GRIZZLY Research

We Believe Qifu Technology, Inc. (NASDAQ: QFIN) is a China Hustle Stock with Outright Fake Financials, Fraudulent Backers, and an Imploding Business

By **GRIZZLY RESEARCH**, September 26, 2024

- According to SAIC data we obtained, QFIN has astronomically overstated its profit compared to the net income it disclosed in the SEC filings. Virtually all of QFIN's reported profits might be fake. We urge regulators to investigate the company's internal data because we suspect fraudulent activities.
- Given the significant overstatement of profits, we have serious concerns about the long-term sustainability of QFIN's announced dividend and stock buyback program.
- QFIN's controlling shareholder, Hongyi Zhou, has a track record of delivering terrible investment returns for other companies that he controls, both in Hong Kong and China A share stock markets, and has previously faced fraud allegations.
- Media reports in China corroborate our view that Hongyi Zhou is using QFIN as a piggy bank for other projects. Another example of questionable self-dealing is QFIN guaranteeing loans worth over 5 billion RMB for a related party, with unclear benefits for QFIN shareholders.
- We have identified a related party to QFIN, which Hongyi Zhou controls, that we suspect helps QFIN doctor its financials as it acted as if it was QFIN but kept off QFIN's balance sheet.
- QFIN's delinquency rates are skyrocketing while the company keeps reducing its loan provisions. We suspect the mounting receivables are largely made up to justify the missing cash while profits are supposedly at record highs.
- QFIN guarantees a large number of loans it carries outside its balance sheet, elevating the credit risk drastically. The media report in China corroborates our view that QFIN is likely responsible for the performance of a substantial, if not the majority, of its off-balance sheet loans. We believe QFIN is secretly overleveraged.
- Based on customer complaints, media reports, and our own due diligence, we believe that QFIN consistently issues loans at an annual rate that exceeds the legal limit. This, coupled with the challenges of guaranteeing performance amidst rising delinquency rates, could lead to increased regulatory intervention in China. We anticipate that it's only a matter of time before the regulator in China takes action against QFIN.
- QFIN's auditor, Deloitte Touche Tohmatsu Certified Public Accountants LLP, also audited infamous frauds such as GOTU (previous ticker: GSX). Its previous auditing partner seems to audit China Hustle stocks that incinerate investor capital exclusively.

IMPORTANT LEGAL DISCLAIMER

THIS REPORT AND ALL STATEMENTS CONTAINED HEREIN ARE THE OPINIONS OF GRIZZLY RESEARCH LLC AND ARE NOT STATEMENTS OF FACT.

Reports are based on generally available information, field research, inferences and deductions through Grizzly Research LLC's due diligence and analytical process.

Our opinions are held in good faith, and we have based them upon publicly available facts and evidence collected and analyzed including our understanding of representations made by the management of the companies we analyze, all of which we set out in our research reports to support our opinions, all of which we set out herein. HOWEVER, THEY REMAIN OUR OPINIONS AND BELIEFS ONLY.

We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report.

Grizzly Research LLC makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use.

We are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions and the underlying facts about the public companies we research is in the public interest, and that publication is justified due to the fact that public investors and the market are connected in a common interest in the true value and share price of the public companies we research. All expressions of opinion are subject to change without notice, Grizzly Research LLC does not undertake a duty to update or supplement this report or any of the information contained herein.

Recipients of the research report are professional investors who are expected to make their own judgment as to any reliance that they place on the research report. You represent that you have sufficient investment sophistication to critically assess the information, analysis and opinion on this website.

You further agree that you will not communicate the contents of reports and other materials on this site to any other person unless that person has agreed to be bound by these Terms of Use. If you access this website, download or receive the contents of reports or other materials on this website on your own behalf, you agree to and shall be bound by these Terms of Use. If you access our website, download or receive the contents of reports or other materials on this website as an agent for any other person, you are binding your principal to these same Terms of Use.

As of the publication date of GRIZZLY RESEARCH LLC'S report, Certain GRIZZLY RESEARCH LLC Associated Persons (AS DEFINED HEREUNDER) (along with or through its members, partners, affiliates, employees, and/or consultants), clients, and investors, and/or their clients and investors have a short position in the securities of a Covered Issuer (and options, swaps, and other derivatives related to these securities), and therefore will realize significant gains in the event that the prices of a Covered Issuer's securities decline. GRIZZLY RESEARCH LLC and GRIZZLY RESEARCH LLC Associated Persons are likely to continue to transact in Covered Issuers' securities for an indefinite period after an initial report on a Covered Issuer, and such position(s) may be long, short, or neutral at any time hereafter regardless of their initial position(s) and views as stated in GRIZZLY RESEARCH LLC'S research. One or more GRIZZLY RESEARCH LLC associated Persons have provided GRIZZLY RESEARCH LLC with publicly available information that GRIZZLY RESEARCH LLC has included in this report, following GRIZZLY RESEARCH LLC'S

independent due diligence. ***YOU SHOULD DO YOUR OWN RESEARCH AND DUE DILIGENCE BEFORE MAKING ANY INVESTMENT DECISION WITH RESPECT*** **TO THE SECURITIES COVERED HEREIN. THE OPINIONS EXPRESSED IN THIS REPORT ARE NOT INVESTMENT ADVICE NOR SHOULD THEY BE CONSTRUED AS INVESTMENT ADVICE OR ANY RECOMMENDATION OF ANY KIND. FOLLOWING PUBLICATION OF THIS REPORT, WE MAY CONTINUE TRANSACTING IN THE SECURITIES COVERED THEREIN, AND WE MAY BE LONG, SHORT, OR NEUTRAL AT ANY TIME HEREAFTER REGARDLESS OF OUR INITIAL OPINION.**

To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. Note that researched companies and insiders, agents, and legal representatives of researched companies and other entities mentioned herein may be in possession of material non-public information that may be relevant to the matters discussed herein. Do not presume that any person or company mentioned herein has reviewed our report prior to its publication.

