Fanhua Conference Call Transcript[1]

Operator:

Thank you for standing by for today's conference call. At this time, all participants are in listen-only mode. All lines have been placed on mute to prevent background noise. After the management's prepared remarks, there will be a question-and-answer session. Please follow the instructions given at that time if you would like to ask a question. For your information, this conference call is now being broadcasted live over the internet. Webcast replay will be available within three hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhuaholdings.com under the "Events & Webcasts" section.

Today's conference is being recorded. If you have any objections you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Ms. Oasis Qiu, Fanhua's investor relations manager.

Oasis Qiu: Good Morning. Welcome to our conference call.

Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. The accuracy of these statements 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 are not limited to those outlined in our filings with the Securities and Exchange Commission, including our registration statement on Form 20-F. We do not undertake any obligation to update this forward-looking information, 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 Li. Mr. Wang will comment on some of the major concerns raised by our investors recently. He and Mr. Ge will take your questions after the prepared remarks. Now I will turn the call over to Mr. Wang.

Wang Chunlin (translated): Thank you for attending today's conference call. Over the past five years, Fanhua has achieved rapid development and outstanding operational performance, due to management's visionary strategies and conscientious and diligent management. From 2014 to 2018, we have delivered strong results across various key operational metrics, among which, the annualized premiums equivalent of life insurance products increased 18 times from RMB110 million in 2014 to over RMB1.8 billion in 2018 and operating profit increased more than 13 times from RMB30.9

[1] The Transcript is partially edited by the Company. Shoudl there be any discrepancy, please refer to webcast replay.

million to over RMB400 million during the same period according to our preliminary estimate. We have also successfully implemented quarterly dividend policy. Since 2017, the company has distributed a total of US$81.8 million dividends to shareholders. These achievements show that the company is on track for a sustainable strong growth in business, cash flows and profits, which is gratifying

For a long time, life insurance distribution has been dominated by tied agents of insurance companies and bankassurance channel while the independent insurance intermediary model is relatively new and still at an early stage of development. However, management firmly believes that the next 10 years will be a decade of rapid development of middle-class families in China and a decade of accelerated separation of production and distribution in the life insurance industry. The next 10 years will be the golden 10 years for Fanhua. Accordingly, Fanhua timely readjusted our strategy. In 2017, we launched "Fanhua" model, divested our property and casualty (the "P&C") insurance subsidiaries and transitioned our P&C insurance business to a platform fee-based business model and in 2018 we launched 521 development plan. These initiatives are aimed at growing the Company into a cash generating company. We hope that after five years, we can achieve the exciting goals of RMB10 billion annual first year premiums of life insurance business and RMB2billion annual net profit.

The rapid growth in the past few years and the Company's strategic initiatives to drive the Company's long term development have attracted huge attention from the public, industry and investors. These initiatives are highly recognized and respected by professionals in the Chinese insurance industry, and many investors have expressed positive and supportive views. However, there are also different opinions and disagreements, for which we fully understand. Therefore, we would like to take this opportunity to address a list of 12 key questions to provide investors with better understanding about Fanhua.

1. Some investors are concerned about the reason of the divestiture of P&C insurance subsidiaries.

   Due to intensifying cut-throat competition in the P&C insurance market, the gross margin of our P&C insurance agency business has gradually dropped from 22% in 2013 to approximately 8% in 2017, while the middle-back office operating expense ratio related to our P&C insurance business exceeded 8% in 2017, which meant that this business line could barely break even. Due to sustained fierce competition, there is tendency that the gross margin of our P&C insurance business would deteriorate. Fanhua management believed that if there is no change made,our P&C business division would become a burden to the Comany with heavy losses.

