’s subsidiaries, VIEs, and subsidiaries of the VIEs with operations in the PRC adopted RMB as their functional currencies. The determination of the respective functional currency is based on the criteria stated in ASC 830, *Foreign Currency Matters*. The Company uses RMB as its reporting currency. The financial statements of the Company, and the subsidiaries in the Cayman Islands, British Virgin Islands and Hong Kong are translated into RMB using the exchange rate as of the balance sheet date for assets and liabilities and average exchange rate for the year for income and expense items. Translation gains and losses are recorded in accumulated other comprehensive loss, as a component of shareholders’ equity. Transactions in currencies other than the functional currency are measured and recorded in the functional currency at the exchange rate prevailing on the transaction date.

Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured into the functional currency at the rates of exchange prevailing at the balance sheet dates. Transaction gains and losses are recognized in the consolidated statements of comprehensive income during the period or year in which they occur.

Cash and cash equivalents

Cash and cash equivalents primarily consist of cash and demand deposits which are highly liquid. The Company considers highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of three months or less to be cash equivalents. All cash and cash equivalents are unrestricted as to withdrawal and use.

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2. Summary of Significant Accounting Policies - continued

Restricted cash and cash equivalents

Restricted cash are cash and cash equivalents that are not readily available for normal disbursement and mainly represents (i) cash held by the consolidated trusts through segregated bank accounts; and (ii) security deposits held in designated bank accounts for the provision of guarantee. Such restricted cash is not available to fund the general liquidity needs of the Company.

Time deposits

Time deposits with financial institutions have original maturities of three to twelve months and are pledged for short-term bank borrowings.

Short-term investments

Short-term investments consist of wealth management products issued by banks or trust companies. These wealth management products are highly liquid investments with original maturities of less than twelve months. The Company measures its short-term investments at fair value. The realized investment income and changes in fair value are recognized in interest and investment income in the consolidated statements of comprehensive income.

Guarantee deposits

In the ordinary course of business, the Company is required to guarantee the recoverability of the loan principal and interest for loans originated by the Company that are transferred to certain Funding Partners, and the recoverability of loans directly funded by certain Funding Partners. As a result, the Company may provide a cash deposit to the respective Funding Partners. The cash deposits are released only after the loan principal and interest are settled. Guarantee deposits represent cash that cannot be withdrawn without the permission of the Funding Partners. These guarantee deposits qualify as compensating balance arrangements under SEC Regulation S-X Rule 5-02 and are classified as current assets in the consolidated balance sheets.

Loan principal and financing service fee receivables

Loan principal and financing service fee receivables represent payments due from borrowers that utilize the Company’s credit services. Loan principal and financing service fee receivables are recorded at amortized cost, net of allowance for loan principal and financing service fee receivables. Deferred origination costs are netted against revenue and amortized over the financing term using the effective interest method.

Allowance for loan principal and financing service fee receivables

The Company considers the loans to be homogenous as they are all unsecured consumer loans of similar principal amounts. The profiles of the borrowers are also similar i.e. age, credit histories and employment status.

The allowance for loan principal and financing service fee receivables losses is calculated based on historical loss experience with the entire loan portfolio, using a roll rate-based model. The roll rate-based model stratifies the

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2. Summary of Significant Accounting Policies - continued

Allowance for loan principal and financing service fee receivables - continued

loan principal and financing service fee receivables by delinquency stages (i.e., current, 1-30 days past due, and 31-60 days past due, etc.) and projected forward in one-month increments using historical roll rates. In each month of the simulation, losses on the loan principal and financing service fee receivables types are captured, and the ending delinquency stratification serves as the beginning point of the next iteration. This process is repeated on a monthly rolling basis. The loss rate calculated for each delinquency stage is then applied to the respective loan principal and service fees balance.

Prior to January 1, 2020, the Company applies a consistent credit risk management framework to the entire portfolio of loans in accordance with ASC 450-20, Loss Contingencies (“ASC 450-20”) and adjusts the allowance that is determined by the roll rate-based model for various qualitative factors. These factors may include gross-domestic product rates, per capita disposable income, consumer price indexes, regulatory impact and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Subsequent to January 1, 2020, the Company applies a consistent credit risk management framework to the entire portfolio of loans in accordance with Accounting Standards Update (“ASU”) No. 2016-13, *Financial instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASC 326”) and adjusts the allowance that is determined by the roll rate-based model for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations. The Company analyzes a combination of qualitative factors to the change in roll rate using a regression model. Factors that had a strong correlation and economic and commercial significance were selected for the model.

For all the years presented, loan principal and financing service fee receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when the Company determined the balance to be uncollectable. In general, the Company considers loan principal and financing service fee receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) loans that are 180 days past due.

Nonaccrual loan principal

The Company does not accrue financing service fee on loan principals that are considered impaired or are more than 90 days past due. Prior to January 1, 2020, a corresponding allowance is determined under ASC 450-20. Subsequent to January 1, 2020, a corresponding allowance is determined under ASC 326. After an impaired financing service fee receivable is placed on nonaccrual status, financing service fee will be recognized when cash is received on a cash basis cost recovery method by applying first to reduce principal and then to financing income thereafter. Financing service fee accrued but not received is generally reversed against financing income. Financing service fee receivables may be returned to accrual status after all of the borrower’s delinquent balances of loan principal and financing service fee have been settled and the borrower remains current for an appropriate period.

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2. Summary of Significant Accounting Policies - continued

Finance lease receivables

Finance lease receivables are carried at amortized cost comprising of original financing lease and direct costs, net of unearned income and allowance for finance lease receivables.

Allowance for finance lease receivables

The Company considers the finance lease receivables to be homogenous as they are all automotive finance lease receivables collateralized by vehicle titles of similar principal amounts.

The allowance for finance lease receivables is calculated based on historical loss experience using probability of default (PD) and loss given default (LGD) methods. The Company stratifies PD and LGD by the recovered rate under different scenarios (i.e. cash collection, repossessing the leased vehicle or non-recovery), and calculates allowance balance by timing exposure at default under each scenario. This process is repeated on a monthly basis. LGD is projected based on historical experience of actual loss and considered proceeds from recovery of the repossessed assets.

Prior to January 1, 2020, the Company applies a consistent credit risk management framework to the entire portfolio of finance lease receivables in accordance with ASC 450-20 and adjusts the allowance that is determined by the PD and LGD methods for various qualitative factors. These factors may include gross-domestic product rates, per capita disposable income, consumer price indexes, regulatory impact and other considerations. Each of these macroeconomic factors are equally weighted, and a score is applied to each factor based on year-on-year increases and decreases in that respective factor.

Subsequent to January 1, 2020 the Company applies a consistent credit risk management framework to the entire portfolio of finance lease receivables in accordance with ASC 326 and adjusts the allowance that is determined by the PD and LGD methods for various qualitative factors that reflect reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations. The Company analyzes a combination of qualitative factors to the change in roll rate using a regression model. Factors that had a strong correlation and economic and commercial significance were selected for the model.

For all the years presented, finance lease receivables are charged off when a settlement is reached for an amount that is less than the outstanding balance or when the Company determined the balance to be uncollectable. In general, the Company considers finance fee receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) all finance lease receivables that are 180 days past due are therefore deemed uncollectible and charged-off; (iv) the vehicle is repossessed.

Nonaccrual finance lease receivables

A finance lease receivable is considered impaired when the lease receivables are more than 90 days past due, or when it is probable that the Company will be unable to collect all amounts due according to the terms of the

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2. Summary of Significant Accounting Policies - continued

Nonaccrual finance lease receivables - continued

contract. Factors such as payment history, compliance with terms and conditions of the underlying financing lease agreement and other subjective factors related to the financial stability of the borrower are considered when determining whether finance lease receivables are impaired. The Company does not accrue financing lease income on net investment of finance lease receivables that are considered impaired. Prior to January 1, 2020, a corresponding allowance is determined under ASC 450-20. Subsequent to January 1, 2020, a corresponding allowance is determined under ASC 326. Accrual of financing lease income is suspended on accounts that are impaired, accounts in bankruptcy and accounts in repossession. Payments received on non-accrual finance lease receivables are first applied to any fees due, then to any interest due and, finally, any remaining amounts received are recorded to principal. Interest accrual resumes once an account has received payments bringing the impaired status to current.

Contract Assets and Account Receivables

Contract assets represent the Company’s right to consideration in exchange for loan facilitation business and transaction services business that the Company has transferred to the customer before payment is due. Account receivables represent the considerations for which the Company has satisfied its performance obligations and has the unconditional right to consideration. Prior to January 1, 2020, the Company assesses contract assets and account receivables for impairment in accordance with ASC 310. Subsequent to January 1, 2020, the Company assesses contract assets and accounts receivables for impairment in accordance with ASC 326.

Contract assets as of December 31, 2019 and 2020 were RMB 3,015,511,191 and RMB 115,906,273 (US\$ 17,763,414) respectively, net of allowance of RMB nil and RMB 118,952 (US\$ 18,230), respectively. Account receivables were RMB 190,296,539 and RMB 111,037,030 (US\$ 17,017,169) as of December 31, 2019 and 2020 respectively, which is repayments the borrowers made directly to the Funding Partners and remitted to the Company on a periodic basis. The remaining unsatisfied performance obligations as of December 31, 2019 and 2020, pertaining to post-origination services amounted to RMB 180,436,296 and RMB 9,154,611 (US\$ 1,403,005), respectively. The remaining unsatisfied performance obligations will be recognized over the next two years.

Long-term investments

Long-term investments represent equity investments in privately-held companies without a readily determinable fair value. The Company elected to measure equity securities without a readily determinable fair value that do not qualify for the net asset value practical expedient using the measurement alternative. Under the measurement alternative, the equity securities are measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Equity securities accounted for using the measurement alternative are subject to periodic impairment reviews.

As of December 31, 2019 and 2020, no material adjustments were made to the carrying amount because of observable price changes and impairment charges.

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2. Summary of Significant Accounting Policies - continued

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the specific identification method for the vehicle sales business. Cost is determined using the average cost method for the e-commerce business.

Borrowings

The borrowings from banks and the Company’s consolidated trusts’ payables to the third party beneficiary are initially recognized equaling to the cash received from the beneficiary and measured subsequently at amortized cost using the effective interest method.

Guarantee liabilities

As part of the Company’s cooperation with various Funding Partners, the Company provides guarantee on the principal and accrued interest repayment of the defaulted loans to the Funding Partners, even if the loans are subsequently sold by the Funding Partners.

The financial guarantee is accounted for as a credit derivative under ASC 815 because the scope exemption in ASC 815-10-15-58(c) is not met. The guarantee liabilities are remeasured at each reporting period. The change in fair value of the guarantee liabilities is recorded as changes in guarantee liabilities in the consolidated statements of comprehensive income. When the Company settles the guarantee liabilities through performance of the guarantee by making requisite payments on the respective defaulted loans, the Company records a corresponding deduction to the guarantee liabilities. Subsequent collection from the borrower through the Funding Partners will be recognized as a reversal of the deduction to guarantee liabilities.

Risk assurance liabilities

In April 2019, the Company and various Funding Partners entered into contracts to provide risk assurance on the principal and accrued interest repayment of loans facilitated through the platform the Company operates. The risk assurance liability is exempted from being accounted for as a derivative in accordance with ASC 815-10-15-58.

The risk assurance liability consists of two components. The Company’s obligation to stand ready to make delinquent payments over the term of the arrangement (the non-contingent aspect) is accounted for in accordance with ASC 460. At inception, the Company recognizes the non-contingent aspect of the risk assurance liability at fair value, which considers the premium required by a third-party market participant to issue the same risk assurance in a standalone transaction.

Prior to January 1, 2020, the release of the non-contingent aspect of the risk assurance liability is recognized in earnings as a reduction of changes in guarantee liabilities and risk assurance liabilities. The contingent obligation relating to the contingent loss arising from the arrangement is accounted for in accordance with ASC 450, *Contingencies*. The contingent loss arising from the obligation to make future payments is recognized when borrower default is probable, and the amount of loss is estimable. The contingent loss is calculated based on the

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2. Summary of Significant Accounting Policies - continued***Risk assurance liabilities - continued***

expected future payouts, adjusted for various qualitative factors. These factors may include gross-domestic product rates, per capita disposable income, consumer price indexes, regulatory impact and other considerations.

Subsequent to January 1, 2020, the non-contingent aspect of the risk assurance liability is subsequently recognized as guarantee income over the term of the arrangement as the Company is released from the stand ready obligation based on the borrower’s repayment of the loan principal. The contingent liability relating to the expected credit losses arising from the contingent aspect of the risk assurance liability is initially measured under a current expected credit losses model. The subsequent changes in the contingent aspect of the risk assurance liability is adjusted through earnings as changes in guarantee liabilities and risk assurance liabilities. The contingent loss is calculated based on the expected future payouts, adjusted for various qualitative factors that reflect current conditions and reasonable and supportable forecasts of future economic conditions. These factors may include gross-domestic product rates, consumer price indexes, per capita consumption expenditure and other considerations. The Company analyzes a combination of qualitative factors to the change in roll rate using a regression model. Factors that had a strong correlation and economic and commercial significance were selected for the model.

Treasury shares

The Company accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares at market price is recorded in the treasury shares account on the consolidated balance sheets. Differences between the resale price and repurchase cost of the treasury shares is reflected in additional paid-in capital.

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method with the residual value based on the estimated useful lives of the class of asset, which range as follows:

Category	Estimated Useful Life	Estimated Residual
Office and electronic equipment	3-5 years	Nil%-5%
Motor vehicles	4 years	5%
Leasehold improvements	Over the shorter of the expected life of leasehold improvements or the lease term	Nil%

Costs associated with the repair and maintenance of property and equipment are expensed as incurred. Construction in progress represents building construction costs, which is stated at cost and is not depreciated.

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2. Summary of Significant Accounting Policies - continued

Property and equipment, net - continued

Property and equipment mainly consists of construction in progress and leasehold improvements. As of December 31, 2019, construction in progress and leasehold improvements were RMB77 million and RMB12 million, respectively. As of December 31, 2020, construction in progress and leasehold improvements were RMB275 million (US\$42 million) and RMB22 million (US\$3 million), respectively.

As of December 31, 2019 and 2020, accumulated depreciation was RMB16 million and RMB24 million (US\$4 million), respectively.

Depreciation expense, for the years ended December 31, 2018, 2019 and 2020, was RMB 6 million, RMB 7 million and RMB 9 million (US\$ 1 million), respectively.

Intangible assets

Intangible assets represent purchased computer software. These intangible assets are amortized on a straight-line basis over their estimated useful lives of the respective assets, most of which varies from 1-10 years.

Research and development

Research and development expenses are primarily incurred in the development of new services, new features and general improvement of the Company’s technology infrastructure to support its business operations. Research and development costs are expensed as incurred unless such costs qualify for capitalization as software development costs. In order to qualify for capitalization, (i) the preliminary project should be completed, (ii) management has committed to funding the project and it is probable that the project will be completed and the software will be used to perform the function intended, and (iii) it will result in significant additional functionality in the Company’s services. No research and development costs were capitalized for all years presented as the Company has not met all of the necessary capitalization requirements.

Impairment of long-lived assets and intangible assets with definite lives

Long-lived assets including intangible assets with definite lives, are assessed for impairment, whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC 360 *Property, Plant and Equipment*. The Company measures the carrying amount of long-lived assets against the estimated undiscounted future cash flows associated with it. Impairment exists when the estimated undiscounted future cash flows are less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. No impairment loss was recognized for the years ended December 31, 2018, 2019 and 2020, respectively.

Employee defined contribution plan

Full time employees of the Company in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee

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2. Summary of Significant Accounting Policies - continued

Employee defined contribution plan - continued

housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Company make contributions to the government for these benefits based on a certain percentage of the employee’s salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amount that was expensed as incurred, was RMB 71,413,352, RMB 42,724,802 and RMB 30,138,113 (US\$ 4,618,868) for the years ended December 31, 2018, 2019 and 2020, respectively.

Advertising costs

Advertising costs are expensed as incurred in accordance with ASC 720-35, *Other Expense-Advertising costs*. Advertising costs were RMB 9,994,935, RMB 85,928,890 and RMB 153,327,392 (US\$ 23,498,451) for the years ended December 31, 2018, 2019 and 2020, respectively. Advertising costs are included in sales and marketing expenses in the consolidated statements of comprehensive income.

Government grants

Government grants include cash subsidies received by the Company’s entities in the PRC from local governments as incentives for investing in certain local districts and contributions to technology development and are typically granted based on the amount of investment made by the Company in the form of registered capital or taxable income generated by the Company in these local districts. Such grants allow the Company full discretion in utilizing the funds and are used by the Company for general corporate purposes. The local governments have sole discretion as to whether the Company met all of the criteria to be entitled to the subsidies.

Government grants are recognized when the entity will comply with the conditions attached to the grant received and there is reasonable assurance that the grant will be received or already received.

Value added taxes

Hunan Qudian Technology Development Co., Ltd., Xiamen Youdun Technology Co., Ltd., and Xiamen Youqi Technology Co., Ltd. are small-scale VAT taxpayers with an applicable VAT rate of 3%. The other subsidiaries of the VIEs are all general VAT taxpayers (applicable tax rate: 6%, 13% or 16%).