This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction.

By downloading and opening this report you knowingly and independently agree: (i) that any dispute arising from your use of this report or viewing the material herein shall be governed by the laws of the State of [New York], without regard to any conflict of law provisions; (ii) to submit to the personal and exclusive jurisdiction of the superior courts located within the State of [New York] and waive your right to any other jurisdiction or applicable law, given that Grizzly Research LLC is a Delaware limited liability company; and (iii) that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to use of this website or the material herein must be filed within one (1) year after such claim or cause of action arose or be forever barred. The failure of Grizzly Research LLC to exercise or enforce any right or provision of this disclaimer shall not constitute a waiver of this right or provision. If any provision of this disclaimer is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as rejected in the provision and rule that the other provisions of this disclaimer remain in full force and effect, in particular as to this governing law and jurisdiction provision. You agree that the information on this website is copyrighted, and you therefore agree not to distribute this information (whether the downloaded _le, copies / images / reproductions, or the link to these _les) in any manner other than by providing the following link: https://GRIZZLYREPORTS.COM . If you have obtained research published by Grizzly Research LLC in any manner other than by download from that link, you may not read such research without going to that link and agreeing to the Terms of Use on the Grizzly Research LLC designated website.

"Grizzly Research LLC *Associated Person" is defined as:* Grizzly Research LLC *and its affiliates and related parties, including, but not limited to, any principals, officers, directors, employees, members, clients, investors, consultants, and agents.*

Please find our most recent disclaimer under https://GRIZZLYREPORTS.COM

Introduction

Qifu Technology, Inc. (NASDAQ: QFIN) is a major player in the credit-driven services sector, connecting borrowers with financial institutions in China and offering various types of loans. The company, previously known as 360 Jietiao, recently rebranded to Qifu Jietiao. Furthermore, the company changed its corporate identity from 360 DigiTech, Inc. to Qifu Technology, Inc. in March 2023. Since its establishment in 2016, the company has been headquartered in Shanghai, the People's Republic of China.

After months of research, we believe the company has reported fraudulent financials to the SEC and U.S. investors. In addition, we believe that QFIN is controlled by bad actors who use accounting games and related parties to doctor financials. It is also in active violation of the law in China, which will soon lead to a crackdown on its business operations.

SAIC Files Suggest Astronomical Profit Exaggeration, Financial Fraud, Untrustworthy Long-Term Dividend and Stock Buyback Plan

The State Administration for Industry and Commerce is the Chinese government body responsible for the supervision of business administration in China. Discrepancies between SEC and SAIC financial data have often been a key indicator for fraud – especially when the discrepancies are significant.

We obtained the SAIC financial data of the 6 subsidiaries QIFU disclosed in its SEC filing and compared the consolidated numbers to the financials the company disclosed in its SEC filings. The comparison suggests that the company has exaggerated over 1,000 times its net income in both 2022 and 2023, albeit with understated revenues in both years.

SAIC consolidated (in RMB)		**Total Revenues**	**Net Income**
	2022	21,523,710,700	3,149,000
	2023	19,662,942,000	3,082,600
SEC reported (in RMB)		**Total Revenues**	**Net Income**
	2022	16,553,930,000	4,005,568,000
	2023	16,290,027,000	4,268,577,000
Difference between SAIC & SEC reporting		**Total Revenues**	**Net Income**
	2022	-23.1%	127,101.3%
	2023	-17.2%	138,373.3%

Different accounting treatments cannot explain the delta in the financials filed with the SEC and SAIC. Let's call the kid by name: We allege that QFIN has been falsifying its SEC financials to portray the business as vastly more profitable than it is. Our belief that QFIN fraudulently falsified its SEC financials is strengthened by several factors, such as a range of other lies and

misrepresentations that our research uncovers and a key man behind QFIN that we believe to be dishonest and untrustworthy.

Falsified profits have many implications. We believe investors are too optimistic about the company's dividend and stock buyback program. QFIN is paying a semi-annual dividend of $0.60 per ADS ($1.20 per ADS annualized). However, considering the overstated profits, we believe the company's dividend and stock purchase program are not sustainable in the long run. Shareholders buying the stock based on its current dividend and stock buyback program could face a nasty surprise when these programs do not materialize or are adjusted downward in the future.

QFIN's Controlling Shareholder has a History of Destroying Shareholder Value and Fraud Allegations

Hongyi Zhou is a Chinese national and a key individual behind QFIN. He was chairman of the board until recently and resigned in August 2024 for "personal reasons", according to the company. He is also QFIN's biggest shareholder. He faces serious allegations in China, and his track record with public companies is horrible. Hongyi Zhou has repeatedly burned shareholder capital and faced fraud allegations.

HK3601 (360 Ludashi Holdings Limited)

HK3601 "develop a series of PC and mobile device utility software offered to users free of charge in exchange for online traffic that we monetize by online advertising and online game business," according to the company's description. One of the controlling shareholders is Mr. Hongyi Zhou, the biggest individual shareholder of QFIN and the A-share listed company 360 Security Technology Inc. (601360.SS). In September 2023, something very bizarre happened with HK3601 that caused an outcry in the investment community.

We have pointed out the timeline with the stock price chart to better illustrate what went on with the company HK3601.