   Therefore, in August 2017, the Company decided to spin off our P&C subsidiaries and started the transition of our P&C insurance business from a commission-based business model to a traffic fee-based open platform business model. In October 2017, announcement was made on the transfer of Fanhua Times Insurance Sales & Service

Co., Ltd. and the P&C insurance subsidiaries of Fanhua Times to Beijing Cheche Technology Co., Ltd. ("Cheche"), while we retain the operation of our online auto insurance transaction platform CNpad Auto. The transition ensures that our sales agents can still offer P&C insurance products to their clients and in the mean time significantly reduces the Company's back office operating cost.

As we previoulsy announced, our operation results in the first nine months of 2018 have clearly demonstrated the positive effect of the divestiture of our P&C subsidiaries. Despite a decline of 23.5% year-over-year in net revenues, our operating profits have increased by 62.1% from RMB210 million year-over-year in the first nine months of 2017 to RMB340 million in the fist nine months of 2018. Operating margin has also increased significantly from 6.2% to 13.2% during the same periods.

We would like to emphasize again that there is distinctive difference between P&C and life insurance agency business, including significant differences in their respective profit margins. Comparing the valuation of a P&C insurancec agency to a life insurance agency is like comparing apple to orange.

2. **There are investors who concerned about whether the buyer of the divested P&C insurance subsidiaries is a related party? Are the P&C subsidiaries highly valuable assets sold at depressed price?**

The buyer of our former P&C insurance subsidiaries is Beijing Cheche Technology Co., Ltd., which is founded on September 2014. It shareholders include Beijing Shunwei Venture Capital founded by Mr. Lei Jun, CBC Capital founded by Dr. Edward Suning Tian, China Capital Group founded by Mr. Wu Ying, etc. Cheche is a leading online auto insurance platform in China and has established in-depth cooperation with many well-knowned companies such as Baidu, JD.com, DiDi Chuxing, Toutiao（TopBuzz）,Tuhu.cn and Renrenche.com. The company and management have no related party relationship with Cheche. The transaction strictly abides by the Company's internal decision-making procedures, and the transaction price is fair.

3. **There are investors concerned about whether there has been a clear separation in offices, employees and business processing between Fanhua and our former subsidiaries after the closing of the transaction with Cheche.**

After selling the P&C subsidiaries to Cheche, the separation of legal and financial relationship, personnel and office is clear and definite. All the employees who should belong to Cheche have signed labor contracts with Cheche. But as our P&C insurance business has been transformed to a traffic-loaded platform fee-based business model, Fanhua maintains business cooperation with Cheche in the way that Fanhua introduces user traffic to Cheche while Cheche is responsible for middle-backoffice transaction processing, for which Fanhua charges Cheche certain traffic fees based on the transaction volume. The Company expects the business relationship with Cheche to continue so long as it provides benefits to both parties.

The nature of the business cooperation between Fanhua and Cheche is not much difference than that between Chech and its other user traffice channels such as Baidu, JD.com, DiDi Chuxing, Toutiao（TopBuzz）, Tuhu.cn and Renrenche.com.

4. **Some are worried if some individual surnamed "Yang" and another surnamed "Liu" are related parties to the Company?**

   After verification, we cofirm that there is a team leader in our Sichuan subsidiary surnamed Yang and another individual surnamed Liu was a former employee of CNfiance. However, these two individuals just coindidently have the same names with the shareholder of Sichuan Borui Xinrui who also surnamed Yang and the shareholder of Ruisike surnamed Liu. They are totally different persons. Fanhua and its management and directors have no related party relationship with either of them.

   We transferred Fanhua Times Sales & Service Co., Ltd. And the 19 subsidiaries of Fanhua Times to Cheche in October 2017. All the relevant agreements have bee filed with our 20-F as exhibits. As for how those companies were subsequently disposed by Cheche and to whom, it is basically none of our business.

5. **Some investors are concerned if the 521 plan is allowed by China's laws and regulations.**

   The 521 plan is a share ownership plan by employees and entrepreneurial sales agent team leaders. There have been similar cases among other US-listed companies. It is not unique or a new invention by Fanhua.