On April 4, 2018, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjustment of VAT Rates, which came into effect on May 1, 2018. According to the abovementioned notice, for general VAT payers’ sales activities previously subject to VAT rates of 17%, the applicable VAT rate was adjusted to 16% starting from May 1, 2018.

On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs issued the Announcement on Policies for Deepening the VAT Reform, or Announcement 39, which came into effect on April 2019, to further slash VAT rates. According to Announcement 39, for general VAT payers’ sales activities previously subject to VAT at an existing applicable rate of 16%, the applicable VAT rate was adjusted to 13%.

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2. Summary of Significant Accounting Policies - continued

Value added taxes - continued

VAT is reported as a deduction to revenue when incurred and amounted to RMB 810,200,790, RMB 792,753,015 and RMB 201,297,527 (US\$ 30,850,196) for the years ended December 31, 2018, 2019 and 2020, respectively. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Output VAT receivable net of input VAT payable is recorded in accrued expenses and other current liabilities on the consolidated balance sheets.

Income taxes

The Company accounts for income taxes using the liability approach and recognizes deferred tax assets and liabilities for the expected future consequences of events that have been recognized in the consolidated financial statements or in the Company’s tax returns. Deferred tax assets and liabilities are recognized on the basis of the temporary differences that exist between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements using enacted tax rates in effect for the year in which the differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in earnings. Deferred tax assets are reduced by a valuation allowance through a charge to income tax expense when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. Potential for recovery of deferred tax assets is evaluated by estimating the future taxable profits expected and considering prudent and feasible tax planning strategies. The components of the deferred tax assets and liabilities are classified as non-current.

The Company 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, 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, 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 more-likely-than-not to be realized upon ultimate settlement. The Company’s estimated liability for unrecognized tax benefits which is included in the income tax payable in the consolidated balance sheets is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. The Company elects to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income. The Company did not recognize any income tax due to uncertain tax position nor incurred any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2018, 2019 and 2020.

Segment information

In accordance with ASC 280 *Segment Reporting* (“ASC 280”), the Company’s chief operating decision maker (“CODM”) has been identified as the Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. The Company had two reportable segments in 2019, consisting of installment credit services and transaction services. In 2020, the Company changed its operating segments to installment credit services and e-commerce sales services. Transaction services was combined with the installment credit services segment as the transaction amounts were substantially

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2. Summary of Significant Accounting Policies - continued

Segment information - continued

decreased in 2020 response to COVID-19. The corresponding information for earlier periods has been restated. No geographical segments are presented as the Company generates substantially all of its revenues in the PRC.

Fair value measurements of financial instruments

The fair value of cash and cash equivalents, restricted cash and cash equivalent, time deposits, short-term investments, loan principal and financing service fee receivables, finance lease receivables, other receivables (as defined in Note 5), borrowings, guarantee liabilities and risk assurance liabilities in current assets and liabilities are measured at fair value or approximate their respective fair value because of their short maturities. The carrying amount of the long-term loan principal and financing service fee receivables, long-term finance lease receivables, and long-term borrowings, approximate their fair values due to the fact that the related interest rates approximate rates currently offered by Funding Partners for similar debt instruments of comparable maturities. The fair value of the convertible senior notes as of December 31, 2019 and 2020 were 1,796 million and RMB 627 million (US\$ 96 million), respectively.

Fair value of guarantee liabilities

The fair value of the guarantee liabilities was estimated using a discounted cash flow model based on expected payouts from the arrangement with the Funding Partners. The Company estimates its expected future payouts based on estimates of expected delinquency rate and a discount rate for time value.

Fair value measurements

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 Company considers the principal or most advantageous market in which it would transact and the market-based risk measurement or assumptions that market participants would use when pricing the asset or liability.

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1-Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2-Include observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data
- Level 3-Unobservable inputs which are supported by little or no market activity

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2. Summary of Significant Accounting Policies - continued

Earnings per share

Basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period and year presented.

Diluted earnings per ordinary share reflect the potential dilution that could occur if securities were exercised or converted into ordinary shares.

The dilutive effect from the conversion of convertible senior notes is reflected in diluted EPS using the if-converted method and the dilutive effect of share options is reflected in diluted EPS using the treasury stock method.

Share-based payments

Share-based payment transactions with employees and independent directors, such as share options are measured based on the grant date fair value of the equity instrument. The Company recognizes the compensation costs net of estimated forfeitures using the accelerated recognition method, over the applicable vesting period for each separately vesting portion of the award. The estimate of forfeitures is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment in the period of change and also impact the amount of share-based compensation expense to be recognized in future periods.

A change in any of the terms or conditions of share options is accounted for as a modification of share options. The Company calculates the incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Company recognizes incremental compensation cost in the period the modification occurred. For unvested options, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

Prior to January 1, 2019, the Company accounts for share options issued to non-employees in accordance with the provisions of ASC 505-50, *Equity: Equity-based Payments to Non-Employees*. The Company uses the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. Subsequent to January 1, 2019, ASC 718 requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item. The cumulative effect of this accounting change is immaterial.

Convenience translation for financial statements presentation

Translations of amounts from RMB into US\$ for the convenience of the reader have been calculated at the exchange rate of RMB 6.5250 per US\$1.00 on December 31, 2020, as published on the website of the United States Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be converted into US\$ at such rate.

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2. Summary of Significant Accounting Policies - continued

Investment in equity method investee

The Company uses the equity method to account for an equity investment over which it has significant influence but does not own a majority equity interest or otherwise control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The cost of the investment over the proportional fair value of the assets and liabilities of the investee is reflected in the Company’s memo accounts as “equity method goodwill”. The equity method goodwill is not subsequently amortized and is not tested for impairment under ASC 350. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph ASC 323-10-35-32. The share of earnings or losses of the investee are recognized in the consolidated statements of comprehensive income. Equity method adjustments include the company’s proportionate share of investee income or loss and other adjustments required by the equity method.

The Company assesses its equity investment for other-than-temporary impairment by considering factors as well as relevant and available information including, but not limited to, current economic and market conditions, the operating performance of the investees including current earning trends, the general market conditions in the investee’s industry or geographic area, factors related to the investee’s ability to remain in business, such as the investee’s liquidity, debt ratios, and cash burn rate and other company-specific information.

Significant risks and uncertainties

Currency convertibility risk

Substantially all of the Company’s businesses are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People’s Bank of China (“PBOC”) or other authorized Funding Partners at exchange rates quoted by PBOC. Approval of foreign currency payments by the PBOC or other regulatory institutions requires submitting a payment application form together with suppliers’ invoices and signed contracts.

Concentration of credit risk

Financial assets that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, time deposits, guarantee deposits, short-term investment, loan principal and financing service fee receivables, finance lease receivables and other receivables.

The Company places its cash and cash equivalents and short-term investments, with reputable Funding Partners that have high-credit ratings and quality. There has been no recent history of default in relation to these Funding Partners.

The Company manages credit risk of loan principal and financing service fee receivables by performing credit assessments on its borrowers and its ongoing monitoring of the outstanding balances.

No borrower represented 10% or more of total revenues and loan receivable and financing service fee receivable for the years ended December 31, 2018, 2019 and 2020.

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2. Summary of Significant Accounting Policies - continued

Significant risks and uncertainties - continued

Borrower default risk

Financial assets that potentially expose the Company to borrower default risk consist primarily of loan principal and financing service fee receivables, finance lease receivables, and contract assets.

Besides, the Company enters into guarantee arrangements with Funding Partners to facilitate borrowing transactions, under which the Company provides the Funding Partners protection against the borrower default risk on a set of loans invested by them. The Company will have to perform the guarantee obligation if a default event as defined under the contract occurs. The contractual or notional amounts of these liabilities represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions.

The Company manages borrower default risk on their payment for loan principal and financing service fee receivables, and finance lease receivables by performing credit assessments on its borrowers and its ongoing monitoring of the outstanding balances.

The Company manages borrower default risk of guarantee liabilities and risk assurance liabilities through 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.

Interest rate risk

The Company is exposed to interest rate risk on its interest-bearing assets and liabilities. As part of its asset and liability risk management, the Company reviews and takes appropriate steps to manage its interest rate exposures on its interest-bearing assets and liabilities. The Company has not been exposed to material risks due to changes in market interest rates, and not used any derivative financial instruments to manage the interest risk exposure during the years presented.

Business and economic risk

The Company believes that changes in any of the following areas could have a material adverse effect on the Company’s future financial position, results of operations or cash flows: changes in the overall demand for services; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in certain strategic relationships; regulatory considerations and risks associated with the Company’s ability to attract employees necessary to support its growth and risks related to outbreaks of epidemics, such as COVID-19. The Company’s operations could also be adversely affected by significant political, regulatory, economic and social uncertainties in the PRC.

Impact of COVID-19

During the year ended December 31, 2020, the Company’s operations was affected by the COVID-19 pandemic. The Company’s revenues generated from installment credit services declined compared to the prior period due to

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2. Summary of Significant Accounting Policies - continued

Impact of COVID-19 - continued

the reduction in transaction volume to mitigate risk exposures from COVID-19. The Company also provided additional credit losses for loan principal and financing service fee receivables, finance lease receivables and other current and non-current assets, provided additional constraint on the variable considerations for loan facilitation income, transaction service fees and other related income, and recorded its share of losses from investments in equity method investees and recognized impairment charges on its investments in equity method investees in the year ended December 31, 2020, due to the impact of COVID-19 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 a second wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in customer 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 especially for small, medium enterprises, almost all of which are beyond the Company’s control. As a result, certain of the Company’s estimates and assumptions, including short-term investment, the allowance for loan principal and financing service fee receivables, allowance for finance lease receivables, allowance for contract assets, allowance for other current and non-current assets, long-term investments, investment in equity method investee 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.

Comparative Information

Certain items in the consolidated financial statements are reclassified to conform with the current year’s presentation to facilitate comparison.

Recently Adopted Accounting Pronouncements

Credit Losses

On January 1, 2020, the Company adopted ASC 326, using the modified retrospective transition method. Upon adoption, the Company changed its impairment model to utilize a CECL model in place of the incurred loss methodology for financial instruments measured at amortized cost. The adoption of ASC 326 had a material impact on the allowance for loan principal and financing service fee receivables, the allowance for financing lease receivables and risk assurance liabilities. The Company recorded an RMB 47 million (US\$ 7 million) increase to the allowance for loan principal and financing service fee receivables and an RMB 1,093 million (US\$ 168 million) increase to risk assurance liabilities. After adjusting for deferred taxes, an RMB 975 million (US\$ 149 million) decrease was recorded in retained earnings through a cumulative-effect adjustment.

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-13, *Fair Value Measurement (ASC 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The Company has adopted this guidance on its consolidated financial statements.

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2. Summary of Significant Accounting Policies - continued***Recently Adopted Accounting Pronouncements - continued****Credit Losses - continued*

In December 2019, the FASB issued ASU 2019-01, *Financial services – Depository and lending (ASC 942)*, which provides incremental industry-specific accounting and reporting guidance for depository and lending financial institutions and applies to finance companies. With the issuance of ASU 2019-01, the FASB clarified that lessors in the scope of ASC 942 must classify principal payments received under sales-type and direct financing leases in investing activities in the statement of cash flows. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The Company reclassified cash flows from sales-type leases from operating to investing activities. For the year ended December 31, 2020, total cash originations and cash receipts from sales-type leases were RMB nil million and RMB 274 million (US\$ 42 million), respectively.

Recent Accounting Pronouncements: Issued but not effective

In January 2020, the FASB issued ASU No. 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* (a consensus of the FASB Emerging Issues Task Force) (“ASU 2020-01”), which clarifies the interactions of the accounting for certain equity securities under ASC 321, investments accounted for under the equity method of accounting in ASC 323, and the accounting for certain forward contracts and purchased options accounted for under ASC 815. ASU 2020-01 could change how an entity accounts for (i) an equity security under the measurement alternative and (ii) a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with ASC 825. These amendments improve current U.S. GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2020. Early adoption is permitted. The Company is currently in the process of evaluating the of adoption of ASU 2020-01 on its consolidated financial statements and related disclosure.

In August 2020, the FASB issued ASU No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), which focuses on amending the legacy guidance on convertible instruments and the derivatives scope exception for contracts in an entity’s own equity. ASU 2020-06 simplifies an issuer’s accounting for convertible instruments by reducing the number of accounting models that require separate accounting for embedded conversion features. ASU 2020-06 also simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. Further, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share (EPS) guidance, i.e., aligning the diluted EPS calculation for convertible instruments by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in the diluted EPS calculation when an instrument may be settled in cash or shares, adding information about events or conditions that occur during the reporting period that cause conversion contingencies to be met or conversion terms to be significantly changed. This update will be effective for the Company’s fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early

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2. Summary of Significant Accounting Policies - continued

Recent Accounting Pronouncements: Issued but not effective - continued

adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Entities can elect to adopt the new guidance through either a modified retrospective method of transition or a fully retrospective method of transition. The Company is currently in the process of evaluating the impact of adopting ASU 2020-06 on its consolidated financial statements and related disclosure.

3. Loan principal and financing service fee receivables

3.1 Loan principal and financing service fee receivables consists of the following:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Short-term loan principal and financing service fee receivables:			
Loan principal and financing service fee receivables	9,423,515,633	4,789,696,238	734,053,063
Less: allowance for loan principal and financing service fee receivables	(1,528,818,175)	(849,234,936)	(130,150,948)
Short-term loan principal and financing service fee receivables, net	<u>7,894,697,458</u>	<u>3,940,461,302</u>	<u>603,902,115</u>
Long-term loan principal and financing service fee receivables:			
Loan principal and financing service fee receivables	458,311	—	—
Less: allowance for loan principal and financing service fee receivables	(34,726)	—	—
Long-term loan principal and financing service fee receivables, net	<u>423,585</u>	<u>—</u>	<u>—</u>

As of December 31, 2019 and 2020, loans amounting to RMB 10,827,000 and RMB nil (US\$ nil), respectively, were transferred to certain Funding Partners, but were not derecognized upon transfer, as the loan principal and financing service fee receivables are not legally isolated in accordance with ASC 860, *Transfers and Servicing*.

3.2 The following table presents nonaccrual loan principal as of December 31, 2019 and 2020, respectively.

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Nonaccrual loan principal	629,975,114	254,885,248	39,062,873
Less: allowance for nonaccrual loan principal	(542,342,960)	(249,361,894)	(38,216,382)
Nonaccrual loan principal, net	<u>87,632,154</u>	<u>5,523,354</u>	<u>846,491</u>

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3. Loan principal and financing service fee receivables - continued

3.3 The following table presents the aging of past-due loan principal and financing service fee receivables as of December 31, 2019:

	1-30 days	31-60 days	61-90 days	91-120 days	121-150 days	151-180 days	Total past due	Current	Total
	RMB	RMB	RMB						
Domestic consumer loans (uncollateralized)									
-Loan principal	314,329,532	212,627,071	185,994,374	187,743,328	224,256,822	217,974,964	1,342,926,091	7,927,745,442	9,270,671,533
-Financing service fee receivables	6,233,044	8,117,518	10,668,868	—	—	—	25,019,430	128,282,981	153,302,411
	<u>320,562,576</u>	<u>220,744,589</u>	<u>196,663,242</u>	<u>187,743,328</u>	<u>224,256,822</u>	<u>217,974,964</u>	<u>1,367,945,521</u>	<u>8,056,028,423</u>	<u>9,423,973,944</u>

The following table presents the aging of past-due loan principal and financing service fee receivables as of December 31, 2020:

	1-30 days	31-60 days	61-90 days	91-120 days	121-150 days	151-180 days	Total past due	Current	Total	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	US\$
Domestic consumer loans (uncollateralized)										
-Loan principal	51,672,697	45,870,724	53,291,222	68,498,711	83,947,214	102,439,323	405,719,891	4,307,995,865	4,713,715,756	722,408,545
-Financing service fee receivables	1,108,845	1,551,330	2,556,916	—	—	—	5,217,091	70,763,391	75,980,482	11,644,518
	<u>52,781,542</u>	<u>47,422,054</u>	<u>55,848,138</u>	<u>68,498,711</u>	<u>83,947,214</u>	<u>102,439,323</u>	<u>410,936,982</u>	<u>4,378,759,256</u>	<u>4,789,696,238</u>	<u>734,053,063</u>

As of December 31, 2019 and 2020, all loans which are past due 90 days or more are nonaccrual.