On September 11, 2023, HK3601 announced that it might consider paying out a special dividend and wants to hold a board meeting on September 21, 2023, to discuss this matter. The company's stock soared based on the special dividend expectation and reached almost HK$2 a share from as low as about HK$1.10 a share a few days prior. However, on September 20, 2023, the company suddenly disclosed that its substantial shareholder, True Thrive Limited, which is ultimately controlled by Mr. Hongyi Zhou, sold over 34 million shares (12.77%) of the company and one day later on September 23, 2023, the company announced that the board meeting is canceled!

This series of moves made investors who purchased at high prices of HK3601 suffer a quick and devastating loss, and it was reported that some investors were suggesting to complain to the Hong Kong stock exchange regulator and believed the company "maliciously releasing dividend information and hyping up to offload stocks."

Hongyi Zhou seems ready and willing to take advantage of public investors.

HK3601 has been on a long-term downward trend ever since it went public in 2019.



360 Security Technology Inc. (601360.SS) (the previous ticker was QIHU before it went private)

360 is controlled by Mr. Hongyi Zhou, the chairman of QFIN's board of directors until August 2024 and still its biggest shareholder. Its business was previously listed on the U.S. stock market and went private in late 2015 through a purchase by Mr. Zhou and other investors. After it went private, the same company went public again in the China A share market in late 2017 through a reverse merger. Although the stock initially popped due to this transaction, it endured a multi-year steady decline to its current level of ~RMB 7+ a share.



Before QIHU went private, the company was also accused by Citron Research of fraud in 2011.

In 2023, another incident involved the A share public company 360 and its controlling shareholder, Mr. Zhou. The company announced in April 2023 that Mr. Zhou and his wife got divorced, and the joint assets had been dealt with. This announcement brought much controversy at the time because some investors and media members were questioning the intention of this divorce. For example, this article gave some background on this incident. The stock price of 360 went up over 186% from February to early April 2023 because it was considered part of the ChatGPT theme in the A-share market, and the divorce announcement was right when the stock was at its peak level back then. Although the IR of 360 tried to clear the speculation that this divorce was pre-planned so that Mr. Zhou was allowed to decrease the holding of 360, there are still people from the media who don't believe the IR's clarification, according to this article. After this incident, it was reported that the China CSRC seemed to try to strengthen the rules around insider lock-ups, specifically addressing incidents such as a divorce, which make it harder for controlling shareholders or significant shareholders to sell off their shares under these circumstances.

We believe the long-term performance of different entities that the same person controls can be a valuable indication of that person's business acumen and ability to reward the shareholders who believe in him. So far, 360 Security Technology Inc. (601360.SS) and HK3601 show the same pattern. With the current business model and economic condition in China, we believe it is highly likely that QFIN will undergo the same downtrend in the future.

Hongyi Zhou Seems to Abuse QFIN as His Personal Piggy Bank Based on Media Report

Recently one investigative report in China laid out multiple questions about 360 Group, the controlling shareholder Mr. Zhou, and QFIN. The report shows, QFIN seems to be providing

capital to the 360 Group and its biggest shareholder, Mr. Zhou, for so-called headquarters projects:

- 360 Group and another real estate company jointly established a project company. This project company spent RMB 230 million on two industrial lands and planned to invest RMB 2 billion to build 360's East Regional Headquarters. The project was supposed to be completed in 2021, but it was halted in 2021 and didn't resume construction until early 2023. One of the main reasons might be that the real estate partner is in a debt crisis.
- In 2020, there were online reports that 360 Group and Putuo District of the City of Shanghai would build "Shanghai 360 Big Safety Headquarters" with a promised total investment of RMB 5 billion within 3 years. At the end of 2020, QFIN, 360 Group, and an SOE jointly established an entity, and later on, 360 Group transferred its equity interest to QFIN, resulting in QFIN holding 70% of the company as the majority shareholder. In February 2021, this joint company spent RMB 1 billion (QFIN spent RMB 700 million, and the SOE spent RMB 300 million) to acquire industrial land in the Huangpu District of the City of Shanghai.
- The report questioned how many east regional headquarters Mr. Hongyi Zhou planned to build. Although the headquarters project in Hangzhou stopped, will there be two 360's east regional headquarters in both Putuo District and Huangpu District of the City of Shanghai?

The report shows that QFIN has always been part of the capital provider for 360 Group's headquarters development plan. This kind of report should raise legitimate questions on whether 360 Group and Mr. Zhou use QFIN as a piggy bank for their various projects and endeavors.

We Believe QFIN is Using a Related Party, Shanghai Qibutianxia, to Doctor its Financials

A common theme that we have seen with fraudulently operating companies, especially in China, is that they control off-balance-sheet entities in essentially the same business. This allows them to essentially use the private companies as "Cookie Jars" and move costs and revenue between public and private companies depending on what they want to show investors. We believe QFIN is guilty of this scheme, and we think we may have identified the entity QFIN uses to do so.

Shanghai Qibutianxia Information Technology Co., Ltd. ("Shanghai Qibutianxia", formerly known as Beijing Qibutianxia Technology Co., Ltd.) was established on November 27, 2006. According to QFIN's disclosure, "Shanghai Qibutianxia and its subsidiaries are related parties, as Shanghai Qibutianxia is an affiliate of Mr. Hongyi Zhou, the chairman of our board of directors."







Source: Qichacha

On its registered website, Shanghai Qibutianxia showed two WeChat accounts named gf360DigiTech and i-360jinrong, respectively. The first account is directed to Qifu Technology's

account, which is run by Shanghai Qiyu Information Technology Co., Ltd (a subsidiary of QFIN); and the second account is directed to 360 Finance Technology run by Beijing Qibutianxia Technology Co., Ltd (Shanghai Qibutianxi's previous name). The first account is up to date, meaning it has published articles lately. The second account hasn't published an article since February 2018.

