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EDITED TRANSCRIPT

Fanhua Inc To Comment on Stock Trading Activities-
Conference Call

EVENT DATE/TIME: AUGUST 28, 2018 / 11:30AM GMT



CORPORATE PARTICIPANTS

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

Oasis Qiu *Fanhua Inc. - IR Manager*

Peng Ge *Fanhua Inc. - CFO & Director*

CONFERENCE CALL PARTICIPANTS

Dan Tian *China International Capital Corporation Limited, Research Division - Analyst*

PRESENTATION

Operator

Thank you for standing by for today's conference call. (Operator Instructions) For your information, this conference call is now being broadcasted live over the Internet. Webcast replay will be available within 3 hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhuaholdings.com under the Events and Webcasts section. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I'd like to turn the meeting over to your host for today's conference, Ms. Oasis Qiu, Fanhua's Investor Relations Manager. Thank you. Please go ahead.

Oasis Qiu *Fanhua Inc. - IR Manager*

Good morning -- good evening. Welcome to our conference call. Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. The accuracy of the statement may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include but not limited to those outlined in our filings with the SEC, including our registration statement on Form 20-F. We do not undertake any obligation to update this forward-looking statement except as required under applicable law.

Joining us today are our Chief Executive Officer, Mr. Chunlin Wang; and Chief Financial Officer, Mr. Peng Ge; Board Secretary, [Lily Lee]. Mr. Wang will provide you today with -- [about recent] unusual stock trading objectives. And then the management will take your questions after the prepared remarks. Now I will turn the call over to Mr. Wang.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

Welcome to our conference call today.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

We have noticed that recently there has been a report targeted at Fanhua. We believe that this report is meant to muddy the water and mislead the public. It is completely fictitious and the questions raised about Fanhua exposes the author's deficient knowledge of Chinese insurance industry, insurance intermediary business and Fanhua. Of course, it also indicates that we are getting more attention from the market. We warmly welcome investors with good vow to chitchat of the long-term development of Fanhua. And upholding the principle of transparency, we hold this investor conference call to provide more insight about Fanhua in order to help more investors with goodwill to gain more understanding about us.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)



Oasis Qiu Fanhua Inc. - IR Manager

The company has maintained sound development with business outpacing the industry and our peers and our operating profits and maintaining high growth momentum and (inaudible)

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

The number of our sales force and effective performing agents and -- are legitimate and aligned with the industry norm and level.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Our registered sales force, as disclosed in our quarterly report, were all registered and verified through our sales support system with chaceable records. Our registered sales force has grown from 210,000 in 2016 to 630,000 in the second quarter of 2018. And among all of the performing sales agents, performing life insurance agents have increased from [7 8,000] in 2016 to 66,000 in single quarter in the second quarter of 2018. The growth rate is perfectly in line with our business growth.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

According to the statistics released by the CIRC, the number of Chinese insurance sales agents have exceeded 8 million. As the largest insurance broker in China, Fanhua's 630,000 sales agents all represent less than 8% of the total in the industry, which means that there's still much room for us to expand our sales force. As a matter of fact, the growth of our sales personnel is accelerating with a net increase of about 25,000 agents per month. It is expected that our sales force will reach 800,000 by the end of this year, and we are fully confident that it will reach 1 million by 2019. To improve the quality and efficiency of our sales force, our company will strengthen training and introduce the mechanism to weed out disqualified agents so as to ensure the continued growth in per capita productivity and per capita income, helping our sales agents to earn high income in the industry.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And secondly, we believe that strengthening efforts to develop the life insurance is the wisest strategic choice Fanhua has ever made. And it's also the future chance for professional insurance intermediary companies in China.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Fanhua was established in 1998. Even though we started our business by offering auto insurance, we firmly believed that life insurance is our future direction. In 2005, when Aviva-COFCO became the first life insurance company to outsource distribution to insurance intermediaries, Fanhua is the first insurance intermediary company that is fully engaged in the life insurance distribution business.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)