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3. Loan principal and financing service fee receivables - continued

3.4 Movement of allowance for loan principal and financing service fee receivables is as follows:

	As of December 31,						
	2019			2020			
	Loan principal RMB	Financing service fee receivables RMB	Total RMB	Loan principal RMB	Financing service fee receivables RMB	Total RMB	US\$
Balance at the beginning of the year	568,224,324	17,110,877	585,335,201	1,502,171,991	26,680,910	1,528,852,901	234,306,958
Adjustment due to the adoption of ASC 326	—	—	—	13,023,667	—	13,023,667	1,995,964
Additions/ (reverse)	2,149,665,886	9,570,033	2,159,235,919	1,448,967,890	(14,521,473)	1,434,446,417	219,838,531
Charge-offs	(1,215,718,219)	—	(1,215,718,219)	(2,127,088,049)	—	(2,127,088,049)	(325,990,505)
Balance at the end of the year	<u>1,502,171,991</u>	<u>26,680,910</u>	<u>1,528,852,901</u>	<u>837,075,499</u>	<u>12,159,437</u>	<u>849,234,936</u>	<u>130,150,948</u>
Evaluated for impairment on a portfolio basis	<u>1,502,171,991</u>	<u>26,680,910</u>	<u>1,528,852,901</u>	<u>837,075,499</u>	<u>12,159,437</u>	<u>849,234,936</u>	<u>130,150,948</u>

4. Finance lease receivables

4.1 Finance lease receivables consists of the following:

	As of December 31,		
	2019 RMB	2020 RMB	US\$
Gross investment in finance lease receivables	749,932,364	245,124,532	37,566,978
Less: unearned income	(72,046,860)	(12,191,011)	(1,868,355)
Net investment in finance lease receivables	677,885,504	232,933,521	35,698,623
Less: allowance for finance lease receivables	(39,933,036)	(24,549,329)	(3,762,349)
Finance lease receivables, net	<u>637,952,468</u>	<u>208,384,192</u>	<u>31,936,274</u>

4.2 The following table presents nonaccrual finance lease receivables as of December 31, 2019 and 2020, respectively.

	As of December 31,		
	2019 RMB	2020 RMB	US\$
Nonaccrual finance lease receivables	8,370,040	2,252,409	345,197
Less: allowance for nonaccrual financial lease receivables	(1,622,695)	(427,878)	(65,575)
Nonaccrual finance lease receivables, net	<u>6,747,345</u>	<u>1,824,531</u>	<u>279,622</u>

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4. Finance lease receivables - continued

4.3 The following table presents the aging of past-due finance lease receivables as of December 31, 2019:

	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>90-120 days</u>	<u>120-150 days</u>	<u>150-180 days</u>	<u>Total past due</u>	<u>Current</u>	<u>Total</u>
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Finance lease receivables	<u>33,811,033</u>	<u>13,502,906</u>	<u>8,766,976</u>	<u>4,325,421</u>	<u>2,306,750</u>	<u>1,737,869</u>	<u>64,450,955</u>	<u>613,434,549</u>	<u>677,885,504</u>

The following table presents the aging of past-due finance lease receivables as of December 31, 2020:

	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>90-120 days</u>	<u>120-150 days</u>	<u>150-180 days</u>	<u>Total past due</u>	<u>Current</u>	<u>Total</u>	<u>Total</u>
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	US\$
Finance lease receivables	<u>10,435,239</u>	<u>1,655,460</u>	<u>982,419</u>	<u>621,594</u>	<u>637,153</u>	<u>993,662</u>	<u>15,325,527</u>	<u>217,607,994</u>	<u>232,933,521</u>	<u>35,698,623</u>

As of December 31, 2019 and 2020, all finance lease receivables which are past due 90 days or more are nonaccrual.

4.4 The following table presents the future minimum lease payments to be received:

	<u>Less than</u>	<u>1 – 2 years</u>	<u>2 – 3 years</u>	<u>3 – 4 years</u>	<u>Total</u>
	<u>1 year</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
As of December 31, 2019					
Finance lease receivables	<u>444,697,424</u>	<u>258,140,571</u>	<u>46,157,291</u>	<u>937,078</u>	<u>749,932,364</u>
	<u>Less than</u>	<u>1 – 2 years</u>	<u>2 – 3 years</u>	<u>3 – 4 years</u>	<u>Total</u>
	<u>1 year</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
As of December 31, 2020					
Finance lease receivables	<u>208,218,275</u>	<u>36,167,327</u>	<u>738,930</u>	<u>—</u>	<u>245,124,532</u>
	<u>Less than</u>	<u>1 – 2 years</u>	<u>2 – 3 years</u>	<u>3 – 4 years</u>	<u>Total</u>
	<u>1 year</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
As of December 31, 2020					
Finance lease receivables	<u>31,910,847</u>	<u>5,542,885</u>	<u>113,246</u>	<u>—</u>	<u>37,566,978</u>

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4. Finance lease receivables - continued

4.5 Movement of allowance for finance lease receivables for the year ended December 31, 2019 and 2020 are as follows:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Balance at the beginning of the year	28,765,413	39,933,036	6,120,006
Adjustment due to the adoption of ASC 326	—	26,044,003	3,991,418
Additions/(reverse)	30,236,266	(29,287,359)	(4,488,484)
Charge-offs	(19,068,643)	(12,140,351)	(1,860,591)
Balance at the end of the year	39,933,036	24,549,329	3,762,349
Evaluated for impairment on a portfolio basis	39,933,036	24,549,329	3,762,349

5. Other current assets

Other current assets consist of the following:

		As of December 31,		
		2019	2020	
		RMB	RMB	US\$
Prepaid expenses		33,079,966	46,683,662	7,154,584
Inventory		8,915,574	91,895,497	14,083,601
Deposits in trust protection fund	5.1	72,264,547	65,272,000	10,003,372
Guarantee deposits held by Funding Partners		743,294,858	58,119,412	8,907,190
Receivables from third party payment service providers	5.2	466,035,906	325,613,031	49,902,380
Receivables from Funding Partners and service providers		203,700,889	163,011,741	24,982,642
Other account receivables		75,463,305	56,482,783	8,656,365
Others		63,409,004	115,979,798	17,774,682
Total		1,666,164,049	923,057,924	141,464,816
Less: Allowance for other current assets		(27,259,988)	(160,745,160)	(24,635,274)
		1,638,904,061	762,312,764	116,829,542

5.1 According to the relevant PRC regulations, the consolidated trusts are required to deposit 1% of the trusts’ capital to the trust protection fund, which will be released when the trusts are liquidated.

5.2 The Company has accounts with third-party payment service providers mainly to grant and collect loans. The balance of receivables from third-party payment service providers is unrestricted as to withdrawal and use and readily available to the Company on demand.

Other receivables as referred to in the “Fair value measurements of financial instruments” accounting policy, consists of deposits in trust protection fund, guarantee deposits held by Funding Partners, receivables from third party payment service providers, accounts receivables and others.

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6. Lease*Sales-type lease*

Sales-type lease income recognized consists of the following:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Financing income	83,127,614	89,872,562	45,993,173	7,048,762
Sales income	1,359,261,392	89,150,614	—	—

Operating lease arrangements

The Company leases certain office premises under non-cancelable leases, and an operating lease arrangement with the local government of Xiamen for land. Lease costs under operating leases for the years ended December 31, 2018, 2019 and 2020 were RMB 66,600,515, RMB 30,856,490 and RMB 33,525,924 (US\$5,138,073), respectively.

Future minimum lease payments under non-cancelable operating leases agreements consist of the following as of December 31, 2020:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Year ending December 31,			
1 year (Including 1 year)	23,907,380	35,896,070	5,501,313
1 year to 2 years (Including 2 years)	18,844,937	18,750,779	2,873,683
2 years to 3 years (Including 3 years)	4,388,769	13,526,508	2,073,028
Over 3 years	—	62,078,863	9,514,002
Total lease payment	47,141,086	130,252,220	19,962,026
Less: imputed interest	3,528,058	26,252,614	4,023,389
Present value of lease liabilities	43,613,028	103,999,606	15,938,637

The Company’s operating lease commitments have no renewal options, rent escalation clauses and restriction or contingent rents as of December 31, 2018, 2019 and 2020.

Supplemental lease cash flow disclosures

	For the years ended		
	December 31,		
	2019	2020	
	RMB	RMB	US\$
Operating cash flows used in operating leases	26,788,051	35,186,647	5,392,590
ROU assets obtained in exchange for new operating lease liabilities	22,606,871	91,183,002	13,974,406

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7. Investment in equity method investee

On October 17, 2016, the Company made a commitment to invest RMB 190 million in cash for 45.9% of the equity interest in Ganzhou QuCampus Technology Co., Ltd (“Ganzhou QuCampus”) which mainly operates computer services, advisory, and online merchandise services. As the Company has significant influence over Ganzhou QuCampus, Ganzhou QuCampus was accounted for as an equity method investment. The Company’s share of loss in Ganzhou QuCampus for the years ended December 31, 2018, 2019 and 2020 was RMB 11 million, RMB 3 million and RMB 3 million (US\$ 0.5 million), respectively, which was recognized in the consolidated statements of comprehensive income. Due to the impact of COVID-19, Ganzhou QuCampus ceased operations and the company recognized an impairment of RMB 20 million (US\$ 3 million).

On June 3, 2020, the Company agreed to acquire up to 10,204,082 Class A ordinary shares of Secoo Holding Limited for a price of US\$ 9.80 per Class A ordinary share. The total aggregate purchase price was US\$ 100 million. Secoo Holding Limited operates an integrated online and offline platform that sells high-end lifestyle products and services and its American depositary shares (“ADS”) are listed on the NASDAQ under the code “SECO”. Two ADS’ represents one Class A ordinary share. The transaction was closed on June 17, 2020. The Company determined that it has significant influence of SECO. The aggregate Class A ordinary shares purchased by the Company represented 28.89% of the total ordinary shares, and the Company’s Vice President, Ms. Qi Zhu, was appointed to SECO’s Board. The Company elected to measure SECO at fair value. Changes in fair value of RMB 366,344,810 (US\$ 56,144,798) was recorded through the consolidated statement of comprehensive income. The fair value of SECO was RMB 306,275,523 (US\$ 46,938,777) as of December 31, 2020 based on the last quoted share price.

S-X 4-08(g) disclosures are not presented because SECO’s summarized financial information are unavailable when the Company’s financial statements are issued.

8. Long-term investments

In 2019, the Company invested RMB 185 million for a 9.24% equity interest in Beijing Changba Technology Co., Ltd., and the percentage of equity interest changed into 9.02% in 2020. In 2020, the Company invested RMB 20 million for a 13.33% equity interest in Beijing Yijie International Children Culture Communication Co., Ltd. The Company elected to measure the investments using the measurement alternative. There were no observable price changes and indicators of impairment for the long-term investments since the acquisition date.

In July 2019, the Company subscribed for 550 Series A Preferred Shares from Great Alliance Co-living Limited (“Great Alliance”) at an aggregate purchase price of US\$5.5 million (RMB 38 million), which represented a 5.21% equity interest in the entity. The Company sold the investment in 2020, and realized RMB 4 million gain in the consolidated statement of comprehensive income.

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9. Short-term and long-term borrowings

The following table presents short-term borrowings from the Funding Partners as of December 31, 2019 and 2020. Short-term borrowings include borrowings with terms shorter than one year, the current portion of the long-term borrowings and long-term borrowings with early repayment options that are exercisable by the Funding Partners on demand:

Funding Partners	Fixed annual rate (%)	Term	As of December 31,		
			2019	2020	
			RMB	RMB	US\$
Trust beneficiaries	8%-10.5%	18 to 24 months	842,977,069	—	—
Banks	3.92%-12%	31 to 367 days	206,593,264	—	—
			<u>1,049,570,333</u>	<u>—</u>	<u>—</u>

In November 2019, the Company entered into a revolving credit facility with several banks. The credit facility enables the Company to borrow RMB1,200 million to be used for the construction of the Company’s office building and innovation center. The credit facility expires in eight years and is guaranteed by Xinjiang Qudian Technology Co., Ltd. and Qufenqi (Ganzhou) Information Technology Co., Ltd. and collateralized by the land lease right of use asset which has a carrying amount of RMB104 million (US\$15 million) as of December 31, 2019. Drawdowns from the credit facility will incur interest at a rate equal to the Loan Prime Rate (“LPR”) plus 0.295%. The Company is required to comply with certain financial covenants, which has been met as of December 31, 2020. As of December 31, 2020, the Company has drawn an amount of RMB 102 million (US\$16 million) from the credit facility.

The following table presents long-term borrowings from Banks mentioned above as of December 31, 2019 and 2020:

	Floating annual rate (%)	Term	As of December 31,		
			2019	2020	
			RMB	RMB	US\$
Banks	LPR+0.295%	30 to 95 months	—	102,415,457	15,695,855

The weighted average interest rate for the outstanding borrowings was approximately 8.42% and 4.95% as of December 31, 2019 and 2020, respectively.

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9. Short-term and long-term borrowings - continued

The following table sets forth the contractual obligations which has not included impact of discount of time value as of December 31, 2020. There were no long-term borrowings as of December 31, 2019:

	Less than 1 year RMB	1 – 2 years RMB	2 – 3 years RMB	3 – 4 years RMB	4 – 5 years RMB	Greater than 5 years RMB	Total RMB
Long-term borrowings and interest payables (RMB)	5,064,444	5,064,444	25,082,717	24,094,803	23,070,814	43,102,962	125,480,184
Long-term borrowings and interest payables (US\$)	776,160	776,160	3,844,095	3,692,690	3,535,757	6,605,818	19,230,680

10. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$
Accrued payroll	63,374,911	2,833,635	434,274
Tax payables	334,442,889	184,595,913	28,290,561
Payable to suppliers	27,252,968	14,964,018	2,293,336
Payable to external service providers	61,658,863	35,405,505	5,426,132
Payable to funding partner	74,271,550	26,805,023	4,108,050
Others	157,264,521	72,186,000	11,062,989
	<u>718,265,702</u>	<u>336,790,094</u>	<u>51,615,342</u>

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11. Guarantee liabilities and risk assurance liabilities**11.1 Guarantee liabilities**

The movement of guarantee liabilities are as follows:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Balance at beginning of the year	302,604,578	263,465,921	40,377,919
Fair value of guarantee liabilities upon the inception of new loans	444,177,836	9,865,341	1,511,930
Performed guarantee	(1,423,270,618)	(283,899,625)	(43,509,521)
Change in fair value of guarantee liabilities	939,954,125	22,265,996	3,412,413
Balance at end of the year	<u>263,465,921</u>	<u>11,697,633</u>	<u>1,792,741</u>

As of December 31, 2019 and 2020, the maximum potential undiscounted future payment the Company would be required to make was RMB 2,223 million and RMB 221 million (US\$ 34 million), respectively. The initial term of the guarantee is the same as the term of loans facilitated under the arrangements with the Funding Partners, which ranges from 1 month to 4 years, as of December 31, 2020. The remaining term of the guarantee ranges from 1 month to 2.5 years as of December 31, 2020.

11.2 Risk assurance liabilities

The movement of risk assurance liabilities are as follows:

	As of December 31,
	2019
	RMB
Balance at beginning of the year	—
Fair value of risk assurance liabilities upon the inception of new loans	1,711,712,149
Payouts	(660,824,276)
Change in fair value of risk assurance liabilities	203,473,526
Balance at end of the year	<u>1,254,361,399</u>

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11. Guarantee liabilities and risk assurance liabilities - continued

11.2 Risk assurance liabilities - continued

	As of December 31, 2020			
	Contingent	Non-contingent	Total	
	RMB	RMB	RMB	US\$
Balance at the beginning of the period	433,083,558	821,277,841	1,254,361,399	192,239,295
Adjustment due to the adoption of ASC 326	1,093,382,647	—	1,093,382,647	167,568,222
Fair value of risk assurance liabilities upon the inception of new loans	—	8,854,513	8,854,513	1,357,013
Expected credit loss upon the inception of new loans	8,784,102	—	8,784,102	1,346,223
Recognized as guarantee income	—	(826,197,593)	(826,197,593)	(126,620,321)
Payouts	(1,400,538,815)	—	(1,400,538,815)	(214,641,964)
Change in fair value of risk assurance liabilities	(118,944,564)	—	(118,944,564)	(18,229,052)
Balance at end of the year	15,766,928	3,934,761	19,701,689	3,019,416

As of December 31, 2019 and 2020, maximum potential undiscounted future payment that the Company would be required to make was RMB 11,916 million and RMB 53 million (US\$8 million), respectively. The initial term of the risk assurance liability is the same as the term of loans facilitated under the arrangements with the Funding Partners, which ranges from 1 month to 18 months, as of December 31, 2020. The remaining term of the risk assurance liability ranges from 1 month to 5 months as of December 31, 2020.

12. Convertible senior notes

On July 1, 2019, the Company issued US\$300 million convertible senior notes (the “Notes”) to several initial purchasers and an additional US\$45 million principal amount of the Notes pursuant to the initial purchaser’s option to purchase additional Notes. The Notes are senior, unsecured obligations of the Company, and interest is payable semi-annually in cash at a rate of 1.00% per annum on July 1 and January 1 of each year, beginning on January 1, 2020. The Notes will mature on July 1, 2026 unless earlier repurchased, converted, or redeemed prior to such date.

The initial conversion rate of the Notes is 106.2756 of the Company’s ADS per US\$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately US\$9.41 per ADS) and will be subject to adjustment in certain events but will not be adjusted for accrued and unpaid interest, if any. The conversion rate will be subject to adjustment in certain events but will not be adjusted for accrued and unpaid interest, if any. In addition, following a make-whole fundamental change that occur prior to the maturity date or following the Company’s delivery of a notice of tax redemption, the Company will, under certain circumstances, increase the conversion rate for the Notes so surrendered for conversion by a number of additional ADSs. Upon conversion, the Company will be physically settled by delivering to the converting holder a number of ADSs equal to the conversion rate in effect immediately prior to the close of business on the relevant conversion date and pay cash in lieu of any fractional ADS deliverable upon conversion based on the last reported sale price of the ADSs on the relevant conversion date.