In the meantime, according to QFIN's disclosure, it has transacted with Shanghai Qibutianxia and its subsidiaries in the past few years. The table below summarizes the related party transaction between QFIN and Shanghai Qibutianxia.

RMB millions	2021	2022	2023
For services provided by Shanghai Qibutianxia and its subsidiaries to us	354.7	355.8	119.7
For services provided by us to Shanghai Qibutianxia and its subsidiaries	1.4	—	0.1
Amounts due from Shanghai Qibutianxia and its subsidiaries to us	0.2	24.3	0.2
Amounts due from us to Shanghai Qibutianxia and its subsidiaries	40.7	3.1	3.1
Outstanding loan under joint back-to-back guarantee arrangement with Shanghai Qibutianxia	**11,803.5**	**3,575.9**	**5,239.0**

Source: company filings

We find it troubling that QFIN has a joint back-to-back guarantee arrangement with Shanghai Qibutianxia for such a large amount. What does Shanghai Qibutianxia do exactly? According to the introduction on Qichacha, Shanghai Qibutianxia does technology development, technical consulting, and technology promotion; computer system services; design, production, agency, and publication of advertisements; sales of communication equipment, electronic products, computer software and hardware, and auxiliary equipment.

However, this recruitment website shows the company page of Beijing Qibutianxia Technology Co., Ltd (Shanghai Qibutianxi's previous name), where it has the logo of 360 DigiTech. QFIN changed its name from 360 DigiTech, Inc. to Qifu Technology, Inc. in March 2023.



We find it troubling that Shanghai Qibutianxia is acting as if it were QFIN, which is not consolidated on its balance sheet.

We also noticed that another recruitment website shows Shanghai Qibutianxia's employee count over 10,000.



According to QFIN's disclosure, it "had 2,129 employees as of December 31, 2021, 2,199 as of December 31, 2022, and 3,121 as of December 31, 2023." However, the first recruitment website shows Shanghai Qibutianxia's employee size is between 5,000 and 9,999, and the second recruitment website shows Shanghai Qibutianxia has over 10,000 employees.

We find this big employee count for Shanghai Qibutianxia odd because the company has no discernible business operations, online or physical presence we could identify.

We believe it is highly likely that QFIN uses Shanghai Qibutianxia to keep employee costs off its books.

While the Credit Portfolio is Imploding, Management's only Answer seems to be Accounting Shenanigans

According to the company, it primarily monitors "the cumulative performance of loans facilitated by us as of a given measurement date via 90-day+ delinquency rates, and evaluate the healthiness of loans facilitated by us in each fiscal quarter through 180-day+ vintage delinquency rates."

The table below summarizes the 90-day+ delinquency rates from 2019 to Q2 2024.

	2019	2020	2021	2022	2023	Q1 2024	Q2 2024
90 day+ delinquency rate	1.30%	1.48%	1.54%	2.03%	2.35%	3.35%	3.40%

Source: company filings

The company's delinquency rate has clearly been on an upward trend in the past few years. Rising delinquency rates are obviously an issue for QFIN, as it must guarantee the performance of these loans.

In addition, we suspect that the company has been using the provisions for the receivables to manipulate the reported earnings. The table below shows the total receivables, including

accounts and contract assets, financial assets, and loan receivables. According to the company's income statement, there were four items on provisions, which in total accounted for 54.5% and 50.4% of the total operating costs and expenses in 2022 and 2023, respectively.

RMB'000	2022	2023			2023 H1	2024 H1	
Current assets							
Accounts receivable and contract assets, net	2,868,625	2,909,245			2,808,531	2,102,292	
Financial assets receivable, net	2,982,076	2,522,543			2,746,010	1,528,003	
Loans receivable, net	15,347,662	24,604,487			21,430,147	26,722,713	
Non-current assets							
Accounts receivable and contract assets, net-noncurrent	261,319	146,995			172,413	51,375	
Financial assets receivable, net-noncurrent	688,843	596,330			522,451	232,571	
Loans receivable, net-noncurrent	3,136,994	2,898,005			2,881,248	2,859,871	
			change in %				change in %
Total Receivables	**25,285,519**	**33,677,605**	**33.2%**		**30,560,800**	**33,496,825**	**9.6%**
Provision for loans receivable	1,580,306	2,151,046			1,002,170	1,697,429	
Provision for financial assets receivable	397,951	386,090			151,017	169,169	
Provision for accounts receivable and contract assets	238,065	175,799			44,970	235,239	
Provision for contingent liabilities	**4,367,776**	**3,053,810**			**1,437,924**	**103,397**	
			change in %				change in %
Total Provisions	**6,584,098**	**5,766,745**	**-12.4%**		**2,636,081**	**2,205,234**	**-16.3%**
Provisions as % of total receivables	26.0%	17.1%			17.3%[1]	13.2%[1]	

Note 1: to simplify, this number was annualized by multiplying the half-year % by 2

Source: company filings, Grizzly analysis

The company's total receivables increased from 25.3 billion RMB in 2022 to 33.7 billion RMB in 2023, an increase of 33.2%, yet its total provisions recorded on its income statement as costs/expenses decreased from 6.6 billion RMB in 2022 to 5.8 billion RMB in 2023, a decrease of 12.4%. To put into perspective, the total provisions as % of the total receivables were 26.0% in 2022, but this ratio decreased to 17.1% in 2023. For the first half of 2024, the total receivables increased from 30.6 billion RMB from the same period in 2023 to 33.5 billion RMB, an increase of 9.6%, yet its total provisions were 2.6 billion RMB in the first half of 2023 and 2.2 billion RMB in the first half of 2024, a 16.3% decrease year over year. The annualized total provisions as of the total receivables were 17.3% for the first half of 2023, but this ratio further decreased to 13.2% for the first half of 2024. However, in the meantime, the company's credit quality of the total loans has kept declining, because its 90 day+ delinquency rate increased from 2.03% in 2022 to 2.35% in 2023, and further increased to 3.40% in Q2 2024. It seems unreasonable to us that the provisions are decreasing while the receivable balance is increasing and delinquency rates are rising.