Oasis Qiu Fanhua Inc. - IR Manager

From 2006 to 2014, the growth of the Chinese life insurance industry was quite slow. The main reasons for the pricing of premium rate of life insurance products was not liberated. As a result, the traditional life insurance products were not competitive as compared to financial products in the high interest rate macro environment. On the other hand, consumers' awareness of insurance is yet to be awakened. During this period, Chinese life insurance agencies and brokers developed quite slowly, so did Fanhua. In 2015, Chinese insurance market ushered in a new rounds of upward trend cycle, which was mainly driven by factors such as the pricing rate reform, consumers' awakening insurance awareness, lowering market rate and stock market crash in 2015, et cetera. And from 2006 to 2014, Fanhua kept forging its sales capability of life insurance, accumulating our talent pool, developing online technology, improving product offerings and strengthening sales competitiveness, which have all outperforming -- outperformed the equivalent of the industry peers. Thus our company could seize the opportunity at the turning point of the upward trend and realize fast growth. The first year premium of life insurance hit [RMB 170 million] in 2014 and [RMB 270 million] in 2015, RMB 1.08 billion in 2016, and RMB 2.5 billion in 2017. The 13-month persistency ratio remained about 93% and our quality of business takes the lead in the industry, thus the check of fast profit growth has been found.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Operating income of the second quarter of 2018 grew 77.2% year-over-year to RMB 127.6 million. All the metrics show strong growth momentum. So the life insurance premiums reached RMB 1.5 billion, up 69.8% year-over-year, outpacing the overall industry growth rate. This was driven by the strong growth across all of the key operational metrics in our life insurance segment, as highlighted below. First, annualized insurance premiums from the health insurance business were up 177.1% year-over-year, accounting for 79.4% of our total life insurance business as compared to 42.7% a year ago. Second, first year premiums on regular insurance products grew by 41.4% year-over-year to approximately RMB 715 million, which is attributable to the strong year-over-year growth of 143.9% in the number of insurance policies sold during the second quarter of 2018. Even though the average per policy premium for health insurance products, which has become the main products for the company, is typically lower than that of annuity and endowment insurance products. Rapid expansion of sales force and continue into the second quarter of 2018 was the number of registered sales agents growing 92.2% year-over-year to 630,993 and number of performing sales agents for life insurance growing 97% year-over-year to 66,654 during the quarter. And fourth, life insurance premiums from renewals increased by 109.1% year-over-year to RMB 763.9 million. In the meantime, our 13-month persistency ratio outperforming the industry average have remained above 94%. We firmly believe in the value of our long-term regular life insurance business as it provides the company with stable and recurring revenues and profits for years to come, which are crucial to the sustainable and sound development of the company over the long run. We're pleased that our commitment to the long-term regular life insurance business has started to produce results as evidenced by the solid performance during the quarter.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Earlier this year, we had made our prediction that the personal life insurance would decline because of the swell of the fast-return annuity and universal life insurance that drove the fast growth of premiums last year would cool down this year, which was mainly affected by the rising interest rate and products transition as a result of the intensify insurance regulations. But we believe that there are huge room for the security products of life insurance to grow and that the development trend of life insurance market have not fundamentally changed. And long-term protection-typed life insurance products have always been our main product. Therefore, we are confident that we can realize positive growth of new policies of life insurance, achieve operating profit no less than 40% year-over-year. As of now, all the metrics are in line with the expectation.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And secondly, we had spinoff our P&C subsidiaries and started the transition towards a platform-based business model for the P&C business, which mainly based on the changes in the market environment, and also because of the original profit model of P&C insurance intermediary being damaged. As a matter of fact, a lot of the insurance intermediaries who solely focus on selling P&C insurance products have quite difficult time, and a lot of them have been suffering from huge loss. So many insurance intermediary have started to follow suit -- follow Fanhua's examples and they also started to transition towards selling life insurance products.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And we believe that the decision to transition towards P&C platform business model is quite farsighted and it helps reduce the company's operating costs and improve the gross margin on the P&C side. And we believe that any mature insurance -- mature industry should upgrade itself by transforming itself and so does the Chinese life insurance intermediary. And as we -- I mentioned just now, Fanhua has started to spinoff our sales subsidiaries and transition towards the platform business model due to the market changes, and so a lot of -- and there are other insurance intermediaries also started to follow Fanhua's example to sell life insurance business.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And the cooperation between Fanhua and insurance companies followed -- basically, we follow the principles of mutual value creation, and we have established a virtual cooperation with all business partners.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Outsourcing of distribution has already happened in the P&C sector with professional insurance intermediaries being one of the major distribution channel for P&C insurance companies. While it has just begun in the life insurance sector, though more medium-sized companies have mostly established cooperation with professional insurance intermediaries, they have yet to happen with large life insurance companies, mainly due to the following reasons. Firstly, they have retained large sales force, which they have heavily relied upon. And secondly, the life insurance intermediary sector is too small and not important enough for life insurance companies to pay attention. But we firmly believe that when one day life insurance intermediary companies can [generate] more than RMB 100 billion net premiums, even the large life insurance companies would be willing to cooperate with insurance intermediary companies and in the bigger or even stronger scale than small, medium-sized companies. This business relationship between life insurance companies and intermediaries are changing dynamics, which may change from time to time depending on the different needs at different stages or other reasons, including periodically strengthening or weakening cooperation or even suspending cooperation with each other. However, we believe that life insurance companies will always be in strong demand for any insurance intermediaries that can provide them strong sales capability.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Fanhua has established headquarter to headquarter strategic partnership with 27 life insurance companies, of which Taikang Life is the largest brand, which accounts for 3.1% of our total life insurance revenues in first half of 2018, while Huaxia taking up 51.9%, and Tian'an 20.6% and 11.8% and ICBC AXA 2.9% and all the other 21 life insurance companies accounting for 6.8%. Fanhua's operation is fully market driven, and we will address our main product suppliers and business cooperations with each of this partners according to the changes in customers demands and the market need.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