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12. Convertible senior notes - continued

The holders may require the Company to repurchase for cash all or any portion of their Notes on July 1, 2022 (the “Repurchase Date”) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the Repurchase Date.

The net proceeds from the issuance of the Notes were US\$334 million (equivalent to RMB 2,290 million at the exchange rates in July 1, 2019), after deducting underwriting discounts and offering expenses of US\$11 million (equivalent to RMB 73 million at the exchange rates in July 1, 2019) from the initial proceeds of US\$345 million. The underwriting discounts and offering expenses are amortized at an effective interest rate of 2.07% to accrete the discounted carrying value of the Notes to its face value on July 1, 2022, the repurchase date of the Notes.

In 2020, the Company repurchased Notes with a principal amount of RMB1,535 million (US\$235 million), with an amortized cost of RMB1,500 million (US\$230 million), for a total cash consideration of RMB 878 million (US\$135 million). As a result, the Company recognized a net gain of RMB622 million (US\$95 million) from the repurchase that is recorded as interest and investment income, net in the consolidated statements of comprehensive income. There were no such transactions in 2019.

As of December 31, 2020, the carrying amount of the Notes was RMB 835 million (US\$128 million), net against unamortized debt discount and offering expenses was RMB 13 million (US\$2 million). The net carrying amount of the liability was RMB 822 million (US\$126 million). The liability will be accreted over a remaining period of 1.5 years.

In connection with the issuance of the Notes, the Company purchased the capped call options on the Company’s ADS with certain counterparties by using US\$28 million from the net proceeds of the Notes to pay the cost of such transactions. A capped call is a call option purchased by the Company with a strike price equal to the conversion price but the settlement price is capped at an amount equal to what would be the strike price of the separate high strike call option.

The purpose of the capped call was to effectively raise the conversion price on the Notes from US\$9.4095 (strike price) to US\$12.9150 (cap price) per ADS, and mitigate the potential future dilution upon conversion of the Notes.

The cost of the capped call of US\$28 million (equivalent to RMB 193 million) was recorded as a reduction of the Company’s additional paid-in capital on the consolidated statements of shareholders’ equity with no subsequent changes in fair value to be recorded.

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13. Cost of other revenues

Cost of other revenues consists of the following:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Interest expenses of borrowings	547,368,755	288,241,857	15,240,283	2,335,676
Other costs	184,417,017	247,530,755	202,030,929	30,962,594
	<u>731,785,772</u>	<u>535,772,612</u>	<u>217,271,212</u>	<u>33,298,270</u>

14. Provision for receivables and other assets

Provision for receivables and other assets consists of the following:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Provision for loan principal and financing service fee receivables	1,143,414,087	2,159,235,919	1,434,446,417	219,838,531
Provision for finance lease receivables	32,010,270	30,236,266	(29,287,359)	(4,488,484)
Provision for contract assets	—	—	(3,089,153)	(473,433)
Provision for other current and non-current assets	3,298,849	93,653,956	219,292,277	33,608,012
Provision for investment in equity method investee	—	—	20,000,000	3,065,134
	<u>1,178,723,206</u>	<u>2,283,126,141</u>	<u>1,641,362,182</u>	<u>251,549,760</u>

15. Interest and investment income, net

Interest and investment income, net consists of the following:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Unrealized investment income of short-term investments	—	—	45,478,742	6,969,922
Realized investment income of short-term investments	11,282,694	4,108,597	35,892,481	5,500,764
Investment income of long-term investments	—	—	4,472,410	685,427
Interest income	35,776,919	44,117,299	27,405,264	4,200,040
Income from the repurchase of convertible senior notes	—	—	622,109,001	95,342,376
Interest expense of convertible senior notes	—	(23,934,289)	(27,107,232)	(4,154,365)
	<u>47,059,613</u>	<u>24,291,607</u>	<u>708,250,666</u>	<u>108,544,164</u>

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16. Income taxes

Cayman Islands

Under the current laws of the Cayman Islands, the Company and Qu Plus Plus are not subject to tax on income or capital gain arising in Cayman Islands. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current laws of the BVI, Qudian BVI and Qu Plus Plus BVI are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies to their shareholders, no British Virgin Islands withholding tax will be imposed.

Hong Kong

Qudian HK, Qufenqi HK, Qu Plus HK, Qu Plus HK and Global Select (HK) Limited are incorporated in Hong Kong and are subject to Hong Kong profits tax of 16.5% on their activities conducted in Hong Kong.

PRC

The VIEs and their subsidiaries domiciled in the PRC are subject to the statutory rate of 25%, in accordance with the Enterprise Income Tax law (the “EIT Law”), which was effective since January 1, 2008 except for the following entities eligible for preferential tax rates.

As stipulated by the Taxation Law of PRC, the subsidiaries in Ganzhou are qualified enterprises engaged in industry under the Western Development Strategy and are therefore entitled to preferential tax rate of 15%. Xinjiang Qudian Technology Co., Ltd. is a qualified enterprise engaged in industry as a company established in the special economic development zone and is therefore entitled to an exemption from income tax from January 1, 2017 to December 31, 2020. Xiamen Qudian Technology Co., Ltd. is qualified as High and New Technology Enterprise and is subject to a preferential statutory tax rate of 15% for three years from 2019 to 2021. Qufenqi (Beijing) Information Technology Co., Ltd. was qualified as High and New Technology Enterprise and was subject to the preferential statutory tax rate of 15% for two years from 2018 to 2019.

Dividends, interests, rent or royalties payable by the Company’s PRC subsidiaries, to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to 10% withholding tax, unless the respective non-PRC resident enterprise’s jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

The EIT Law of the PRC includes a provision specifying that legal entities organized outside PRC will be considered residents for Chinese income tax purposes if their place of effective management or control is within PRC. If legal entities organized outside PRC were considered residents for Chinese income tax purpose, they would become subject to the EIT Law on their worldwide income. This would cause any income from legal entities organized outside PRC earned to be subject to PRC’s 25% EIT. The Implementation Rules to the EIT

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16. Income taxes - continued*PRC - continued*

Law provides that non-resident legal entities will be considered as PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, and properties, etc. reside within PRC.

Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that the legal entities organized outside PRC should be characterized as PRC residents for EIT Law purposes.

The current and deferred component of income tax expenses which were substantially attributable to the Company’s PRC subsidiaries, VIEs and subsidiaries of the VIEs, are as follows:

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$
Current income tax expenses	285,682,721	494,121,097	129,397,492	19,831,033
Deferred income tax expenses	(127,952,203)	132,112,749	132,582,100	20,319,096
Total income tax expenses	157,730,518	626,233,846	261,979,592	40,150,129

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16. Income taxes - continued

PRC - continued

The principal components of the deferred tax assets and liabilities are as follows:

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
Non-current deferred tax assets			
Allowance for loan principal and financing service fee receivables	451,009,681	445,374,376	68,256,611
Allowance for finance lease receivable	15,561,634	14,360,187	2,200,795
Allowance for other current assets	8,417,241	44,792,004	6,864,675
Guarantee liabilities	211,029,776	203,687,822	31,216,524
Risk assurance liabilities	188,154,210	52,558,773	8,054,984
Share-based compensation	27,686,642	40,910,215	6,269,765
Investment loss under equity method	10,055,140	—	—
Lease liabilities	—	24,966,731	3,826,319
Net operating loss carry forwards	69,462,422	94,886,663	14,542,017
Less: valuation allowance	(385,481,892)	(701,745,843)	(107,547,256)
Total non-current deferred tax assets net of valuation allowance	595,894,854	219,790,928	33,684,434
Net non-current deferred tax assets	290,284,829	154,959,777	23,748,625
Non-current deferred tax liabilities			
Contract assets	(411,735,303)	(15,735,380)	(2,411,552)
Right-of-use assets	—	(26,360,534)	(4,039,929)
Fair value change of short-term investment	—	(10,230,912)	(1,567,956)
Unallocated revenue	(72,859,486)	(23,427,601)	(3,590,437)
Total non-current deferred tax liabilities	(484,594,789)	(75,754,427)	(11,609,874)
Net non-current deferred tax liabilities	(178,984,764)	(10,923,276)	(1,674,065)

The Company operates through its subsidiaries, VIEs and subsidiaries of the VIEs and valuation allowance is considered on an individual entity basis. The Company recorded valuation allowance against deferred tax assets of those entities that were in a three-year cumulative financial loss and are not forecasting profits in the near future as of December 31, 2019 and 2020. In making such determination, the Company also evaluated a variety of factors including the Company’s operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2019 and 2020, the Company had deferred tax assets related to net operating loss carry forwards of RMB 69,462,422 and RMB 94,886,663 (US\$ 14,542,017), respectively, from its subsidiaries, VIEs and subsidiaries of the VIEs registered in the PRC, which can be carried forward to offset taxable income. The net operating losses will expire from years 2021 to 2025 if not utilized.

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16. Income taxes - continued

PRC - continued

Reconciliation between the income taxes expense computed by applying the PRC tax rate to profit before income taxes and the actual provision for income taxes is as follows:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Profit before income tax	2,649,046,731	3,890,521,771	1,220,798,253	187,095,518
PRC statutory income tax rate	25%	25%	25%	25%
Income tax at statutory tax rate	662,261,683	972,630,443	305,199,563	46,773,879
Effect of different tax rates	(574,131,524)	(552,951,519)	(272,361,568)	(41,741,236)
Exempt income	(2,720,020)	(1,625,772)	(350,121)	(53,658)
Expenses not deductible for tax purposes	27,662,307	4,446,637	73,694,299	11,294,145
Adjustment on current income tax of the previous periods	(16,309,757)	2,453,713	24,502,181	3,755,124
Financial subsidy	(31,810,061)	—	—	—
Deferred only adjustment	—	72,206,605	—	—
Research and development super-deduction	—	(14,587,649)	(20,606,639)	(3,158,106)
Tax rate change	5,200,618	(11,870,214)	(157,679,128)	(24,165,384)
Changes in valuation allowance	87,577,272	155,531,602	309,581,005	47,445,365
Income tax expenses	<u>157,730,518</u>	<u>626,233,846</u>	<u>261,979,592</u>	<u>40,150,129</u>

As of December 31, 2020, the Company intends to permanently reinvest the undistributed earnings from foreign subsidiaries to fund future operations. As of December 31, 2020, the total amount of undistributed earnings from its PRC subsidiaries as well as VIEs is RMB 9,449 million (US\$ 1,448 million). The amount of unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries is not determined because such a determination is not practicable.

Unrecognized Tax Benefit

As of December 31, 2019 and 2020, the Company had nil unrecognized tax benefit. A roll-forward of unrecognized tax benefits is as follows:

	For the years ended December 31,		
	2019	2020	
	RMB	RMB	US\$
Balance at beginning of the year	—	—	—
Additions	54,637,111	3,322,470	509,191
Decreases	(54,637,111)	(3,322,470)	(509,191)
Balance at end of the year	<u>—</u>	<u>—</u>	<u>—</u>

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16. Income taxes - continued

Unrecognized Tax Benefit - continued

It is possible that the amount of uncertain tax position will change in the next twelve months; however, an estimate of the range of the possible outcomes cannot be made at this time. In general, the PRC tax authority has up to five years to conduct examinations of the Company’s tax filings. Accordingly, as of December 31, 2020, the tax years ended December 31, 2015 through period ended as of the reporting date for the Company’s PRC subsidiaries remain open to examination by the PRC tax authorities.

17. Earnings per share

The following table sets forth the computation of basic earnings per share for the years ended December 31, 2018, 2019 and 2020:

	For the years ended December 31,							
	2018		2019		2020			
	RMB Class A	RMB Class B	RMB Class A	RMB Class B	RMB Class A	US\$ Class A	RMB Class B	US\$ Class B
Earnings per share –basic:								
<i>Numerator:</i>								
Allocation of net income attributable to Qudian Inc. for basic computation	1,994,976,030	496,340,183	2,520,194,155	744,093,770	718,824,602	110,164,690	239,994,059	36,780,699
<i>Millions of Shares (denominator):</i>								
Weighted average number of ordinary share outstanding – basic	255.19	63.49	215.04	63.49	190.17	190.17	63.49	63.49
Denominator used for basic earnings per share	255.19	63.49	215.04	63.49	190.17	190.17	63.49	63.49
Earnings per share – basic	7.82	7.82	11.72	11.72	3.78	0.58	3.78	0.58

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17. Earnings per share - continued

The following table sets forth the computation of diluted earnings per share for the years ended December 31, 2018, 2019 and 2020:

	For the years ended December 31,							
	2018		2019		2020			
	RMB Class A	RMB Class B	RMB Class A	RMB Class B	RMB Class A	US\$ Class A	RMB Class B	US\$ Class B
Earnings per share – diluted:								
Numerator:								
Allocation of Interest charges applicable to the convertible senior notes	—	—	18,876,619	5,057,670	20,833,583	3,192,886	6,273,649	961,479
Allocation of net income attributable to Qudian Inc. for diluted computation	2,000,018,251	491,297,962	2,574,495,457	689,792,468	736,911,399	112,936,613	221,907,262	34,008,776
Reallocation of interest charges applicable to the convertible senior notes and net income attributable to Qudian Inc. as a result of conversion of Class B to Class A shares	491,297,962	—	694,850,138	—	228,180,911	34,970,255	—	—
Allocation of net income attributable to Qudian Inc	2,491,316,213	491,297,962	3,288,222,214	694,850,138	985,925,893	151,099,754	228,180,911	34,970,255
Millions of Shares (denominator):								
Weighted average number of ordinary share outstanding—basic	255.19	63.49	215.04	63.49	190.17	190.17	63.49	63.49
Conversion of Class B to Class A ordinary shares	63.49	—	63.49	—	63.49	63.49	—	—
Adjustments for dilutive share options	3.28	—	3.45	—	—	—	—	—
Conversion of the Convertible Senior Notes to Class A ordinary share	—	—	18.48	—	20.67	20.67	—	—
Denominator used for diluted earnings per share	321.96	63.49	300.46	63.49	274.33	274.33	63.49	63.49
Earnings per share – diluted	7.74	7.74	10.94	10.94	3.59	0.55	3.59	0.55

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17. Earnings per share - continued

The following table sets forth the computation of basic and diluted earnings per ADS for the years ended December 31, 2018, 2019 and 2020:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	Class A	Class A	Class A	Class A
Earnings per share – ADS:				
Denominator used for earnings per ADS – basic	113.82	184.70	181.84	181.84
Denominator used for earnings per ADS – diluted	114.99	199.24	196.67	196.67
Earnings per ADS – basic	7.82	11.72	3.78	0.58
Earnings per ADS – diluted	7.74	10.94	3.59	0.55

18. Fair value measurements*Assets and liabilities disclosed at fair value*

The Company measures its cash and cash equivalents, restricted cash and cash equivalents, time deposits, loan principal and financing service fee receivables, finance lease receivables, convertible senior notes and borrowings at amortized cost. The carrying value of loan principal and financing service fee receivables approximate their fair value due to their short-term nature and are considered a level 3 measurement. The fair value was estimated by discounting the scheduled cash flows through to estimated maturity using estimated discount rates based on current offering rates of comparable institutions with similar services. The convertible senior notes are presented as a level 2 measurement. The guarantee liabilities are presented as a level 3 measurement, with fair value estimated by discounting expected future payouts, net charge off rates, expected collection rates and a discount rate for time value.

Assets measured at fair value on a nonrecurring basis

The Company measured its property and equipment, intangible assets and equity method investment at fair value on a nonrecurring basis whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. For equity investments without readily determinable fair values for which the Company elected to use the measurement alternative, the equity investment is measured at fair value on a nonrecurring basis when there is an orderly transaction for identical or similar investments of the same issuer. There were no observable price changes for equity investments since the acquisition date.

Assets and liabilities measured at fair value on a recurring basis

The Company measured its short-term investments, investment in equity method investee under fair value option and guarantee liabilities at fair value on a recurring basis. As the Company’s guarantee liabilities are not traded in an active market with readily observable prices, the Company uses significant unobservable inputs to measure the fair value of guarantee liabilities. Guarantee liabilities are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. The Company did not transfer any assets or liabilities in or out of level 3 during the years ended December 31, 2019 and 2020.