Despite the reported increased operating income and net income both from 2022 to 2023 and from 1H 2023 to 1H 2024, the company's cash and cash equivalents decreased from 10.5 billion RMB in 2022 to 8.4 billion RMB as of June 30, 2024, about 2.1 billion RMB decrease. We believe QFIN is forced to move balance sheet items around because its reported profits are fake, and it has to justify where the missing cash went.

Our Research Indicates that QFIN is Vastly More Levered than it Appears

QFIN does not only carry loans on its books. The company also has a big portion of loans that are off-balance sheet. Even though these loans are off-balance sheet, the company still needs to "guarantee the repayment either through the VIEs with financing guarantee license or third-party guarantee companies or insurance companies" for a portion of these.

The table below summaries the ratio of loans to equity if investors include off-balance loans.

RMB millions	2021	2022	2023
On-balance sheet loans	13,349	19,512	29,257
Total loans (on-balance + off-balance)	141,987	163,465	186,478
Shareholder equity	15,204	18,847	21,937
On-balance sheet loans/Equity	0.9	1.0	1.3
Total Loans/Equity	**9.3**	**8.7**	**8.5**

Source: company filings, Grizzly analysis

The real leverage is likely much higher than suggested by the on-balance sheet portion, although the company is not transparent in how much of the off-balance sheet loans it has to guarantee. The table above assumes that the company guarantees all the off-balance sheet loans. Combined with the worsening delinquency rate, we believe the off-balance sheet loans to be a major risk for QFIN which is soon to materialize.

It was reported by the investigative article that although financial institutions lent out most loans to borrowers, QFIN still needs to provide guarantees for those loans, essentially acting as a backstop for the financial institutions' loans.

> 清流工作室发现，虽然大部分贷款业务由金融机构直接放款给借款人，奇富科技并不经手资金，但依然要为这些贷款提供担保，为金融机构的贷款"兜底"。
>
> **Translation**
> *Qingliu Studio found that although most loan transactions are directly lent out by financial institutions to borrowers, and Qifu Technology does not handle the funds, it is still required to provide guarantees for these loans, essentially acting as a backstop for the financial institutions' loans.*

In addition, the report also stated that when the loans both facilitated by QFIN and lent out by QFIN itself went into default, the 360 Jietiao platform would eventually handle the debt collection.

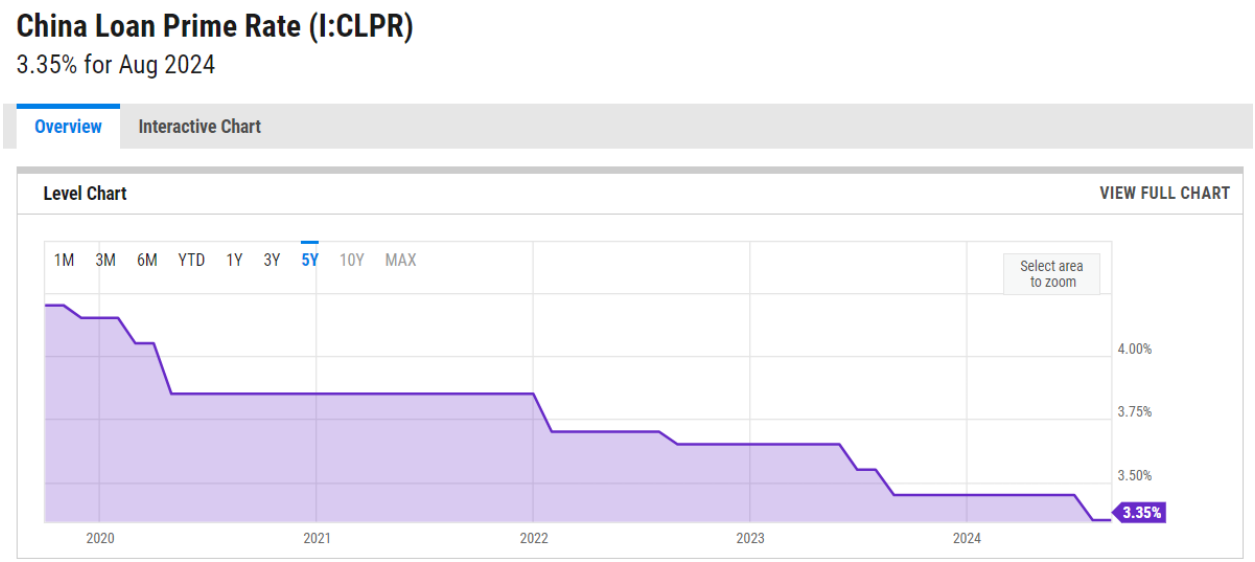
> 但显然，无论是撮合贷款还是自有资金贷款发生违约，最终都要由360借条平台来进行催债。
>
> **Translation**
> *However, it is evident that whether it is facilitating loans or using its own funds for lending, in the event of default, it is ultimately the 360 Jietiao platform that will handle the debt collection.*

This is especially troublesome because we believe the company's business practices are violating the rules/laws in China, as the annual rate of the loans lent out or facilitated by the company seems to be much higher than the maximum rates that the regulators require. Our research indicates that pressure on lending platforms in China is mounting.

QFIN's Loans have Annual Rates that are Way Over the Regulatory Approved Rates – Why We Believe Regulators Might Crack Down on the Business

The Chinese government's rules on private lending have been very clear: The interest rate on loans should not exceed quadruple the one-year loan prime rate.