And secondly, the cash flows of our operations matches the operating profit. The increase of receivables in the first half of this year is mainly related to the relocation of one of our company.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

Prior to 2018, the operating cash flow has always matched the operating profit. And as in -- to respond to the national West Development strategy and the investment invitation by Renshou County of Sichuan, Fanhua Insurance Sales Company, which is one of our fully-owned subsidiaries relocated from Chaoyang district of Beijing to Renshou County as part of the plan to support the local economic development and social construction. From February 6, 2018, the issuance of value-added tax invoice was called off. So that's a part of our procedure as to cancel the tax registration with the State Taxation Bureau in Chaoyang, Beijing, thus affecting the collections of headquarter to headquarter performance bonus from insurance companies. So as of June 30, 2018, the aggregated account receivable in relation to this kind of payment amounted to about RMB 400 million, which are all supported by contracts.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

As of date, the relocation has been completed and our company has received the notice from the taxation bureau of Chaoyang on July 30, 2018, for the approval of the relocation. So on August 27, 2018, we have received the business license issue by Sichuan Renshou Industrial and Commerce Bureau with which our company can register for and obtain the tax invoice. Then we can resume the settlement of commission fees with our business partners and so it is expected that we can receive all of the commission fees that has yet to -- that are due and yet to be given invoice.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

And second -- the third part, I would like to explain about our corporate governance. And firstly, related to the related-party transactions. All of the transactions -- all of the related transactions have been approved by the audit committee of the company and accounted for in accordance to relevant accounting principles. And disclosed to the public in accordance to the laws and regulations. So there's no -- we believe that we have follow all the applicable regulations as required.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

And secondly, the VIE structure. Since our IPO, the company has devoted itself into improving our corporate structure. And then since 2011, and after our active communication with the CIRC, we have commenced a structuring to change our structure from a loosened -- VIE structure to a more stable direct equity ownership structure, by establishing an insurance sales service group in China, and converting our subsidiaries in different provinces into branches of the parent company. And after completion of the conversions from subsidiaries into branches, we dispose of some of the subsidiaries, including either canceling the registration or selling the licenses to other parties. And the improvement in the corporate structure has helped the company strengthening our control over our subsidiaries and branches and also enabled us to have more free allocation of our profits from inshore to offshore and so allowed us to maintain payment of quarterly dividend.



Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And thirdly, about our independent directors. The company will assess the qualification of our independent directors on an annual basis. And according to the assessment, our independent directors have been performing their duties as required by the laws and regulations and the company's charter.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And fourthly, some other matters that a lot of investors are most concerned about. The first question's regarding our 521 Development Plan. And we believe that it has offered an incentive to motivate our team leaders and our key personnel as well as our employees.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Insurance business is a people's business in its essence, so talent and a strong organization is the key for the company to mark towards the future and also, a/the key foundations to bring decent returns to shareholders. Therefore, in that past decade during our development, we have always sought ways to align the interest of our employees and sales agents with the company, so that our employees and sales agents, as well as our shareholders, can both benefit from the growth of the company. And our past performance had also proved that the programs, including our option incentive programs and share issuance to employees have been quite effective.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

This stock subscription program in 2014 has helped the company boost our first-year life insurance premiums with RMB 117 million in 2014 and RMB 370 million in 2015 and RMB 1.08 billion in 2016 and then RMB 2.5 billion in 2017. Even though the industry suffered negative growth in the first half of 2018, Fanhua has achieved 10% year-over-year growth in terms of first-year premiums. And all of this data has proved the effectiveness of the share subscription program in 2014.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And the 521 Development Plan rolled out in June this year. So far the program has attracted about 2,300 participants, among which 500 are employees and 1,800 are entrepreneurial team leaders.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

As to why we purchase the shares from CC Investment. First of all, the scale of the transactions enrolled in the bond is quite large, and there's no other third-party shareholders, either an individual or institution that have enough shares of the company to meet our requirements in 1 transaction. If we buy the shares in the open market, the purchase file will be quite uncontrollable. CC Investment is willing to sell the shares because some of private equity fund products have reached maturity, and they need cash to pay their investors, besides it would also allow them to lock in some of the profits.



Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

All of these programs have been disclosed to the public as required and with the approval by the board and the Audit Committee and the pricing is made on an arms-length basis.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And secondly, as regard to the suspension graph coverage by one of the sell-side analyst, to our knowledge, the suspension of the coverage by the sell-side analysis of one of the U.S. banks was to avoid the conflict of interest between their research department and the investment banking department, which is actually one of the underwriters of one of our subsidiaries.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Sorry, not subsidy, that is an affiliate, which is in the process of applying for IPO.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And secondly, about the short-selling allegations in 2010, as for the questions raised by the short-seller report in 2010, we have responded in different manners, on different occasions, either by a official statement or conference call and Investor Day. So we would not repeat here. And since 2010, the company has maintained stable cooperation with our independent auditor and the legal counsel. So if any investor is interested to know about the past, we would recommend you to consult with our disclosures available on our IR website.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Since our IPO, the company has maintained a leading position in the professional insurance intermediary market, which is enough to prove that we are not afraid of any allegations by the short-sellers. In the meantime, we will focus on doing our job. As we mentioned, we already announced a quarterly dividend policy in September 2017, and as of today, we have paid regular quarterly dividend for 4 consecutive quarters. If the company's profits are not real there is no way that we can sustain such dividend payment. And in 2018, we are going to pay \$1 per ADS based on the current profit expectations. And if our profits continue to grow, we also expect our dividend payment will also grow.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Here I would like to announce that this afternoon our board has approved a share buyback program authorizing the company to purchase ADS in the open market with price of no more than USD 29 per ADS by September 30, 2018. And the initial round of the-- cash used to supporte the purchases will be up to [USD 20 million] (corrected by company after the call).