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18. Fair value measurements - continued

Assets and liabilities measured at fair value on a recurring basis - continued

The following table summarizes the Company’s financial assets and liabilities measured and recorded at fair value on recurring basis as of December 31, 2019 and 2020:

	As of December 31, 2019			Total RMB
	Active market (Level 1) RMB	Observable input (Level 2) RMB	Non-observable input (Level 3) RMB	
Liabilities:				
Guarantee liabilities	—	—	263,465,921	263,465,921
	As of December 31, 2020			Total RMB
	Active market (Level 1) RMB	Observable input (Level 2) RMB	Non-observable input (Level 3) RMB	
Assets:				
Short-term investments	—	5,042,314,438	—	5,042,314,438
Investment in equity method investee under fair value option	306,275,523	—	—	306,275,523
Liabilities:				
Guarantee liabilities	—	—	11,697,633	11,697,633
	As of December 31, 2020			Total US\$
	Active market (Level 1) US\$	Observable input (Level 2) US\$	Non-observable input (Level 3) US\$	
Assets:				
Short-term investments	—	772,768,496	—	772,768,496
Investment in equity method investee under fair value option	46,938,777	—	—	46,938,777
Liabilities:				
Guarantee liabilities	—	—	1,792,741	1,792,741

At December 31, 2019 and 2020, the discounted cash flow methodology is used to estimate the fair value of guarantee liabilities. The significant unobservable inputs used in the fair value measurement of guarantee liabilities include the discount rate and expected delinquency rates applied in the valuation models. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of guarantee liabilities; conversely a decrease in the discount rate can significantly increase the fair value of the guarantee liabilities. The discount rate is determined based on the market rates. Increase in the expected

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18. Fair value measurements - continued*Assets and liabilities measured at fair value on a recurring basis - continued*

delinquency rates can significantly increase the fair value of guarantee liabilities; conversely a decrease in the expected delinquency rates can significantly decrease the fair value of guarantee liabilities.

Significant Unobservable Inputs

Financial Liabilities	Unobservable Input	Range of Inputs Weighted - Average As of December 31,	
		2019	2020
Guarantee liabilities	Discount rates	4.35%	6.04%
	Expected delinquency rates	7.57%-10.20%	22.57%-23.03%

Refer to Note 11.1 for additional information about Level 3 guarantee liabilities measured at fair value on a recurring basis for the years ended December 31, 2019 and 2020.

19. Related party balances and transactions

Name of related parties	Relationship with the Company
Luo Min	Founder, chief executive officer and controlling shareholder of the Company
Alipay.com Co., Ltd.	Company controlled by party that has significant influence over the Company before December 8, 2018
Zhima Credit Management Co., Ltd.	Company controlled by party that has significant influence over the Company before December 8, 2018
Ant Zhixin (Hangzhou) Information Technology Co., Ltd.	Company controlled by party that has significant influence over the Company before December 8, 2018
Guosheng Financial Holding Inc.	Company controlled by Director before August 24, 2018
Guosheng Securities Asset Management Co., Ltd.	Company controlled by Director before August 24, 2018
Alibaba Cloud Computing Co., Ltd.	Company controlled by the ultimate controlling individual of shareholder before December 8, 2018
Key management and their immediate families	The Company's key management and their immediate families

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19. Related party balances and transactions - continued

19.1 Transactions with related parties

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB US\$	
Cost of revenues				
Alipay.com Co., Ltd.	58,835,038	—	—	—
Zhima Credit Management Co., Ltd.	9,265,375	—	—	—
Alibaba Cloud Computing Co., Ltd.	30,297,435	—	—	—
Ant Zhixin (Hangzhou) Information Technology Co., Ltd.	1,095,684	—	—	—
Guosheng Financial Holding Inc.	42,900,685	—	—	—
Guosheng Securities Asset Management Co., Ltd.	5,216,614	—	—	—
	<u>147,610,831</u>	<u>—</u>	<u>—</u>	<u>—</u>
Sales and marketing Alipay.com Co., Ltd.	<u>32,542,281</u>	<u>—</u>	<u>—</u>	<u>—</u>

There were no significant related party transactions in 2019 and 2020.

20. Share-based compensation**Stock options**

On December 9, 2016, as a part of the restructuring, the Board of Directors of Qudian Inc. approved the 2016 Equity Incentive Plan (the “2016 Plan”), as well as the cancelation of the 2015 Share Plan and the 2015 Incentive Plan Supplementary Agreement which were approved on December 26, 2015 and May 1, 2016, respectively. During the year ended December 31, 2016, the Company granted a total of 15,299,019 of share options for the ordinary shares of Qudian Inc. under 2016 Plan. The Company granted 12,364,319 share options under the 2016 Plan to the employees as replacement awards for the 2015 plan. All the share options granted under 2016 Plan were vested over 3 to 5 years. The 2016 Plan expires 10 years from the date of the grant.

The Company has set up the Share Based Payment Trust for the purpose of holding options awarded to certain employees and underlying shares before they are exercised as instructed by the employees. Shares options held by Share Based Payment Trust are legally outstanding upon satisfaction of vesting conditions.

For the years ended December 31, 2018, 2019 and 2020, the Company estimated the fair value of the options based on the quoted share price at grant date. Due to the options’ di minimis exercise price, the various assumptions used in the binomial option pricing model will not have a material impact in the calculation of the fair value of the options.

The Company recognized compensation cost for the share options on a graded vesting basis. The total share-based compensation expenses recognized by the Company for the share option granted were RMB 57,981,487, RMB 87,299,053 and RMB 45,633,820 (US\$ 6,993,689) for the years ended December 31, 2018, 2019 and 2020, respectively.

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20. Share-based compensation - continued*Stock options - continued*

A summary of share option activity under the 2016 Plan for the year ended December 31, 2020 is as follows:

	Number of shares	Weighted average exercise price RMB	Weighted average grant date fair value RMB	Weighted average remaining contractual term Years	Aggregated intrinsic value RMB
Balance, December 31, 2018	15,213,515	—	29.53	8.38	424,630,143
Granted	3,142,500	—	44.27		
Exercised	(6,155,477)	—	54.72		
Forfeited	(144,626)	—	83.44		
Balance, December 31, 2019	12,055,912	—	19.87	8.18	578,275,151
Granted	878,125	—	14.51		
Exercised	(797,463)	—	13.45		
Forfeited	(1,066,563)	—	52.22		
Balance, December 31, 2020	11,070,011	—	16.79	7.31	99,672,691
Vested and expected to vest as of December 31, 2020	10,354,374	—	33.42	7.31	93,229,202
Exercisable, December 31, 2020	7,187,511	—	31.61	6.59	64,715,253

The aggregate intrinsic value in the table above represents the difference between the Company’s closing stock price on the last trading day in 2020 and the exercise price. Total intrinsic value of options exercised for the years ended December 31, 2018, 2019 and 2020 was RMB 155,850,409, RMB 338,242,304 and RMB 10,723,410 (US\$ 1,643,434) respectively.

As of December 31, 2020, total unrecognized compensation expense relating to unvested share options was RMB 58,896,785 (US\$ 9,026,327). The expense is expected to be recognized over a weighted-average period of 2.63 years.

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20. Share-based compensation - continued*Stock options - continued*

For the years ended December 31, 2018, 2019 and 2020, the Company allocated share-based compensation expense as follows:

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Sales and marketing	5,641,771	4,482,323	1,912,318	293,076
General and administrative	38,586,741	74,311,629	40,894,564	6,267,366
Research and development	13,752,975	8,505,101	2,826,938	433,247
	<u>57,981,487</u>	<u>87,299,053</u>	<u>45,633,820</u>	<u>6,993,689</u>

21. Commitments and contingencies*Capital Commitments*

The Company’s capital commitments relate primarily to commitments in connection with its plan to build an office building and innovation center. Total capital commitments contracted but not yet reflected in the financial statements as of December 31, 2019 and 2020 amounted to RMB 1,156,300,893 and RMB 1,250,123,850 (US\$ 191,589,862) respectively. All of the commitments relating to the construction will be settled in installments.

Operating lease commitments are disclosed on Note 6.

22. Ordinary shares

The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by the holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into equal number of Class A ordinary shares.

23. Treasury shares

On December 13, 2018, the Board of Directors of the Company authorized a share repurchase program, pursuant to which the Company was authorized to repurchase its own issued and outstanding ADS up to an aggregate value of US\$300 million from the open market, in negotiated transactions off the market, or through other legally permissible means in accordance with applicable securities laws from time to time.

In 2018, the Company repurchased an aggregate of 33,237,759 ADSs, representing 33,237,759 Class A ordinary shares, at an average price of \$6.316 per ADS, for US\$209,919,048 (RMB 1,410,222,466). The Company canceled an aggregate of 27,302,698 ADS, for US\$ 157,495,891 (RMB 1,048,092,142).

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23. Treasury shares - continued

On April 12, 2019, the Company entered into an ADS Repurchase Agreement with Kunlun Group Limited to repurchase an aggregate of 18,173,885 ADSs, representing 18,173,885 Class A ordinary shares, at an average price of \$5.678 per ADS, for US\$103,191,319 (RMB 693,517,898). All of the shares were repurchased and canceled subsequently.

On August 23, 2019, the Company entered into a forward share repurchase agreement with Citibank, N.A. under which it will repurchase up to US\$195 million worth of its outstanding ADSs representing its Class A ordinary shares. The forward share repurchase agreement was completed in October 2019. The company repurchased an aggregate of 26,169,241 Class A ordinary shares, at an average price of \$7.451 per ADS, for US\$195,000,000 (RMB 1,393,723,500). The Company received 26,169,241 deliveries of ADSs and all of them were cancelled.

In 2020, the Company repurchased an aggregate of 1,495,291 ADSs, representing 1,495,291 Class A ordinary shares, at an average price of \$1.510 per ADS, for US\$2,258,112 (RMB 15,528,092).

By the end of December 31, 2020, the Company repurchased an aggregate of 83,613,291 ADSs, representing 83,613,291 Class A ordinary shares under the Share Repurchase Program, at an average price of \$6.865 per ADS, for US\$ 574,026,622 (RMB 3,934,156,758). As of December 31, 2020, 71,645,824 shares were canceled, and 176,612 shares were used for exercise of share options. The remaining balance of treasury shares represents 11,790,855 Class A ordinary shares, at an average price of \$4.563 per ADS, for US\$ 53,797,159 (RMB 371,551,131). These shares were recorded at their purchase cost on the consolidated balance sheets and have not been cancelled as of December 31, 2020.

24. Segment reporting

The operations of the Company are organized into two segments, consisting of installment credit services and e-commerce sales services. Installment credit services represent online installment credit business, including cash installment credit services, merchandise installment credit services and transaction services. The Company generates revenues from e-commerce sales for the sales of goods to end customers online through internet platforms.

The Company derives the results of the segments directly from its internal management reporting system. The CODM measures the performance of each segment based on its operating results and uses these results to evaluate the performance of, and to allocate resources to, each of the segments. The company does not allocate assets to its segments as the CODM does not evaluate the performance of segments using assets information. The Company does not allocate any share-based compensation expenses to its segments as the CODM does not use this information to measure the performance of the operating segments.

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24. Segment reporting - continued

The table below provides a summary of the Company’s operating segment results for the years ended December 31, 2018, 2019 and 2020.

	For the years ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	US\$
Revenues:				
Installment credit services	7,692,342,304	8,840,043,542	3,199,988,420	490,419,681
– Financing income	3,535,275,780	3,510,054,957	2,102,664,997	322,247,509
– Sales commission fee	307,492,444	356,811,512	80,991,883	12,412,549
– Penalty fee	28,012,630	44,354,000	72,234,947	11,070,490
– Sales income	2,174,788,821	431,945,882	122,808,117	18,821,167
– Guarantee income	—	—	826,197,593	126,620,321
– Loan facilitation income	1,618,438,688	2,097,593,931	(32,908,294)	(5,043,417)
– Post-origination services fee	28,333,941	237,428,545	196,120,007	30,056,706
– Transaction services fee	—	2,161,854,715	(168,120,830)	(25,765,644)
E-commerce sales services	—	—	487,985,467	74,787,045
– Sales income	—	—	487,985,467	74,787,045
Total consolidated revenues	7,692,342,304	8,840,043,542	3,687,973,887	565,206,726
Income from operations:				
Installment credit services	2,747,349,633	3,936,054,136	1,260,521,223	193,183,329
E-commerce sales services	—	—	(349,289,266)	(53,530,921)
Total segment income from operations	2,747,349,633	3,936,054,136	911,231,957	139,652,408
Unallocated expenses	(57,981,487)	(87,299,053)	(45,633,820)	(6,993,689)
Total consolidated income from operations	2,689,368,146	3,848,755,083	865,598,137	132,658,719
Total other Income/(expense), net	(40,321,415)	41,766,688	355,200,116	54,436,799
Net income before income taxes	2,649,046,731	3,890,521,771	1,220,798,253	187,095,518

25. 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 Company’s subsidiaries, 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.

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

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25. Restricted net assets - continued

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.

Under PRC regulations, the subsidiaries of the VIEs in the PRC with microloan license are required to provide a statutory reserve, which is appropriated from net income as reported in the Company’s statutory accounts. The Company is required to allocate 1.5% of its balance of loan principal to the statutory reserve. The statutory reserves can only be used for specific purposes and not distributable as cash dividends.

Under PRC regulations, the Company’s subsidiary in the PRC with a license to provide financing guarantee service is required to provide a statutory reserve, which is appropriated from net income as reported in the Company’s statutory accounts. The Company is required to allocate 10% of its after tax profits to the statutory reserve. The statutory reserves can only be used for specific purposes and not distributable as cash dividends.

Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the subsidiaries. The PRC entities are also subject to similar statutory reserve requirements. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances or cash dividends.

Amounts restricted that include paid-in capital and statutory reserve funds, as determined pursuant to PRC GAAP, were RMB 6,257 million and RMB 5,002 million (US\$ 767 million) as of December 31, 2019 and 2020.

26. Condensed financial information of the parent company

The following is the condensed financial information of the Company on a parent company only basis.

Condensed balance sheets

	As of December 31,		
	2019	2020	
	RMB	RMB	US\$
ASSETS:			
Current assets:			
Cash and cash equivalents	977,408,741	813,175,789	124,624,642
Short-term amounts due from related parties	2,640,126,978	1,743,981,590	267,276,871
Other current assets	618,772	—	—
Total current assets	3,618,154,491	2,557,157,379	391,901,513
Non-current assets:			
Investments in subsidiaries, VIEs and VIEs’ subsidiaries	10,666,422,196	10,178,732,276	1,559,958,969
Total non-current assets	10,666,422,196	10,178,732,276	1,559,958,969
TOTAL ASSETS	14,284,576,687	12,735,889,655	1,951,860,482

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26. Condensed financial information of the parent company - continued

Condensed balance sheets - continued

	As of December 31,		
	2019 RMB	2020 RMB	US\$
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Accrued expenses and other current liabilities	16,524,612	6,206,202	951,142
Short-term amounts due to related parties	4,448,876	7,835,083	1,200,779
Total current liabilities	20,973,488	14,041,285	2,151,921
Non-current liabilities			
Convertible senior notes	2,339,551,570	822,004,519	125,977,704
Total non-current liabilities	2,339,551,570	822,004,519	125,977,704
TOTAL LIABILITIES	2,360,525,058	836,045,804	128,129,625
Commitments and contingencies			
Shareholders' equity			
Class A Ordinary shares (US\$0.0001 par value; 656,508,828 shares authorized, 200,711,030 shares issued and 190,238,854 shares outstanding, as of December 31, 2019; 656,508,828 shares authorized, 201,304,811 shares issued and 189,514,026 shares outstanding, as of December 31, 2020)	131,638	132,052	20,238
Class B Ordinary shares (US\$0.0001 par value; 63,491,172 shares authorized, 63,491,172 shares issued and outstanding, as of December 31, 2019 and 2020)	43,836	43,836	6,718
Treasury shares	(362,130,324)	(371,551,131)	(56,942,702)
Additional paid-in capital	3,967,733,108	4,007,259,660	614,139,411
Accumulated other comprehensive loss	(12,965,166)	(51,419,766)	(7,880,424)
Retained earnings	8,331,238,537	8,315,379,200	1,274,387,616
Total shareholders' equity	11,924,051,629	11,899,843,851	1,823,730,857
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	14,284,576,687	12,735,889,655	1,951,860,482

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26. Condensed financial information of the parent company - continued

Condensed statements of comprehensive income

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Share-based compensation expense	(55,734,443)	(87,299,053)	(45,633,820)	(6,993,689)
General and administrative	(26,615,449)	(43,146,732)	(38,512,789)	(5,902,343)
Interest and investment income, net	9,919,513	(10,149,429)	(15,718,860)	(2,409,021)
Other non-interest income	5,701,978	20,498,736	19,633,391	3,008,949
Foreign exchange loss, net	(92,089,724)	9,946,070	2,073,798	317,823
Income from the repurchase of convertible senior notes	—	—	622,109,001	95,342,376
Share of profit in subsidiaries, VIEs and VIEs' subsidiaries	2,549,589,488	3,374,438,333	414,867,940	63,581,293
Net income before income taxes	2,390,771,363	3,264,287,925	958,818,661	146,945,388
Income tax expense	—	—	—	—
Net income	2,390,771,363	3,264,287,925	958,818,661	146,945,388
Other comprehensive income				
Foreign currency translation adjustment	284,529,171	31,893,073	(38,454,600)	(5,893,426)
Total comprehensive income	2,675,300,534	3,296,180,998	920,364,061	141,051,962

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26. Condensed financial information of the parent company - continued

Condensed statements of cash flows

	For the years ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net income	2,390,771,363	3,264,287,925	958,818,661	146,945,388
Adjustments to reconcile net income to net cash used in operating activities:				
Share of profit in subsidiaries, VIEs and VIEs' subsidiaries	(2,549,589,488)	(3,374,438,333)	(414,867,940)	(63,581,293)
Share-based compensation expense	55,734,443	87,299,053	45,633,820	6,993,689
Income from the repurchase of convertible senior notes	—	—	(622,109,001)	(95,342,376)
Accrued interest of convertible senior notes	—	23,934,289	27,107,232	4,154,365
Foreign exchange (gain)/loss net	92,089,724	(9,946,070)	(2,073,798)	(317,823)
Changes in operating assets and liabilities:				
Receivables from related party	(5,508,535)	(34,551)	(221,873,465)	(34,003,596)
Payable to employees	—	(2,312,714)	(176,326)	(27,023)
Other current receivables	2,848,608	1,096,665	618,772	94,831
Other current payables	1,158,081	4,292,086	5,651,200	866,084
Net cash used in operating activities	(12,495,804)	(5,821,650)	(223,270,845)	(34,217,754)
Net cash provided by /(used in) investing activities	(562,307,977)	330,197,330	1,497,130,562	229,445,297
Net cash provided by/(used in) financing activities	(1,410,797,361)	9,587,663	(1,522,314,300)	(233,304,874)
Effect of exchange rate changes on cash and cash equivalents	17,105,135	100,137,695	84,221,631	12,907,530
Net increase/(decrease) in cash and cash equivalents	(1,968,496,007)	434,101,038	(164,232,952)	(25,169,801)
Cash and cash equivalents at beginning of the year	2,511,803,710	543,307,703	977,408,741	149,794,443
Cash and cash equivalents at end of the year	543,307,703	977,408,741	813,175,789	124,624,642

Basis of presentation

Condensed financial information is used for the presentation of the Company, or the parent company. The condensed financial information of the parent company has been prepared using the same accounting policies as

QUDIAN INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020

(Amounts in Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares and per share data)

26. Condensed financial information of the parent company - continued

Basis of presentation - continued

set out in the Company’s consolidated financial statements except that the parent company used the equity method to account for investment in its subsidiaries and VIEs.