   In addition, there is no restriction by China's laws and regulations on option or stock grant to employees who are Chinese citizens by offshore listed foreign companies, neither is there any restriction on providing loans to employees. US securities laws do forbid US listed companies to provide loan to the Company's management and directors but there is no such restriction no loan provided to employees.

   We are certain that the 521 development plan is totally legal.

6. **Some investors are concerned about why the Company did not buy the stocks on open market?**

   the '521' development plan demanded enormous amount of stocks. If all of the shares under the plan were new shares issued by the Company, that would be a huge dilution to shareholders. That is why we decided to form the stock pool with a combination of new shares and purchase of existing shares. However, the amount of existing shares to be purchased was still quite large. If we bought it all on the open market, it will take a long time and the price would be uncontrollable. That is why we finally decided to purchase existing shares in privately negotiated transaction.

7. **Some investors are concerned about why we buy stocks from Master Trend and how is the purchase price determined?**

As mentioned above, the ‘521’ development plan demanded enormous amount of stocks. At that time, other than our founder Mr. Hu, Master Trend was the only shareholder with such a large number of stocks.

On the annoucement date of the 521 development plan, the company’s stock price was above $36 dollar per ADS. The purchase price was determined based on the average closing prices in the 30 days prior to the Board approval. The transaction was also approved in strict accordance with the Company’s decision-making procedures. The purchase price is fair.

8. **Some investors are concerned about the relationship between Chengchuang and Fanhua and wondered if Fanhua has provided guarantee to Chengchuang’s products.**

   Chengchuang is a private equity fund manager[firm] set up by Mr. Lai Qiuping, our co-founder after his retirement from the Comany in March 2016. After his retirement, he is no longer engaged in any of Fanhua’s businss management and operational activities.

   Chengchuang is a [properly licensed private equity fund manager firm] registered with Asset management Association of China and its operation is subject to supervision of the Asset Management Association of China.

   Fanhua has no business relationship with Chengchuang of any kind. Neither have we ever provided guarantee to Chengchuang ‘s products.

9. **Some investors are concerned that the implementation of 521 development plan may cause adverse impact on the Company business development in view of our current depressed stock price.**

   There could be many factors affecting our stock price. When we made the 521 development plan, we have taken full into consideration of the possibility of the fluctuation in stock price after the plan is implemented. Therefore, when we annouce the plan, we have made careful and thorough planning and provided detailed explanation to the partipants. They fully understand that the 521 development plan is a long term plan and the shares under the plan is subject to a five year lock up period. As long as the Company can achieve RMB10 billion annual first year premiums after five years and RMB2 billion operating profit, we believe that the Company’s business value will be reflected in the stock price. Furthermore, no matter what our stock price will be after five years’ time, if the Company maintains our current dividend policy, we believe that there is no better investment that owns a stock with such a high dividend yield. .

   Although our stock price has remained below the eventual subscription price for quite some time, Facts have proved that the plan has not adversely affected our business in the last quarter of 2018 and in early 2019 year-opening sales and it has actually brought very positive results in driving the company’s business growth.

10. **Some investors are worried that our cash position may not be real.**

Our total cash position (consisting of cash and cash equivalents, short term investments and short term loan receivables) has steadily grown as we have consistently generated profits. Our principal sources of cash reserve have been cash generated from operating profits in the past decade, in addition to the proceeds from our initial public offering and a follow-on offering. We have gradually increased allocation of our cash position to investments in short-term financial products since 2013, in order to increase yields from our cash.

In 2018, the Company spent a total of US$97.9 million on dividend payments and share buyback program and approximately US$195.8 million has been used on the 521 development plan . As of date, the Company still has approximately RMB2.2 billion cash reserve inlcuding cash and cash equivalents and short term financial investments.

Our strong cash position and cash generation capability are the key reasons that management has the confidence to successfully implement quarterly dividend payments, share repurchase program and 521 development plan.