As China's economy continues to underperform, the central bank has been decreasing the loan prime rate along the time. The chart below shows that the current primate rate is 3.35% as of August 2024.



Source: ycarts.com

As the regulation currently only allows 4 times of LPR, then the annual rate that QFIN facilitates or lends out should be at most 13.8%.

In its Hong Kong second-time listing prospectus, QFIN stated that its effective APR was 22.6%, much higher than the 13.8%.

However, according to the reports in China, QFIN's interest rates are in practice astronomically higher resulting in extreme cases such as a borrower knifing a QFIN employee in one of QFIN branches. One media report stated that one person complaining online has an annualized rate of 186%.

In addition, the most recent complaints suggest that QFIN is still lending much more than the legal capped rate in China. For example, the complaint below says the annualized rate is 30.8% to 30.9%.



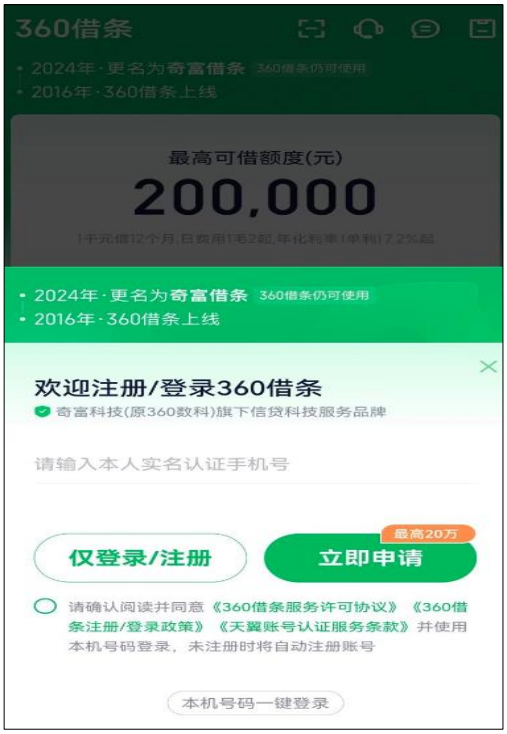
Source: tousu.sina.com.cn

Translation

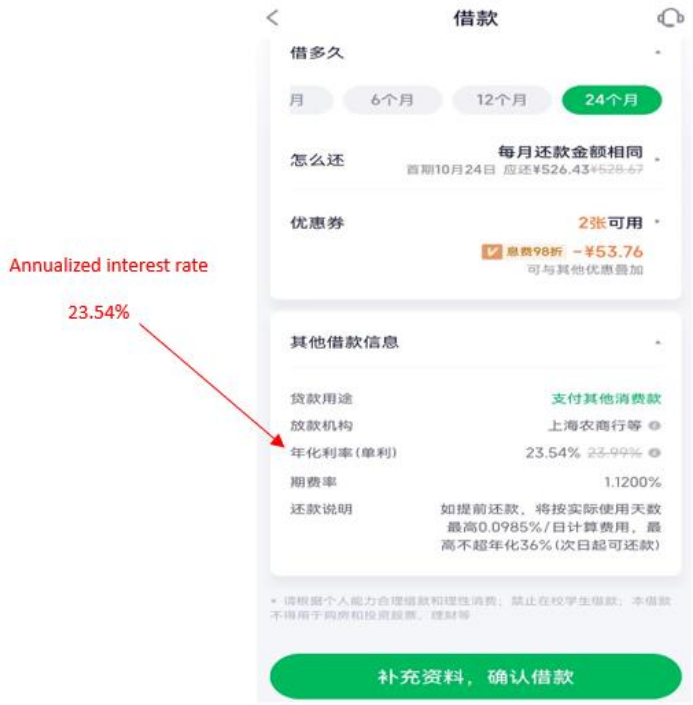
Borrowed 49,300 RMB on 360 Jietiao on May 7th, 2021, and its interest rate is higher than the country's standard mortgage rate, it is usury, with an annualized interest rate of 30.91%, and another loan with an interest rate of 30.82%.

The company acknowledged this risk in its annual report, and we believe it is fully aware that its current business practices and interest rate exceed the quadruple LPR limit. We believe QFIN is walking a tightrope by actively violating Chinese laws and regulations. This also makes collecting interest in excess of the legal limit effectively illegal and practically more difficult.

It was reported that there are many complaints about QFIN engaging in unlawful debt collection practices, and this article listed a few examples. Our due diligence team tried to borrow money from QFIN's lending platform 360 Jietiao mobile application (name changed to Qifu Jietiao recently).







Source: 360 Jietiao

On the platform, it shows that if a borrower wants to borrow 10,000 RMB for 24 months, the annualized interest rate is 23.54%, which is way higher than 13.8%. If the borrowing duration changes to 12 months, the annualized interest rate slightly changes to 23.41%. Either way, it can be found that QFIN is still lending or facilitating loans at an annualized interest rate that is much higher than the rule required upper limit.

We believe the regulators are aware of the high-interest loans issue and are collecting evidence. For example, in December 2023, there was an article talking about a province that has been asking all of its units or departments to gather information on high-interesting borrowing from individuals and private enterprises. Interestingly, 8% is the cut that is considered a high-interest rate loan in this case, which is much lower than the rates of QFIN's loans.