The parent company records its investment in its 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 sheets as “Investment in subsidiaries and VIEs” and their respective profit or loss as “Equity in profits of subsidiaries and VIEs” on the condensed statements of comprehensive income. Equity method accounting ceases when the carrying amount of the investment, including any additional financial support, in a subsidiary and VIEs is reduced to zero unless the parent company has guaranteed obligations of the subsidiary and VIEs or is otherwise committed to provide further financial support. If the subsidiary and VIEs subsequently reports net income, the parent company shall resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The parent company’s condensed financial statements should be read in conjunction with the Company’s consolidated financial statements.

WLM KIDS INC.
2021 SHARE INCENTIVE PLAN
2021

1. Purposes of the Plan. The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to the CEO, other selected Employees, Directors, and Consultants and to promote the success of the Company's business by offering these individuals an opportunity to acquire a proprietary interest in the success of the Company, or to increase this interest by permitting them to acquire Shares of the Company. The Plan provides both for the direct award or sale of Shares and for the grant of Awards to purchase Shares. Awards granted under the Plan may be a Share Purchase Right, a Restricted Share, an Option (Incentive Stock Options or Nonqualified Stock Options), a restricted share unit or a Share Award, as determined by the Administrator at the time of grant. Except otherwise provided in this Plan or the Share Award Agreement, Awards and Ordinary Shares acquired by the Awardees based on the Awards, directly or indirectly, in accordance with this Plan shall have no voting rights. All outstanding Awards granted prior to the date on which this Plan is adopted by the Company's Board shall be governed by this Plan.

2. Definitions. For the purposes of this Plan, the following terms shall have the following meanings:

(a) "Acquisition Date" means, with respect to Shares, the date on which the Shares are sold under the Plan, the Shares are delivered upon exercise of an Award or the Shares are delivered in connection with a Share Award as the case may require.

(b) "Administrator" means the Chief Executive Officer of the Company or such delegates as shall be administering the Plan in accordance with Section 4 hereof.

(c) "Affiliate" means, with respect to any Person, any Person which, directly or indirectly, controls, is controlled by or is under common control with such Person.

(d) “Applicable Law” means any applicable legal requirements relating to the administration of and the issuance of securities under equity securities-based compensation plans, including, without limitation, the requirements of laws of the PRC or the Cayman Islands, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted and the applicable laws of any other country or jurisdiction where Awards are granted under the Plan or where the Awardees are domiciled or resident for tax purposes. For all purposes of this Plan, references to statutes and regulations shall be deemed to include any successor statutes or regulations, to the extent reasonably appropriate as determined by the Administrator.

(e) “Articles” means the Company’s Amended and Restated Memorandum and Articles of Association, as amended from time to time.

(f) “Award” means a Share Purchase Right, a Restricted Share, an Option, a restricted share unit or a Share Award as the case may require.

(g) “Award Agreement” means a written or electronic agreement between the Company and an Awardee, the form(s) of which shall be approved from time to time by the Administrator, evidencing the terms and conditions of an individual Award granted under the Plan, and includes any documents attached to or incorporated into the Award Agreement, including, but not limited to, a notice of Award grant and a form of exercise notice. The Award Agreement shall be subject to the terms and conditions of the Plan.

(h) “Awarded Shares” means the Shares subject to an Award.

(i) “Awardee” means the holder of an outstanding Award granted under the Plan.

(j) “Board” means the Board of Directors of the Company.

(k) “Cause” means (i) a Service Provider has been negligent in the discharge of his or her duties to the Company or any Affiliate, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties; (ii) a Service Provider has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information; (iii) a Service Provider has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Company or any of its Affiliates; or has been convicted of, or pled guilty or nolo contendere to, a felony or misdemeanor or equivalent in any jurisdiction (other than minor traffic violations or similar offenses); (iv) a Service Provider has materially breached any of the provisions of any agreement (including but not limited to the employment agreement, invention assignment agreement, non-compete agreement and confidentiality agreement) or any understanding with the Company or any of its Affiliates; (v) a Service Provider has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Company or any of its Affiliates; (vi) a Service Provider has improperly induced a vendor or customer to break or terminate any contract with the Company or any of its Affiliates or induced a principal for whom the Company or any Affiliate acts as agent to terminate such agency relationship; or (vii) any of the circumstances set forth under Article 39 of the Labor Contract Law of the PRC, in each case as determined in good faith by the Administrator.

(l) “Change in Control” means the occurrence of any of the following events:

any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities; or

the consummation of the sale, lease, or disposition by the Company of all or substantially all of the Company's assets; or

the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Anything in the foregoing to the contrary notwithstanding, a transaction shall not constitute a Change in Control if its sole purpose is to change the legal jurisdiction of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction. In addition, a sale by the Company of its securities in a transaction, the primary purpose of which is to raise capital for the Company's operations and business activities including, without limitation, an initial public offering of Shares under the Securities Act or other Applicable Law, shall not constitute a Change in Control.

(m) "Code" means the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder. References to IRC Section shall mean a section number of the Internal Revenue Code of 1986.

(n) "Company" means WLM Kids Inc., a company currently organized under the laws of the Cayman Islands, or any successor corporation thereto.

(o) “Consultant” means any natural person, including an advisor, who is engaged by the Company, or any Parent, Subsidiary, Affiliate or variable interest entity whose financial statements are intended to be consolidated with the Company, any Parent, Subsidiary or Affiliate to render bona fide consulting or advisory services to such entity and who is compensated for the services, and any other persons including former employees who, in the sole opinion of the Administrator, have contributed or will contribute to the Company, Parent, Subsidiaries or Affiliate, provided that the term “Consultant,” does not include (i) Employees or (ii) securities promoters.

(p) “Date of Grant” means the date an Award is granted to an Awardee in accordance with Section 14 hereof.

(q) “Director” means a member of the Board.

(r) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code.

(s) “Employee” means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or any Parent or Subsidiary, including sick leave, military leave, or any other personal leave, or (ii) transfers between locations of the Company or between the Company or any Parent or Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave, any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option. For the avoidance of doubt, neither service as a Director nor payment of a director’s fee by the Company or any Parent or Subsidiary shall be sufficient to constitute “employment” by the Company or any Parent or Subsidiary.

(t) “Exercise Price” means the amount for which one Share may be purchased upon exercise of an Award, as specified by the Administrator in the applicable Award Agreement in accordance with Sections 6(d) and 8(b) hereof.

(u) “Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(v) “Fair Market Value” means, as of any date, the value of the Shares determined as follows:

if the Shares are listed on any established stock exchange or a national market system, including, without limitation, The New York Stock Exchange, The Nasdaq Global Market or The Nasdaq Capital Market of The Nasdaq Stock Market, the Hong Kong Stock Exchange and the London Stock Exchange (Main Listing or Alternative Investment Market), the Fair Market Value shall be the closing sales price for the Shares (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

if the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value shall be the mean of the high bid and low asked prices for the Shares on the day of determination, as reported in *The Wall Street Journal* or any other source as the Administrator deems reliable; or

in the absence of an established market for the Shares, the Fair Market Value thereof shall be determined in good faith by the Administrator in accordance with the acceptable valuation methodology in accordance with U.S. Treasury Regulations issued under IRC Section 409A, and as amended from time to time.

(w) “Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China.

(x) “Hong Kong Stock Exchange” means The Stock Exchange of Hong Kong Limited.

(y) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable Award Agreement.

(z) “HKSE Listing Rules” mean Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time).

(aa) “Non-Compete Obligation” means during the Employee’s employment with the Company or any Parent or Subsidiary and within two (2) years after his/her employment with the Company or any Parent or Subsidiary ends, to the furthest extent permitted by the Applicable Law, the Employee shall not, directly or indirectly, (i) establish, carry on, participate in, work for, provide financial support or security for, or advise, any entity or individual that directly or indirectly competes with the Company or any Affiliate of the Company; (ii) participate in or work for any entity or individual that is a supplier or vendor of the Company or any Affiliate of the Company; or (iii) carry on any activity similar to the business carried on by the Company or any Affiliate of the Company.

(bb) “Non-Disclosure Obligation” means during or after the Employee’s employment with the Company or any Parent or Subsidiary ends, the Employee will not disclose any information, whether or not in writing, of a private, secret, or confidential nature concerning the Company’s business, business relationships or financial affairs to any entity or individual or use the same for any purposes (other than in the performance of his/her duties as an Employee) without written approval by an officer of the Company, unless and until such information has become public knowledge through no fault of the Employee. Such obligations may be further specified in the applicable employment agreement, non-competition, non-disclosure, and non-solicitation agreement and any other agreements of the same kind, if any, made between the Employee and the Company or any Parent or Subsidiary.

(cc) “Non-Solicitation Obligation” means for a period of two years following the termination of employment for any reason whatsoever, the Employee will not, directly or indirectly, either for the Employee or for any other entity or individual, in any capacity, induce or attempt to induce or call upon or solicit any of the Company’s Employees, consultants, vendors, prospective vendors, suppliers, landlords or other business relations of the Company to leave or cease doing business with the Company or in any way interfere with the relationship between the Company and any of the Company’s Employees, vendors, prospective vendors, suppliers, landlords or other business relations, or hire or solicit for employment any Employee. Such obligations may be further specified in the applicable employment agreement, non-competition, non-disclosure, and non-solicitation agreement and any other agreements of the same kind, if any, made between the Employee and the Company or any Parent or Subsidiary.

(dd) “Nonqualified Stock Option” means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable Award Agreement, or an Incentive Stock Option that does not so qualify.

(ee) “Option” means an option to purchase Shares that is granted pursuant to the Plan in accordance with Section 8 hereof.

(ff) “Parent” means a “parent corporation” with respect to the Company, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(gg) “Person” means an individual, corporation, partnership, association, trust, or any other entity.

(hh) “Plan” means this Share Incentive Plan, as amended from time to time.

(ii) “PRC” means the People’s Republic of China, but for the purpose of this Plan and for jurisdiction reference only, excluding Taiwan, Hong Kong, Macau.

(jj) “Purchase Price” means the amount of consideration for which one Share may be acquired pursuant to a Share Purchase Right or Share Award, as specified by the Administrator in the applicable Restricted Share Purchase Agreement or Share Award in accordance with Section 7(c) hereof

(kk) “Purchaser” means the holder of Shares purchased pursuant to the exercise of a Share Purchase Right.

(ll) “Restricted Share Purchase Agreement” means a written or electronic agreement between the Company and a Purchaser, the form(s) of which shall be approved from time to time by the Administrator, evidencing the terms and conditions of an individual Share Purchase Right, and includes any documents attached to or incorporated into the Restricted Share Purchase Agreement. The Restricted Share Purchase Agreement shall be subject to the terms and conditions of the Plan.

(mm) “Restricted Shares” means Shares acquired pursuant to a Share Purchase Right or Share Award Agreement (if subjected to rights of redemption, repurchase or forfeiture).

(nn) “SAFE” means the PRC State Administration of Foreign Exchange and its local branches.

(oo) “Securities Act” means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(pp) “Service Provider” means an Employee, Director, or Consultant.

(qq) “Share” or “Ordinary Share” means a common stock or ordinary share of the Company, as adjusted in accordance with Section 13 hereof.

(rr) “Share Award” means an award or issuance of Shares or other similar awards made under Section 7 of the Plan, the grant, issuance, retention, vesting, settlement and/or transferability of which is subject during specified periods of time to such conditions (including continued employment or performance conditions (if any)) and terms as are expressed in the agreement or other documents evidencing the Award (the “**Share Award Agreement**”).

(ss) “Shareholders Agreement” means any agreement between an Awardee as a member of the Company and the Company or other members of the Company or both.

(tt) “Share Purchase Right” means a right to purchase Restricted Shares pursuant to Section 7 hereof.

(uu) “Subsidiary” means a “subsidiary corporation” with respect to the Company, whether now or hereafter existing, as defined in Section 424(f) of the Code.

(vv) “United States” means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia.

(xx) “U.S. Treasury Regulations” means the Regulations as issued by the United States Treasury Department, as carried out by the Internal Revenue Service (“IRS”), under the Internal Revenue Code of 1986 (that is, as “Code” is defined under (k) above.)

3. Shares Subject to the Plan.

(a) Basic Limitation. Subject to the provisions of Section 13 hereof, the maximum aggregate number of Shares that may be delivered under the Plan, and any similar plan in other jurisdictions, shall not exceed 400,000,000 Shares (as appropriately adjusted for subsequent stock splits, stock dividends and the like). The Shares that may be delivered under this Plan will be the Company's Ordinary Shares which are to be issued to and held by the Awardees, or one or more entities ("**ESOP Vehicles**") owned or designated by the Awardees prior to or after the Company's listing. The number of Shares that are subject to Awards outstanding under the Plan at any time shall not exceed the aggregate number of Shares that then remain available reserved under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of outstanding Awards granted under the Plan.

(b) Additional Shares. If an Award expires, becomes unexercisable, or is cancelled, forfeited, or otherwise terminated without having been exercised or settled in full, as the case may be, the Shares allocable to the unexercised portion of the Award shall again become available for future grant or sale under the Plan (unless the Plan has terminated). Shares that actually have been delivered under the Plan, upon exercise of an Award or delivery under a Share Purchase Right or Share Award, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that in the event that Shares delivered under the Plan are reacquired by the Company pursuant to any forfeiture provision, right of repurchase or redemption, or are retained by the Company upon the exercise of or purchase of Shares under an Award in order to satisfy the Exercise Price or Purchase Price for the Award or any withholding taxes due with respect to the exercise or purchase, such Shares shall again become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Chief Executive Officer of the Company. The Chief Executive Officer of Company may authorize one or more officers in writing to administrate the grants of any Awards and may limit such authority as the Chief Executive Officer determines from time to time.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and subject to the approval of the Board, the Administrator shall have the authority in its discretion:

to determine the Fair Market Value, in accordance with Section 2(v) hereof;

to select the Awardees to whom Awards may from time to time be granted hereunder;

to determine the number of Shares to be covered by each Award granted hereunder;

to approve the form(s) of agreement for use under the Plan;

to determine the terms and conditions of any Award granted hereunder including, but not limited to, the Exercise Price, the Purchase Price, the time or times when Awards may be exercised (which may be based on performance criteria), the time or times when repurchase or redemption rights shall lapse, any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

to implement a program where (A) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower Exercise/Purchase Prices and different terms), Awards of a different type, or cash, or (B) the Exercise/Purchase Price of an outstanding Award is reduced, based in each case on terms and conditions determined by the Administrator in its sole discretion;

to approve earlier Exercise of the Awards granted under the Plan.

to implement any ESOP platform system necessary to facilitate the administration of this Plan.

to prescribe, amend, and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable laws of jurisdictions other than the United States;

to allow Awardees to satisfy withholding tax obligations by the Administrator electing to have the Company withhold from the Shares to be delivered under an Award that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld in accordance with the Applicable Laws. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Awardees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable. For the avoidance of doubt, the Company and the Administrator shall not be responsible for any failure by the Awardee to discharge all taxes and liabilities to which he or she may become subject as a result of his or her participation in this Plan or the delivery of any Shares;

to modify or amend each Award, including, without limitation, the discretionary authority to extend the post-termination exercisability of an Award longer than is otherwise provided for in an Award Agreement or accelerate the vesting or exercisability of an Award or lapsing of a repurchase or redemption right to which Restricted Shares may be subject;

to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan; and

to make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan.