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)



Oasis Qiu *Fanhua Inc. - IR Manager*

I believe that our investors can full understand that Fanhua is a valuable company and will also believe that facts will scotch rumors, and despite that we are more than happy to have more in-depth dialogue with our investors and to talk with investors. And we welcome any constructive advices and suggestions from investors to help the company to continue to grow and maintain positive momentum. Thank you. Operator. we are ready to take the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of [Ben Lin]

Unidentified Shareholder

(foreign language)

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Unidentified Shareholder

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

Ben has 3 questions. And he is already a shareholder of the company and he has 3 questions. The first one is regarding to Mr. Lai's PE fund. As record shows, MR. Lai's PE Fund is registered in Hong Kong, and he is wondering whether the company can provide more explanation as to why this company is registered in Hong Kong, and why Mr. Lai is the sole member of this PE fund company. And even though this 521 Development plan is a good intention and he suggests that the company should execute this program more carefully. And the second question is that as the price is dropping right now, he is wondering whether that will affect the morale of our employees, particularly for those who have subscribed for the shares at \$29 per ADS. And the third question is regarding our cash position and our cash balance, how much of that cash is reserved in inshore and how much is offshore? And when we make the quarterly dividend payments, how we're going to basically transfer the money? Is it already in our bank accounts in Hong Kong? Or do we have to convert the money out to offshore to Hong Kong in order to make the payment?

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

Mr. Wang will take the first question regarding to the morale of employees related to the 521 Development Plan, and Mr. Ge, CFO will answer the question regarding to Mr. Lai's PE fund. And the third question i.e. the cash reserve will be answered by our board Secretary Ms. [Lily Lee].

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

The company has been operating in 20 years and actually, our managerial personnel, especially the mid-level managerial personnel has been the most stable in the industry, and they have -- a lot of them have been staying with the company for over 10 years. And our entrepreneurial sales teams and sales agents are also the most stable among our peers.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)



Oasis Qiu Fanhua Inc. - IR Manager

And all our employees and sales agents feel lucky that they are able to work in the insurance intermediary sector, which is a promising sector in China, and also they are quite proud to work for Fanhua, which is the leading insurance intermediaries in China.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And they are firm believers that the Division of Labor in the Industry will continue and Fanhua will be the biggest beneficiary of this trend. And they also believe that in the next 5 years the company can achieve the goal of delivering RMB 10 billion in terms of first-year premiums and RMB 2 billion net income.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

So, therefore, they feel grateful that we launched this 521 Development Plan, and they feel confident about the company's growth prospects, and therefore, they are very enthusiastic in participants in the subscription.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And when we launched our 521 Development Plan, the guiding principle that we provided to our sales agents and employees is that basically, we look at the 5 years results and the value of the stock in 5 years' time. So they don't really care much about the short-term volatility in our stock price.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

So our agents and employees have kept high morale during the past month, and we believe that we can continue to keep this momentum.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Peng Ge Fanhua Inc. - CFO & Director

And Mr. Ge would like to make further comments about 521 Development Plan. He says that if he is one of the sales agent he will be more than happy to participate in the Fanhua fund, despite of the short-term volatility. As an agent, he knows perfectly about the business, how much business he can contribute to the company and how much profit he can generate for the company. So he can basically do a simple math about what the value of the stock price in 5 years' time. And then, secondly, Fanhua continues to pay quarterly dividends based on our current stock price that means that the dividend yield is about 4%, which is quite attractive to not only our agents and also agents in the industries.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And regarding to the PE fund of Mr. Lai, Mr. Lai is a co-founder, former co-founder of the company. But he retired from the company in March 2016, and after that he is not engaged in any matters of the company.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And after his retirement, what he chose to do is his free choice, if he chose to set up a PE fund is also his own choice to decide how to set up the structure and what kind of arrangement for the PE fund. I believe that he will follow their own investment philosophy in terms of the structure's establishment. But since we are not related to the PE fund in any way, so we don't really know much about how they set up the structure.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And the investment of the PE fund is, I believe that is in accordance with the relevant regulations and laws, and also the establishment of the PE fund is based on the benefits of more convenience for them to decide how to make investment. And as I mentioned, I believe they have followed the relevant rules and regulations. And after their investment in Fanhua, the company has provided 13G filings in accordance to the SEC requirements.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And our current management team, including Mr. Ge, has no any economic benefits in the PE funds. So there's no merit to say that the management has been trying to cash out by this kind of arrangement with the PE fund.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

As for the cash reserve, so far we have USD 3.3 million cash offshore and all the remaining cash reserves or cash balance is kept in China.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Sorry. Sorry, [USD 33 million] (corrected by company after the call).