> 记者从多位地方投融资人士处了解到，近期某省下发通知，要求各单位开展自查自纠，全面排查是否存在向个人和民企高息借款的问题，存在相关情况的，需填报相关内容。该省界定的高息借款，指年利率8%以上的借款。
>
> **Translation**
> *The reporter has learned from multiple local investment and financing personnel that a certain province recently issued a notice requiring all units to conduct self-examination and rectification and to thoroughly investigate whether there are cases of high-interest borrowing from individuals and private enterprises. If such situations exist, the relevant information must be reported. The province defines high-interest loans as those with an annual interest rate exceeding 8%.*

We believe regulatory intervention is an existential risk that is underappreciated by shareholders. Based on our experience with previous regulatory interventions, for example, in the private tutoring sector, once the crackdown happens, the related companies could mark down substantially overnight as Chinese regulators are shutting down practices in disregard of losses that foreign shareholders are facing.

Auditor and Engagement Partners do not Give Confidence

The company's auditor is Deloitte Touche Tohmatsu Certified Public Accountants LLP, who is also the auditor of the infamous fraud GOTU (previous ticker GSX). In addition, the engagement partner's name has been Hui Zhu since 2022, and it appears QFIN is the only company Hui Zhu's audits. The engagement partner for QFIN from 2017 to 2021 is Kai-Wen Lin who also audited:

- Ruhnn Holding Limited (previous ticker: RUHN; a Chinese KOL firm that went public in 2019 at $12.5 per share, and went private at $3.50 per share in 2021, an over 70% permanent loss for shareholders if they held shares from IPO)

- Jupai Holdings Limited (another fintech company from China, which was delisted, and the current ticker is JPPYY)



- 111, Inc (ticker: YI; IPO at $14.00 per share in 2018, currently trading at $0.6)



- Baozun Inc. (ticker: BZUN; IPO at $10.00 per share in 2015, currently trading at $2.68)



Insiders have been Continuous Unloading Shares along the Way

Based on our estimation, the insiders have unloaded worth of over $230 million QFIN's stocks since 2020. The table below summarizes the timings and sales.

Date	Entity	Relationship	Amt	Price	Aggregate Market Value
Dec 16th 2020	Splendid Tiger Limited	Affiliate	1,000	$ 11.85	$ 11,850.00
March 18th, 2021	True Warrior Limited	Affiliate	228,169	$ 2.69	$ 5,861,000.00
March 26th, 2021	Splendid Tiger Limited	Affiliate	67,000	$ 32.54	$ 2,180,180.00

March 26th, 2021	Smart Defender Limited	Affiliate	226,394	$ 32.54	$ 7,366,860.76
March 26th, 2021	True Warrior Limited	Affiliate	59,598	$ 32.54	$ 1,939,318.92
March 29th, 2021	Holy Vanguard Limited	N/A	300,000	$ 25.19	$ 7,557,049.00
March 29th, 2021	Holy Vanguard Limited	N/A	200,000	$ 27.63	$ 5,525,848.00
March 29th, 2021	Holy Vanguard Limited	N/A	10	$ 32.24	$ 322.40
April 13th, 2021	Holy Vanguard Limited	N/A	18,805	$ 27.47	$ 516,573.25
April 13th, 2021	Splendid Tiger Limited	Affiliate	4,800	$ 23.50	$ 112,800.00
April 13th, 2021	XU ZUOLI	Affiliate	5,000	$ 33.58	$ 167,900.00
June 9th, 2021	Holy Vanguard Limited	N/A	500,000	$ 31.51	$ 15,753,781.00
June 10th, 2021	XU ZUOLI	Affiliate	7,418	$ 28.07	$ 208,223.26
June 10th, 2021	True Warrior Limited	Affiliate	32,402	$ 33.76	$ 1,093,891.52
June 14th, 2021	Smart Defender Limited	Affiliate	139,289	$ 31.21	$ 4,347,209.69
June 14th, 2021	XU ZUOLI	Affiliate	1,000	$ 36.57	$ 36,570.00
June 14th, 2021	XU ZUOLI	Affiliate	1,000	$ 31.21	$ 31,210.00
June 23rd, 2021	XU ZUOLI	Affiliate	4,000	$ 39.21	$ 156,840.00
June 23rd, 2021	Splendid Tiger Limited	Affiliate	7,000	$ 42.49	$ 297,428.63
June 28th, 2021	Splendid Tiger Limited	Affiliate	34,000	$ 32.81	$ 1,115,553.00
July 12th, 2021	Splendid Tiger Limited	Affiliate	10,713	$ 42.08	$ 450,831.00
July 12th, 2021	True Warrior Limited	Affiliate	756	$ 43.27	$ 32,713.00
August 13th, 2021	Splendid Tiger Limited	Affiliate	7,000	$ 42.49	$ 297,428.63
August 13th, 2021	Splendid Tiger Limited	Affiliate	10,713	$ 42.08	$ 450,831.00
August 13th, 2021	XU ZUOLI	Affiliate	4,000	$ 39.21	$ 156,840.00
March 17th, 2022	Holy Vanguard Limited	N/A	124,307	$ 12.00	$ 1,491,684.00
March 17th, 2022	True Warrior Limited	Affiliate	3,824	$ 12.00	$ 45,888.00
March 17th, 2022	Splendid Tiger Limited	Affiliate	1,000,000	$ 12.00	$ 12,000,000.00
April 4th, 2022	Smart Defender Limited	Affiliate	91,623	$ 16.80	$ 1,539,266.00
April 4th, 2022	Splendid Tiger Limited	Affiliate	800,000	$ 16.80	$ 13,440,000.00
April 5th, 2022	Holy Vanguard Limited	N/A	564,814	$ 16.80	$ 9,488,875.00
July 8th, 2022	Holy Vanguard Limited	N/A	264,814	$ 17.23	$ 4,562,745.00
July 8th, 2022	Splendid Tiger Limited	Affiliate	800,000	$ 17.23	$ 13,784,000.00
July 8th, 2022	Smart Defender Limited	Affiliate	91,623	$ 17.23	$ 1,578,664.00
July 25th, 2022	Holy Vanguard Limited	Affiliate	300,000	$ 16.61	$ 4,983,000.00
July 25th, 2022	XU ZUOLI	Affiliate	11,292	$ 15.59	$ 176,042.28
July 25th, 2022	Holy Vanguard Limited	Affiliate	80,004	$ 16.80	$ 1,344,067.20
Dec 2nd, 2022	Splendid Tiger Limited	Affiliate	5,000	$ 13.42	$ 67,100.00
Dec 6th, 2022	Splendid Tiger Limited	Affiliate	12,000	$ 14.56	$ 174,720.00
Dec 6th, 2022	Splendid Tiger Limited	Affiliate	10,000	$ 15.69	$ 156,900.00
Dec 7th, 2022	Splendid Tiger Limited	Affiliate	82,000	$ 14.67	$ 1,202,800.00
Dec 8th, 2022	Splendid Tiger Limited	Affiliate	36,000	$ 17.04	$ 613,440.00
Dec 15th, 2022	Liu Wei	Affiliate	20,057	$ 17.04	$ 341,771.28
Dec 15th, 2022	Liu Wei	Affiliate	77,805	$ 15.90	$ 1,237,099.50
Dec 15th, 2022	Liu Wei	Affiliate	25,000	$ 16.84	$ 421,000.00
Dec 16th, 2022	Liu Wei	Affiliate	47,974	$ 17.29	$ 829,596.16
Dec 16th, 2022	Splendid Tiger Limited	Affiliate	37,000	$ 17.52	$ 648,240.00
Dec 19th, 2022	Splendid Tiger Limited	Affiliate	11,243	$ 18.18	$ 204,397.74
Dec 20th, 2022	Splendid Tiger Limited	Affiliate	32,757	$ 18.05	$ 591,267.85
Dec 20th, 2022	Liu Wei	Affiliate	64,900	$ 17.52	$ 1,137,048.00