(c) Delegation of Authority to Officers. Subject to Applicable Law, the Administrator may delegate limited authority to specified officers of the Company to execute on behalf of the Company any instrument required to effect an Award previously granted by the Administrator.

(d) Effect of Administrator's Decision. All decisions, determinations, and interpretations of the Administrator shall be final and binding on all Awardees.

5. Eligibility.

(a) General Rule. With the exception of any holding company managed by the Administrator or its delegates for the purpose of administering the Plan, only Service Providers, or trusts or companies established in connection with any employee benefit plan of the Company (including the Plan) for the benefit of a Service Provider, shall be eligible for the grant of Awards. Incentive Stock Options may be granted to Employees only.

6. Terms and Conditions of Award (including Restricted Shares and restricted share units).

(a) Award Agreement. Each grant of an Award under the Plan shall be evidenced by an Award Agreement between the Awardee and the Company. Each Award shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Administrator deems appropriate for inclusion in an Award Agreement. The provisions of the various Award Agreements entered into under the Plan need not be identical.

(b) Type of Award. Each Award shall be designated in the Award Agreement as either an Option, a Share Purchase Right, a Restricted Share, a restricted share unit or a Share Award.

(c) Number of Shares. Each Award Agreement shall specify the number of Shares that are subject to the Award and shall provide for the adjustment of such number in accordance with Section 13 hereof.

(d) Exercise Price. Subject to the provision of Section 8(b), each Award Agreement shall specify the Exercise Price. The Exercise Price shall be payable in accordance with Section 10 hereof and the applicable Award Agreement.

(e) Term of Award. The Award Agreement shall specify the term of the Award; provided, however, that the term shall not exceed ten (10) years from the Date of Grant. Subject to the preceding sentence, the Administrator in its sole discretion shall determine when an Award is to expire.

(f) Exercisability. Each Award Agreement shall specify the date when all or any installment of the Award is to become exercisable. The exercisability provisions of any Award Agreement shall be determined by the Administrator in its sole discretion.

(g) Exercise Procedure. Any Award granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as may be determined by the Administrator and/or as set forth in the Award Agreement; provided, however, that an Award shall not be exercised for a fraction of a Share.

An Award shall be deemed exercised when the Company receives (A) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Award, (B) full payment for the Shares with respect to which the Award is exercised, and (C) all representations, indemnifications, and documents reasonably requested by the Administrator including, without limitation, any Shareholders Agreement has been entered into to the satisfaction of the Administrator. Full payment may consist of any consideration and method of payment authorized by the Administrator in accordance with Section 10 hereof and permitted by the Award Agreement. Upon the Award being exercised and when the exercise procedure as stipulated in this clause has been fully complied with, the Company shall cause or procure the underlying Ordinary Shares or the relevant economic interests (i) be issued to the Awardees designated by the Company or certain ESOP Vehicles owned or designated by such Awardees, or (ii) be assigned to the Awardees by other measures or methods deemed necessary or appropriate by the Administrator.

Shares delivered upon exercise of an Award shall be delivered in the name of the Awardee or, if requested by the Awardee, in the name of the Awardee and his or her spouse. Subject to the provisions of Sections 9, 10, 15, and 16, the Company shall issue (or cause to be issued) certificates evidencing the delivered Shares promptly after the Award is exercised. Notwithstanding the foregoing, the Administrator in its discretion may require the Company to retain possession of any certificate evidencing Shares acquired upon the exercise of an Award, if those Shares remain subject to repurchase or redemption under the provisions of the Award Agreement, any Shareholders Agreement, or any other agreement between the Company and the Awardee, or if those Shares are collateral for a loan or obligation due to the Company.

Exercise of an Award in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan (in accordance with Section 3(b)) and for sale under the Award, by the number of Shares as to which the Award is exercised.

(h) Vesting Schedule. Subject to the Awardee's continued status as a Service Provider through each of the applicable vesting dates and to the extent permitted by applicable law, the Award shall become exercisable, in whole or in part, in accordance with the terms thereof at such times and under such conditions as maybe determined by the Administrator and/or set forth in the Award Agreement. Unless the Administrator determines otherwise, all Awards shall become exercisable as set forth in the following schedule:

33%, 33% and 34% of the Awarded Shares shall vest on each of the second, forth, and sixth anniversary of the Vesting Commencement Date, subject to the Awardee's continuing to be a Service Provider through these dates. Before or after execution of the Award Agreement, the vesting schedule for certain Awardees may be modified or changed by the Administrator in its sole discretion as it deems necessary or appropriate where if the Administration so determined the new agreement between the Company and the Awardee shall be deemed established and effective immediately regarding the said modification or change.

(i) Alteration of Granted Awards. As long as the Administrator determines necessary or appropriate but in no event later than one (1) working day before each vesting date of the Awards, the Administrator, hereby authorized by the Board of Directors of the Company, may review the capabilities of the Awardees in accordance with certain performance target or evaluation criteria of the relevant position or rank and, if the Administrator determines that the Awardees fail to meet the performance target or fulfill the evaluation criteria, reduce the amount of unvested Awards granted to the Awardees to the extent that the Administrator deemed applicable, provided that such performance target or evaluation criteria have been determined by the Administrator and informed such Awardee in advance, and provided further that the unvested Awards so reduced should not exceed 20% the unvested Awards of such Awardee then outstanding. Subject to the preceding sentence, if the Administrator so determines, the new agreement between the Company and the Awardee shall be deemed established and effective immediately regarding the said alteration of Awards. The Awards as so reduced shall be deemed forfeited immediately and can be retained by the Company for future grant under the Plan.

(j) Termination of Service (other than by death).

If an Awardee ceases to be a Service Provider for Cause, the Award or any other share-based award received by the Awardee will terminate and be cancelled on the Awardee's severance date, whether or not the Award or other share-based awards is then vested and/or exercisable. If an Awardee ceases to be a Service Provider for any reason other than because of death and without Cause, then the Awardee's Awards shall expire on the earliest of the following occasions:

The expiration date determined by Section 6(e) hereof;

The last day of the three-month period following the cessation of the Awardee as a Service Provider for any reason other than Disability, or such later date as the Administrator may determine and specify in the Award Agreement, provided that no Award that is exercised after the expiration of the three-month period immediately following the termination of the Awardee's relationship as an Employee shall be treated as an Incentive Stock Option; or

The last day of the twelve-month period following the cessation of the Awardee as a Service Provider by reason of Disability, or such later date as the Administrator may determine and specify in the Award Agreement; provided that no Award that is exercised after the expiration of the twelve-month period immediately following the cessation of the Awardee as an Employee shall be treated as an Incentive Stock Option.

Following the cessation of the Awardee as a Service Provider, the Awardee may exercise all or part of the Awardee's Award at any time before the expiration of the Award as set forth in Section 6(j)(i) hereof, but only to the extent that the Award was vested and exercisable as of the date of cessation of the Awardee as a Service Provider (or became vested and exercisable as a result of the cessation). The balance of the Shares subject to the Award shall be forfeited on the date of cessation of the Awardee as a Service Provider. In the event that the Awardee dies after the cessation of the Awardee as a Service Provider but before the expiration of the Awardee's Award as set forth in Section 6(j)(i) hereof, all or part of the Award may be exercised (prior to expiration) by the executors or administrators of the Awardee's estate or by any person who has acquired the Award directly from the Awardee by beneficiary designation, bequest, or inheritance, but only to the extent that the Award was vested and exercisable as of the cessation date of the Awardee as a Service Provider (or became vested and exercisable as a result of the cessation). Any Awarded Shares subject to the portion of the Award that are vested as of the cessation date of the Awardee as a Service Provider but that are not purchased prior to the expiration of the Award pursuant to this Section 6(j) shall be forfeited immediately following the Award's expiration.

(k) Leaves of Absence. Unless otherwise determined by the Administrator, for purposes of this Section 6, the service of an Awardee as a Service Provider shall be deemed to continue while the Awardee is on a bona fide leave of absence, if such leave was approved by the Company and/or the Affiliate in writing. Unless otherwise determined by the Administrator and subject to Applicable Law, vesting of an Award shall be suspended during any unpaid leave of absence.

(l) Death of Awardee.

If an Awardee dies while a Service Provider, then the Awardee's Award shall expire on the earlier of the following dates:

The expiration date determined by Section 6(e) hereof;

The last day of the six-month period immediately following the Awardee's death, or such later date as the Administrator may determine and specify in the Award Agreement.

All or part of the Awardee's Award may be exercised at any time before the expiration of the Award as set forth in Section 6(l)(i) hereof by the executors or administrators of the Awardee's estate or by any person who has acquired the Award directly from the Awardee by beneficiary designation, bequest, or inheritance, but only to the extent that the Award was vested and exercisable as of the date of the Awardee's death or had become vested and exercisable as a result of the death. The balance of the Shares subject to the Award shall be forfeited upon the Awardee's death. Any Awarded Shares subject to the portion of the Award that are vested as of the Awardee's death but that are not purchased prior to the expiration of the Award pursuant to this Section 6(l) shall be forfeited immediately following the Award's expiration.

(m) Restriction on Exercise of Award. Notwithstanding any provision to the contrary in this Plan, in the event that an Awardee who is an Employee ceases to be a Service Provider for any reason whatsoever, the Award granted to him/her may not be exercised as of such termination, unless otherwise provided in the applicable Award Agreement. Any exercise of the Award is subject to (i) such Awardee's full compliance with the Non-Compete Obligation, the Non-Disclosure Obligation and the Non-Solicitation Obligation, (ii) any other obligations to which the Awardee is subject under any applicable employment agreement, non-competition, non-disclosure and non-solicitation agreement and any other agreements of similar kind, if any, made between the Employee and the Company or any Parent or Subsidiary, and their ancillary documents, and (iii) a requirement that the cessation of the Awardee as a Service Provider is not for Cause. In the event that an Awardee is in breach of any of the aforementioned obligations for any reason whatsoever, the Company may, at its sole discretion, withdraw any Award which the Awardee is entitled to exercise but has not yet exercised and reacquire from such Awardee any Shares delivered to such Awardee pursuant to the applicable Award Agreement and the Awardee shall be obliged to return any share certificate(s) evidencing such Shares upon request of the Company or the Administrator, provided that the Company shall refund the Exercise Price paid by the Awardee without any interest or fees whatsoever, subject to any compensation or indemnification to which the Company is entitled and/or any costs incurred by the Company due to such breach of any aforementioned obligations of the Awardee.

(n) Restrictions on Transfer of Shares. Shares delivered upon exercise of an Award shall be subject to such special forfeiture conditions, rights of repurchase or redemption, rights of first refusal, and other transfer restrictions as the Administrator may determine. The restrictions described in the preceding sentence shall be set forth in the applicable Award Agreement and shall apply in addition to any restrictions that may apply to holders of Shares generally.

7. Terms and Conditions of Share Purchase Rights and Share Awards.

(a) Restricted Share Purchase Agreement or Share Award Agreements. Each Share Purchase Right or Share Award under the Plan shall be evidenced by a Restricted Share Purchase Agreement or Share Award Agreement, respectively, between the Purchaser and the Company. Each Share Purchase Right and each Share Award shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Administrator deems appropriate for inclusion in a Restricted Share Purchase Agreement or Share Award Agreement, including without limitation, (i) the number of Shares subject to such Restricted Share Purchase Agreement or Share Award, as applicable, or a formula for determining such number, (ii) the Purchase Price of the Shares, if any, and the means of payment for the Shares, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Shares granted, issued, retainable and/or vested, (iv) such terms and conditions on the grant, issuance, vesting, settlement and/or forfeiture of the Shares as may be determined from time to time by the Administrator and (v) restrictions on the transferability of the Award. The provisions of the various Restricted Share Purchase Agreements and Share Award Agreements entered into under the Plan need not be identical.

(b) Duration of Offers of Share Purchase Rights. Any Share Purchase Rights granted under the Plan shall automatically expire if not exercised by the Purchaser within 30 days (or such longer time as is specified in the Restricted Share Purchase Agreement) after the Date of Grant.

(c) Purchase Price. The Purchase Price, if any, shall be determined by the Administrator in its sole discretion. The Purchase Price, if any, shall be payable in a form described in Section 10 hereof.

(d) Restrictions on Transfer of Shares. Any Shares awarded or sold pursuant to Share Purchase Rights or Share Awards shall be subject to such special forfeiture conditions, rights of repurchase or redemption, rights of first refusal, market stand-offs, and other transfer restrictions as the Administrator may determine. The restrictions described in the preceding sentence shall be set forth in the applicable Restricted Share Purchase Agreement or Share Award Agreement, as applicable, and shall apply in addition to any restrictions that may apply to holders of Shares generally. Unless otherwise determined by the Administrator and subject to Applicable Law, vesting of Shares acquired pursuant to a Restricted Share Purchase Agreement or Share Awards shall be suspended during any unpaid leave of absence.

8. Terms and Conditions of Option.

(a) Type of Option. Each Option shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonqualified Stock Option. However, notwithstanding a designation of an Option as an Incentive Stock Option, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by an Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds US\$100,000, such Options shall be treated as Nonqualified Stock Options. For purposes of this Section 8(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the Date of Grant.

(b) Exercise Price. The Exercise Price of an Incentive Stock Option to any U.S. Awardees shall not be less than 100% of the Fair Market Value on the Date of Grant; the Exercise Price of any Option granted to non-U.S. Awardees shall be determined by the Administrator. Notwithstanding anything to the contrary in the foregoing, in the event of a transaction described in Section 424(a) of the Code, then, consistent with Section 424(a) of the Code, Incentive Stock Options may be delivered at an Exercise Price other than as required by the foregoing.

9. Withholding Taxes. As a condition to the exercise of an Award, purchase of Restricted Shares or receipt of a Share Award, the Awardee (or in the case of the Awardee's death or in the event of a permissible transfer of Awards hereunder, the person exercising the Award, purchasing Restricted Shares or receiving the Share Award) shall make such arrangements as the Administrator may require for the satisfaction of any applicable withholding taxes arising in connection with the exercise of an Award or purchase of Restricted Shares under the laws of any applicable jurisdiction including Hong Kong, the PRC, the U.S. and any other jurisdiction. The Awardee (or in the case of the Awardee's death or in the event of a permissible transfer of Awards hereunder, the person exercising the Award, purchasing Restricted Shares or receiving Share Awards) also shall make such arrangements as the Administrator may require for the satisfaction of any applicable Hong Kong, PRC, U.S. federal, state, local, or non-PRC and non-U.S. withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Award, purchasing Restricted Shares or receiving Share Awards. The Company shall not be required to deliver any Shares under the Plan until the foregoing obligations are satisfied. Without limiting the generality of the foregoing, upon the exercise of the Award or delivery of Restricted Shares or Share or Award, the Company shall have the right to withhold taxes from any compensation or other amounts that the Company may owe to the Awardee, or to require the Awardee to pay to the Company the amount of any taxes that the Company may be required to withhold with respect to the Shares delivered to the Awardee. Without limiting the generality of the foregoing, the Administrator in its discretion may authorize the Awardee to satisfy all or part of any withholding tax liability by (i) having the Company withhold from the Shares that would otherwise be delivered upon the exercise of an Award, purchase of Restricted Shares that number of Shares or received in a Share Award having a Fair Market Value, as of the date the withholding tax liability arises, equal to the portion of the Company's withholding tax liability to be so satisfied or (ii) by delivering to the Company previously owned and unencumbered Shares having a Fair Market Value, as of the date the withholding tax liability arises, equal to the amount of the Company's withholding tax liability to be so satisfied.

10. Payment for Shares. The consideration to be paid for the Shares to be delivered under the Plan, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined on the Date of Grant), subject to the provisions in this Section 10.

(a) General Rule. The entire Purchase Price or Exercise Price (as the case may be) for Shares delivered under the Plan shall be payable in cash or cash equivalents at the time when the Shares are purchased, except as otherwise provided in this Section 10.

(b) Surrender of Shares. To the extent that an Award Agreement, Restricted Share Purchase Agreement or Share Award Agreement so provides, all or any part of the Exercise Price or Purchase Price (as the case may be) may be paid by surrendering, or attesting to the ownership of, Shares that are already owned by the Awardee. These Shares shall be surrendered to the Company in good form for transfer and shall be valued at their Fair Market Value on the date the Award is exercised or Restricted Shares are purchased. The Awardee shall not surrender, or attest to the ownership of, Shares in payment of the Exercise Price or Purchase Price (as the case may be) if this action would subject the Company to adverse accounting consequences, as determined by the Administrator.

(c) Services Rendered. At the discretion of the Administrator and to the extent so provided in the agreements evidencing Awards of Shares under the Plan, Shares may be awarded under the Plan in consideration of services rendered to the Company or any Parent or Subsidiary prior to the Award.

(d) Exercise/Sale. At the discretion of the Administrator and to the extent an Award Agreement so provides, and if the Shares are publicly traded, payment may be made all or in part by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

(e) Exercise/Pledge. At the discretion of the Administrator and to the extent an Award Agreement so provides, and if the Shares are publicly traded, payment may be made all or in part by the delivery (on a form prescribed by the Company) of an irrevocable direction to pledge Shares to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

(f) Other Forms of Consideration. At the discretion of the Administrator and to the extent an Award Agreement, a Restricted Share Purchase Agreement or Share Award so provides, all or a portion of the Exercise Price or Purchase Price may be paid by any other form of consideration and method of payment to the extent permitted by Applicable Law.