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

As we mentioned VIE structure just now, and the management has completed the corporate structuring in order to protect the long-term interest of our shareholders. And we have obtained direct equity ownership in our PRC companies and removed the VIE structure. And one of the benefit is that with this more direct equity ownership structure, we are able to convert the cash in the way of the dividend payments to our shareholders offshore in a more convenient way.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And also the management have completed procedures to apply for the Hong Kong resident status and also completed the procedures required by the SAFE so we are able to make payment -- make dividend payments any time we wish.

Operator

There are no further questions at this time. I think there is one more question from the line of Dan Tian from CICC.

Dan Tian China International Capital Corporation Limited, Research Division - Analyst

(foreign language)

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And Dan Tian has 3 questions. The first question is regarding to the cash, the commissions incomes received from insurance companies and the cash flow from insurance companies. It is possible that the company -- anyone can channel check with our business partners to verify the authenticity of the company's commission incomes and the cash flows. And secondly, the regulations released by the CIRC in 2017, which restricted the sales of fast-return type of annuity products, and then in 2015, there is another regulation, which basically banned the sales of short-term investment type of products. He is wondering what is the key difference between these 2 type of products. And the third question is regarding our independent auditor, who is Fanhua's independent auditors? And have they ever issued any unclean report?

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And firstly, regarding to the fast-return type of products, this type of products mainly include annuity products, endowments and whole life insurance products, which are essentially savings type of products. And sometimes this type of products bundle-sell with protectional type of products. And in the past several years a lot of insurance companies have actually been selling these savings products in order to get quick money to invest in the stock market or for offshore overseas. So the regulator has been trying to take measures to control the risk and to restrict the sales of this type of products and directing the company back to the focus of offering protectional type of products. And one of the restrictions that imposed on annuity type of products is originally the insureds can get the payments in the second year after the effectiveness of the insurance policies. However, right now they have to wait until the fifth year. And the second restriction is that on the premium, the preset interest rate is capped to a certain percentage. So the high returns expectation is somewhat controlled.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Health insurance products are protectional type of products, which mainly include like critical illness products, are characterized by a low per policy premiums and more coverage and this type of products are more like a quick consumption-based products.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

However, I believe that as the regulators direct the insurance companies to focus more on offering protectional type of products, health insurance products will be a much more favorable product for the consumers, and there is huge room for the growth of this type of products in China.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

As for our independent auditor, since our IPO in 2007, we have been working with Deloitte as our independent auditor.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Deloitte is one of the big 4 accounting firms in the world and they have performed their duties to audit the company faithfully in accordance to all the requirements. As you mentioned just now whether or not anyone can verify or check the documents or check the cash flows, our cash flows with insurance companies. It is actually a part -- one of the important procedures that Deloitte will follow in the audit procedures, which is to verify the documents, all the documents and all the certificates with insurance companies. And then thirdly, in order to maintain the independence of the independent auditor, the accounting firm will rotate or change their partners on a regular basis.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And our independent directors will also hold meetings with our audit committees on a regular basis to confirm whether or not the company's management has ever engaged in any illegal activities or any interference with the financial procedures, audit procedures.

Peng Ge Fanhua Inc. - CFO & Director

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

So I'm happy that we can maintain a long-term and stable cooperation with Deloitte, and also, we are grateful that all the key advices and suggestions that Deloitte has provided us to support our growth over the past decades.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

And they have always provided clean report.

Operator

(Operator Instructions) I would like to hand the conference back to Oasis Qiu.

Oasis Qiu Fanhua Inc. - IR Manager

Thank you for participating in today's conference call. If you have any follow-up questions please feel free to contact us. Thank you.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

Thank you.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)



Operator

Ladies and gentlemen, this concludes our conference for today. Thank you for participating. You may all disconnect.

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