Dec 21st, 2022	Splendid Tiger Limited	Affiliate	13,000	$ 17.78	$ 231,140.00
Dec 22nd, 2022	He Zhiqiang	Affiliate	4,656	$ 17.71	$ 82,457.76
Dec 22nd, 2022	He Zhiqiang	Affiliate	27,278	$ 16.84	$ 459,361.52
Dec 22nd, 2022	He Zhiqiang	Affiliate	2,373	$ 17.25	$ 40,935.92
Dec 23rd, 2022	Splendid Tiger Limited	Affiliate	18,000	$ 17.96	$ 323,280.00
Dec 27th, 2022	Splendid Tiger Limited	Affiliate	144,000	$ 18.12	$ 2,609,280.00
Dec 28th, 2022	Splendid Tiger Limited	Affiliate	21,000	$ 19.50	$ 409,500.00
Dec 30th, 2022	Splendid Tiger Limited	Affiliate	12,000	$ 19.38	$ 232,560.00
Dec 30th, 2022	Splendid Tiger Limited	Affiliate	82,000	$ 19.26	$ 1,579,320.00
Jan 5th, 2023	Splendid Tiger Limited	Affiliate	14,000	$ 20.34	$ 284,760.00
Jan 11th, 2023	Holy Vanguard Limited	N/A	73,494	$ 19.50	$ 1,433,133.00
Jan 11th, 2023	Holy Vanguard Limited	N/A	91,320	$ 18.12	$ 1,654,718.40
Jan 11th, 2023	XU ZUOLI	Affiliate	10,000	$ 19.26	$ 192,600.00
Jan 18th, 2023	XU ZUOLI	Affiliate	20,000	$ 23.00	$ 460,000.00
Jan 18th, 2023	XU ZUOLI	Affiliate	10,000	$ 20.36	$ 203,600.00
Jan 18th, 2023	XU ZUOLI	Affiliate	40,000	$ 20.90	$ 836,000.00
March 29th, 2023	Zheng Yan	Affiliate	2,901	$ 17.53	$ 50,854.53
March 31st, 2023	Ruby Finance Holdings Ltd	0% shareholder with a director seat	1,740,249	$ 19.40	$ 33,760,830.60
August 24th, 2023	Zhiqiang He	Officer	140,693	$ 15.54	$ 2,186,369.22
Jan 5th, 2024	Zhou Hongyi	Director	1,359,261	$ 17.00	$ 23,107,437.00
March 22nd, 2024	Zhiqiang He	Officer	52,500	$ 19.90	$ 1,044,750.00
March 22nd, 2024	Yan Zheng	Officer	165,000	$ 19.90	$ 3,283,500.00
August 23rd, 2024	Yan Zheng	Officer	250,000	$ 24.84	$ 6,210,000.00
Sept 4th, 2024	Zhiqiang He	Officer	196,853	$ 25.90	$ 5,098,492.70
Sept 5th, 2024	Andrew Y Yan	Director	800,000	$ 26.49	$ 21,192,000.00
				TOTAL	**$ 234,695,545.72**

Source: Refinitiv

Conclusion

QFIN is an example of what we view as a classic China Hustle. We believe the underlying business is sub-par and deteriorating, and regulatory intervention might shut down the company any day. We were not surprised to find out that QFIN is reporting different financials to Chinese regulators, but to find out that almost all of the SEC-reported profits from the last two years seem to be fabricated even shocked us. The key man behind QFIN, Hongyi Zhou, is, in our opinion, a bad actor who is taking advantage of the company to the detriment of public shareholders. The fact that QFIN shares its auditor with one of the most noteworthy China frauds, GOTU, formerly GSX, only adds to the picture that the company should not be trusted.