11. Non-transferability of Awards. Unless otherwise determined by the Administrator and so provided in the applicable Award Agreement, Restricted Share Purchase Agreement or Share Award Agreement (or be amended to provide), no Award shall be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner (whether by operation of law or otherwise) other than (i) by will or applicable laws of descent and distribution or (except in the case of an Incentive Stock Option) pursuant to a qualified domestic relations order or (ii) by trusts or companies established in connection with any employee benefit plan of the Company (including the Plan) for the benefit of a Service Provider or Service Providers, in each case subject to Applicable Law, and shall not be subject to execution, attachment, or similar process. In the event the Administrator in its sole discretion makes an Award transferable, only a Nonqualified Stock Option, Share Purchase Right or Share Award may be transferred provided such Award is transferred without payment of consideration to members of the Awardee's immediate family (as such term is defined in Rule 16a-1(e) of the Exchange Act) or to trusts or partnerships established exclusively for the benefit of the Awardee and the members of the Awardee's immediate family, all as permitted by Applicable Law. Upon any attempt to pledge, assign, hypothecate, transfer, or otherwise dispose of any Award or of any right or privilege conferred by this Plan contrary to the provisions hereof, or upon the sale, levy or attachment or similar process upon the rights and privileges conferred by this Plan, such Award shall thereupon terminate and become null and void. Incentive Stock Options may be exercised during the lifetime of the Awardee only by the Awardee.

12. Rights as a Member. Other than the Ordinary Shares acquired by the CEO of the Company (Mr. LUO Min) based on the Awards granted to him by this Plan and the applicable Award Agreement, all Awards and Ordinary Shares acquired by the Awardees, directly or indirectly, in accordance with this Plan shall have no voting rights. Besides, until the Shares actually are delivered (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to receive dividends or any other rights as a member shall exist with respect to the Shares, notwithstanding the exercise of the Award. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are delivered, except as provided in Section 13 of the Plan.

13. Adjustment of Shares.

(a) Changes in Capitalization. Subject to any required action by the members of the Company in accordance with Applicable Law, the class(es) and number and type of Shares that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or that have been returned to the Plan upon cancellation or expiration of an Award, and the class(es), number, and type of Shares covered by each outstanding Award, as well as the price per Share covered by each outstanding Award, shall be proportionately adjusted for any increase, decrease, or change in the number or type of outstanding Shares or other securities of the Company or exchange of outstanding Shares or other securities of the Company into or for a different number or type of shares or other securities of the Company or successor entity, or for other property (including, without limitation, cash) or other change to the Shares resulting from a share split, reverse share split, share dividend, dividend in property other than cash, combination of shares, exchange of shares, combination, consolidation, recapitalization, reincorporation, reorganization, change in corporate structure, reclassification, or other distribution of the Shares effected without receipt of consideration by the Company; provided, however, that the conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." The adjustment contemplated in this Section 13(a) shall be made by the Board, whose determination shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of equity securities of the Company of any class, or securities convertible into equity securities of the Company of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number, type, or price of Shares subject to an Award. Where an adjustment under this Section 13(a) is made to an Incentive Stock Option, the adjustment shall be made in a manner that will not be considered a "modification" under the provisions of Section 424(h)(3) of the Code.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Awardee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Awardee to have the right to exercise his or her Award until fifteen (15) days prior to the proposed dissolution or liquidation as to all of the Awarded Shares covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase or redemption award applicable to any Shares purchased upon exercise of an Award or Restricted Shares purchased under a Share Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent an Award has not been previously exercised and all Restricted Shares covered by a Share Purchase Right have not been purchased, the Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a Change in Control, unless the Award Agreement, Restricted Share Purchase Agreement or Share Award Agreement provides otherwise, each outstanding Award shall be assumed or an equivalent award shall be substituted by, and each right of the Company to repurchase, redeem or reacquire Shares upon termination of a Purchaser's relationship as a Service Provider shall be assigned to, the successor corporation or a Parent or Subsidiary of the successor corporation. If, in the event of a Change in Control, the Award is not assumed or substituted, or the repurchase, redemption or reacquisition or similar right is not assigned, in the case of an outstanding Award, the Award shall fully vest immediately and the Awardee shall have the right to exercise the Award as to all of the Awarded Shares, including Shares as to which it would not otherwise be vested or exercisable, and, in the case of Restricted Shares, the Company's repurchase, redemption or reacquisition or similar right shall lapse immediately and all of the Restricted Shares subject to the repurchase, redemption or reacquisition or similar right shall become vested. If an Award becomes fully vested and exercisable, in lieu of assumption or substitution in the event of a Change in Control, the Administrator shall notify the Awardee in writing or electronically that the Award shall be fully exercisable for a period of fifteen

(15) days from the date of such notice, and the Award shall terminate upon the expiration of such period. For purposes of this Section 13(c), an Award shall be considered assumed, and Restricted Shares will be considered assigned if, following the Change in Control, the Award confers the right to purchase or receive, for each covered Share immediately prior to the Change in Control, the consideration (whether shares, cash, or other securities or property) received in connection with the Change in Control by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if the consideration received in the Change in Control is not solely common stock or ordinary shares of the successor corporation or its Parent or Subsidiary, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Award or vesting of the Restricted Shares, for each covered Share, to be solely common stock or ordinary shares of the successor corporation or its Parent or Subsidiary equal in Fair Market Value to the per Share consideration received by holders of Shares in the Change in Control.

(d) Reservation of Rights. Except as provided in this Section 13 and in the applicable Award Agreement, Restricted Share Purchase Agreement or Share Award Agreement, an Awardee shall have no rights by reason of (i) any subdivision or consolidation of Shares or other securities of any class, (ii) the payment of any dividend, or (iii) any other increase or decrease in the number of Shares or other securities of any class. Any issuance by the Company of equity securities of any class, or securities convertible into equity securities of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Awarded Shares. The grant of an Award, Share Purchase Right or Share Award shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell, or transfer all or any part of its business or assets.

14. Date of Grant. The Date of Grant of an Award shall, for all purposes, be the date on which the Administrator makes the determination to grant the Award, or such other later date as is determined by the Administrator. In any event, the Date of Grant shall be no earlier than the effective date of a legally binding Award Agreement which has been entered by the Awardee or Awardee and the Company.

15. Securities Law Requirements.

(a) Legal Compliance. Notwithstanding any other provision of the Plan or any agreement entered into by the Company pursuant to the Plan, the Company shall not be obligated, and nor shall it have any liability for failure to deliver any Shares under the Plan unless the issuance and delivery of Shares comply with (or are exempt from) all Applicable Law, including, without limitation, the applicable securities laws in the Cayman Islands, Hong Kong, PRC, Securities Act, U.S. state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. Shares delivered under the Plan shall be subject to transfer restrictions, and the person acquiring the Shares shall, as a condition to the exercise of an Award or the purchase or acquisition of Restricted Shares if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with Applicable Law, including, without limitation, the representation and warranty at the time of acquisition of Shares that the Shares are being acquired only for investment purposes and without any present intention to sell, transfer, or distribute the Shares.

16. Condition to Exercise. Any exercise of Award or the rights to purchase the Shares, or any issuance of Shares under the applicable Award Agreement, Share Purchase Rights and Share Awards shall be subject to the Awardee or the holder of Share Purchase Rights and Share Awards being in compliance with all applicable PRC laws and regulations, including but not limited to the requirement of registration with SAFE.

17. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to deliver or sell such Shares as to which such requisite authority shall not have been obtained.

18. Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

19. Approval by Members and Validity. The Plan shall be approved and adopted by the Board. Such approval by members of the Company shall be obtained in the degree and manner required under Applicable Law and the Articles. Awards may be granted but Awards may not be exercised and Restricted Shares may not be purchased or acquired prior to approval of the Plan by members of the Company. Awards may be granted but not be exercised prior to the last day of the six-month period following the listing date of the Company.

In the event that the Shares are to be listed on the Hong Kong Stock Exchange, any grant of an Award to any director, chief executive officer or substantial shareholder of any member of the Group, or any of their respective associates (as defined in the HKSE Listing Rules) upon the Company's listing, shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is the proposed Grantee of the Awards in question) and shall otherwise be subject to compliance with the requirements of the HKSE Listing Rules. Notwithstanding the foregoing, any grant of an Award to a director pursuant to Rule 14A.73(6) of the HKSE Listing Rules will be exempted from reporting, announcement and independent Shareholders' approval requirements if the Award forms part of the relevant director's remuneration under his/her service contract.

20. Duration and Amendment.

(a) Term of Plan. Subject to approval by members of the Company in accordance with Section 18 hereof, the Plan shall become effective upon the later to occur of its adoption by the Board or its approval by the members of the Company as described in Section 18 hereof. In the event that the members of the Company fail to approve the Plan within 12 months prior to or after its adoption by the Board, any Awards that have been granted and any Shares that have been awarded or purchased under the Plan shall be rescinded, and no additional Awards shall be granted thereafter. Unless sooner terminated under Section 19(b) hereof, the Plan shall continue in effect for a term of ten (10) years.

(b) Amendment and Termination. The Board may at any time amend, alter, suspend, or terminate the Plan, subject to Applicable Law and the Articles.

(c) Effect of Amendment or Termination. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination. No Shares shall be delivered or sold under the Plan after the termination thereof, except upon exercise of an Award granted prior to the termination of the Plan.

21. Legending Share Certificates. In order to enforce any restrictions imposed upon Shares delivered upon the exercise of Awards or the acquisition of Restricted Shares, including, without limitations, the restrictions described in Sections 6(m), 7(d), and 15(b) hereof, the Administrator may cause a legend or legends to be placed on any share certificates representing the Shares, which legend or legends shall make appropriate reference to the restrictions, including, without limitation, a restriction against sale of the Shares for any period as may be required by Applicable Law.

22. No Retention Rights. Neither the Plan nor any Award shall confer upon any Awardee any right to continue his or her relationship as a Service Provider with the Company for any period of specific duration or interfere in any way with his or her right or the right of the Company (or any Parent or Subsidiary employing or retaining the Awardee), which rights are hereby expressly reserved by each, to terminate this relationship at any time, with or without cause, and with or without notice.

23. No Registration Rights. The Company may, but shall not be obligated to, register or qualify the sale of Shares under the Securities Act or any other Applicable Law. The Company shall not be obligated to take any affirmative action in order to cause the sale of Shares under this Plan to comply with any law.

24. No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Parent or Subsidiary and an Awardee or any other person. To the extent that any Awardee acquires a right to receive payments from the Company or any Parent or Subsidiary pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company, a Parent, or any Subsidiary.

25. No Rights to Awards. No Awardee, eligible Service Provider, or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of a Service Provider, Awardee, or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Awardee or with respect to different Awardees.

26. Exemption from Section 409A of the Code. This Plan is intended to qualify for exemption from the application of Section 409A of the Code, such that due to the exemption(s) available under the Code, the IRC Section 409A will not apply to the Plan. Accordingly, the Plan will not provide any “deferred compensation arrangement” to any of the Plan Awardee(s). For purposes of this Plan, the term “deferred compensation arrangement” shall mean an arrangement, which has the possibility of an Awardee, deferring the timing of taxation (in the U.S.) of any award received under the Plan to a tax year later than then year during which the Awardee was given legal or economic right(s) with respect to the Award. None of the Award under this Plan shall include any phantom stock(s) or phantom share(s) arrangement. Notwithstanding any other provision to the contrary, in the event that any term(s) or condition(s) under this plan or any of the related document(s), such as the Award Agreement (as referred to in 2 (cc), Restricted Share Purchase Agreement (as referred to in 2 (ll)), Share Purchase Agreement (as referred to in 2(mm)), and the Share Award Agreement (as referred to in 2(mm)), may cause this Plan to be subject to the application of IRC Section 409A, such term(s) or condition(s) shall be void and ineffective. While the objective is for this Plan to be exempt from the application of IRC Section 409A, and the Company has made its best efforts to achieve the objective, the Company shall not have any liability or obligation (including but not limited to any obligation to indemnify an Awardee for penalties, taxes or any other losses) to an Awardee in the event that the Plan does not qualify for the exemption from IRC Section 409A.

27. Language. This Plan has been written in English.

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Xiamen Qudian Technology Co., Ltd.* 厦门趣店科技有限公司	PRC
Hunan Qudian Technology Development Co., Ltd.* 湖南趣店科技发展有限公司	PRC
Ganzhou Qudian Technology Co., Ltd.* 赣州趣店科技有限公司	PRC
Xiamen Weipujia Technology Co., Ltd.* 厦门唯谱家科技有限公司	PRC
Xiamen Qu Plus Plus Technology Development Co., Ltd.* 厦门趣加加科技发展有限公司	PRC

Subsidiaries of Consolidated VIEs

Jurisdiction of Incorporation

Ganzhou Happy Fenqi Network Service Co., Ltd.* 赣州快乐分期网络服务有限公司	PRC
Xinjiang Qudian Technology Co., Ltd.* 新疆趣店科技有限公司	PRC
Fuzhou High-tech Zone Microcredit Co., Ltd.* 抚州高新区趣分期小额贷款有限公司	PRC
Ganzhou Happy Life Network Microcredit Co., Ltd.* 赣州快乐生活网络小额贷款有限公司	PRC
Qufenqi (Beijing) Information Technology Co., Ltd.* 趣分期(北京)信息技术有限公司	PRC
Fuzhou Happy Time Technology Development Co., Ltd.* 抚州快乐时代科技发展有限公司	PRC
Xiamen Qudian Commercial Factoring Co., Ltd.* 厦门趣店商业保理有限公司	PRC
Ganzhou Happy Fenqi Technology Development Co., Ltd.* 赣州快乐分期科技发展有限公司	PRC
Ganzhou Happy Time E-Commerce Co., Ltd.* 赣州快乐时代电子商务有限公司	PRC
Xiamen Junda Network Technology Co., Ltd.* 厦门均达网络科技有限公司	PRC
Tianjin Qufenqi Technology Co., Ltd.* 天津趣分期科技有限公司	PRC
Yihuang Qudian Technology Development Co., Ltd.* 宜黄县趣店科技发展有限公司	PRC
Jiangxi Chunmian Technology Development Co., Ltd.* 江西春眠科技发展有限公司	PRC
Ganzhou Qudian Commerce Development Co., Ltd.* 赣州趣店商贸发展有限公司	PRC
Tianjin Happy Time Technology Development Co., Ltd.* 天津快乐时代科技发展有限公司	PRC
Xiamen Wanlimu Technology Co., Ltd.* 厦门万里目科技有限公司	PRC
Xiamen Wanlimu Growth Technology Co., Ltd.* 厦门万里目成长科技有限公司	PRC

* The English name of this subsidiary, consolidated VIE or subsidiary of consolidated VIE, as applicable, has been translated from its Chinese name.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Min Luo, certify that:

1. I have reviewed this annual report on Form 20-F of Qudian Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 29, 2021

By: /s/ Min Luo

Name: Min Luo

Title: Chairman and Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Yan Gao, certify that:

1. I have reviewed this annual report on Form 20-F of Qudian Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 29, 2021

By: /s/ Yan Gao

Name: Yan Gao

Title: Vice President of Finance

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Qudian Inc. (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Min Luo, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2021

By: /s/ Min Luo

Name: Min Luo

Title: Chairman and Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Qudian Inc. (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yan Gao, Vice President of Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2021

By: /s/ Yan Gao

Name: Yan Gao

Title: Vice President of Finance

天元律师事务所
TIAN YUAN LAW FIRM

10/F, Tower B, CPIC Plaza, No. 28 Fengsheng Lane, Xicheng District, Beijing 100032, China
Tel: 86 10 5776 3888 Fax: 86 10 5776 3777

April 29, 2021

Qudian Inc.

Tower A, AVIC Zijin Plaza
Siming District, Xiamen
Fujian Province 361000
People's Republic of China

as the “**Company**”

Dear Sirs,

We consent to the references to our firm under the heading “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure — If the PRC government deems that the contractual arrangements in relation to 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.” and “Item 4. Information on the Company—C. Organizational Structure—Our Contractual Arrangements with Consolidated VIEs and Their Shareholders” in Qudian Inc.’s Annual Report on Form 20-F for the year ended December 31, 2020 (the “**Annual Report**”), which is to be filed with the Securities and Exchange Commission (the “**SEC**”) on April 29, 2021. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Tian Yuan Law Firm
Tian Yuan Law Firm

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-224249) pertaining to the 2016 Equity Incentive Plan of Qudian Inc., and
- (2) Registration Statement (Form S-8 No. 333-249085) pertaining to the 2016 Equity Incentive Plan of Qudian Inc.;

of our reports dated April 29, 2021, with respect to the consolidated financial statements of Qudian Inc., and the effectiveness of internal control over financial reporting of Qudian Inc., included in this Annual Report (Form 20-F) of Qudian Inc. for the year ended December 31, 2020.

/s/ Ernst & Young Hua Ming LLP

Shanghai, The People's Republic of China

April 29, 2021