Since the company is an “asset-light” company, its main assets are cash in banks and short-term financial assets. It has always been a focal point for audit by the company’s audit committee and external auditors. Auditors will also take strict procedures to identify and confirm the authenticity of our cash position during the quarterly review.

11. Some investors are concerned about minority interests of our subsidaries.

From 2006, the company expanded its sales network by setting up joint ventures with entrepreneurial agents and through selective acquisitions. As we disclosed in our 20-F, many of our subsidiaries were majority-owned by Fanhua with equity interets in the range of 51-70%, and the remaining minority interests were held by the founders of those companies, entrepreneurial agents with whom we joint set up the companies or a venture capital firm which invests instart up insurance agency companeis. Since 2013, in order to strengthen the management and control of our subsidiaries, the company initiated conversion of subsidiaries into branches and bought back minority interets from the non-controlling shareholders of our subsidiaries. Relevant transactions have been disclosed in annual reports on 20-F. .

Up to now, except for Hunan Fanhua Insurance Agency Co., Ltd. and Fanhua Insurance Claims & Loss Adjustors Co., Ltd. which still have minority shareholders, all of our other subsidiaries have either been converted into branches or have become 100% owned by us.

12. Some investors are concerned if the Company has been enaged in real estate development and whether the relevant project should be consolidated into the financial statement?

As previously announced, as part of Tianfu New Area’s investment introduction project, Fanhua Lianxin Insurance Sales Co., Ltd., the Company’s wholly-owned subsidiary, which is the holding company of our life insurance operation, completed the relocation and registration of its head office from Beijing to the Tianfu New Area of Sichuan Province on August 27, 2018.

Subsequently on November 2, 2018, the Company received a one-time incentive payment of RMB8 million from the local government. Fanhua Lianxin will also be eligible to enjoy certain favorable tax treatment and fiscal incentives in proportion to its contribution to the local economy

In 2016, the Renshou County Government expressed its support for Fanhua to publicly bid for a parcel of land in the Tianfu New Area to establish a back office center, pursuant to its policy of attracting investment to develop the local economy. As Fanhua had neither a license nor interest in real estate development, on July 16, 2016, Fanhua established a joint venture with an independent third-party real estate developer, Sichuan Tianyi Real Estate Development Co., Ltd. ("Sichuan Tianyi"). Under this arrangement, Sichuan Tianyi would be responsible for developing the land and providing all funding for the development and bear all loss or profits that potentially could derive from the development, while Fanhua would have a right to purchase certain properties at a discount which we intend to use as our backoffice center. Fanhua would not provide any loan, guarantee or other funding for the development.

All relevant agreements are reported to the board of directors and auditors. Since the company did not provide any actual funding to the JV or the project, and the right to purchase has not been exercised, the joint venture should not be consolidated into the Company's financial statements, according to US GAPP accounting standards.

In order to enable investors to have a more comprehensive and first-hand understanding of Fanhua's business model, development pattern, organizational management and business partners. The company plans to organize an investor day in late March or early April in 2019. We welcome all of you to join us.

We would like to extend our sincere gratitude to investors for your continued support and the Company will reward them for their trust with its best performance.Thank you.

Next we will open the floor for questions.

Operator: The first question comes from the line of Tian Dan from CICC.

Tian Dan: I am Tian Dan from CICC. I have two questions. My first question is: management mentioned in an announcement previously distributed that you will make a proposal to the board of directors for increasing dividend payment in 2019. Could you please clarify the scale of the increase? My second question is: the Company is performing in year-opening sales in terms of life insurance premiums?

Wang Chunlin: based on the solid results in 2018 and our projection for 2019, we expect we will deliver strong growth in profit in 2019. Therefore, management will make a proposal to the board on increasing amount of dividend payment by probably 20%.

As for year-opening sales, the performance is much better that we've had originally expected desite that our sales teams are also working hard on achieving year-end targets in 2018. The preliminary results show approximately 30% growth in year-opening sales as of now, which is largely in line with our estimate.

Thank you.