

# 2011 **CNINSURE** **Annual Report**



**CNINSURE  
INC.**

NASDAQ: CISG

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 20-F**

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(Mark One)

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

**OR**

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

**For the fiscal year ended December 31, 2011.**

**OR**

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

**OR**

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

Date of event requiring this shell company report. . . . .

Commission file number: 001-33768

**CNINSURE INC.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

22/F, Yinhai Building  
No. 299 Yanjiang Zhong Road  
Guangzhou, Guangdong 510110  
People's Republic of China

(Address of principal executive offices)

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No. 299 Yanjiang Zhong Road  
Guangzhou, Guangdong 510110  
People's Republic of China

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

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

| Title of Each Class  | Name of Each Exchange on Which Registered                        |
|--|--|
| Ordinary shares, par value US\$0.001 per share*<br>American depositary shares, each representing<br>20 ordinary shares | The NASDAQ Stock Market LLC<br>(The NASDAQ Global Select Market) |

\*Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares, each representing 20 ordinary shares.

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

**None**

(Title of Class)

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

**None**

(Title of Class)

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

**1,003,270,326 ordinary shares, par value US\$0.001 per share as of December 31, 2011**

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

U.S. GAAP ☒

International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☐

Other ☐

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

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

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

Yes ☐ No ☐

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## INTRODUCTION

In this annual report, unless the context otherwise requires:

- “we,” “us,” “our company,” “our” or “CNinsure” refer to CNinsure Inc., its subsidiaries and any entity carrying on CNinsure’s current business prior to the restructuring transactions in July 2007, through which CNinsure became the listing vehicle in our initial public offering, and their respective subsidiaries and consolidated affiliated entities;
- “China” or “PRC” refers to the People’s Republic of China, excluding, solely for the purpose of this annual report, Taiwan, Hong Kong and Macau;
- “provinces” of China refers to the 22 provinces, the four municipalities directly administered by the central government (Beijing, Shanghai, Tianjin and Chongqing) and the five autonomous regions (Xinjiang, Tibet, Inner Mongolia, Ningxia and Guangxi);
- “shares” or “ordinary shares” refers to our ordinary shares, par value US\$0.001 per share;
- “ADSs” refers to our American depositary shares, each of which represents 20 ordinary shares;
- all references to “RMB” or “Renminbi” are to the legal currency of China, all references to “US\$” and “U.S. dollars” are to the legal currency of the United States and all references to “HK\$” and “HK dollars” are to the legal currency of the Hong Kong Special Administrative Region; and
- all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our anticipated growth strategies;
- the anticipated growth of our life insurance business;
- the anticipated growth of our e-commerce business;
- our future business development, results of operations and financial condition;
- factors that affect our future revenues and expenses;
- the future growth of the Chinese insurance industry as a whole and the professional insurance intermediary sector in particular;
- trends and competition in the Chinese insurance industry; and
- economic and demographic trends in the PRC.

You should read thoroughly this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3. Key Information —D. Risk Factors” of this annual report. Those risks are not exhaustive. We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable law.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

### **Item 3. Key Information**

#### **A. Selected Financial Data**

The following selected consolidated statements of operations data for the years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of operations data for the years ended December 31, 2007 and 2008 and the selected consolidated balance sheet data as of December 31, 2008 and 2009 have been derived from our audited consolidated financial statements, which are not included in this annual report.

On March 25, 2011, we disposed of our 55% equity interest in Datong International Holding Limited and its subsidiaries, or Datong, which were primarily engaged in the distribution of life insurance products. Following the sale of Datong, we present our financial results for the years ended December 2008, 2009, 2010 and 2011 on both a continuing and discontinued basis. Revenues, expenses, assets and liabilities related to Datong for the years ended December 31, 2008, 2009, 2010 and 2011 have been carved out from the audited consolidated financial statements. Profits and losses related to Datong were presented as discontinued operations while profits and losses for the remaining business were presented as continuing operations. In this annual report, our consolidated financial information for 2007 through 2011 refers collectively to our consolidated financial information for the years ended December 31, 2007, 2008, 2009, 2010 and 2011. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

|   | For the Year Ended December 31,                           |                  |                  |                  |                    |                  |
|---|---|------------------|------------------|------------------|--------------------|------------------|
|   | 2007  | 2008             | 2009             | 2010             | 2011               |                  |
|   | RMB   | RMB              | RMB              | RMB              | RMB                | US\$             |
|   | (in thousands, except shares, per share and per ADS data) |                  |                  |                  |                    |                  |
| <b>Consolidated Statement of Operations Data</b>  |   |                  |                  |                  |                    |                  |
| <b>Net revenues:</b>  |   |                  |                  |                  |                    |                  |
| Commissions and fees .....  | 446,929   | 841,684          | 1,100,842        | 1,233,297        | 1,510,886          | 240,056          |
| Other service fees .....  | 1,216   | 855              | 761              | 640              | 5,789              | 920              |
| <b>Total net revenues .....</b>   | <b>448,145</b>  | <b>842,539</b>   | <b>1,101,603</b> | <b>1,233,937</b> | <b>1,516,675</b>   | <b>240,976</b>   |
| <b>Operating costs and expenses:</b>  |   |                  |                  |                  |                    |                  |
| Commissions and fees .....  | (232,550)   | (435,741)        | (549,981)        | (541,239)        | (796,843)          | (126,606)        |
| Selling expenses.....   | (9,514)   | (17,149)         | (41,442)         | (60,055)         | (77,802)           | (12,361)         |
| General and administrative expenses <sup>(1)</sup> .....  | (68,177)  | (175,652)        | (164,951)        | (233,518)        | (333,281)          | (52,953)         |
| Impairment loss on goodwill and intangible assets.....  | —   | —                | —                | (4,600)          | (1,057,522)        | (168,023)        |
| <b>Total operating costs and expenses .....</b>   | <b>(310,241)</b>  | <b>(628,542)</b> | <b>(756,374)</b> | <b>(839,412)</b> | <b>(2,265,448)</b> | <b>(359,943)</b> |
| <b>Income (loss) from operations.....</b>   | <b>137,904</b>  | <b>213,997</b>   | <b>345,229</b>   | <b>394,525</b>   | <b>(748,773)</b>   | <b>(118,967)</b> |
| <b>Other income , net:</b>  |   |                  |                  |                  |                    |                  |
| Gain on disposal of investment in a subsidiary .....  | —   | 525              | —                | —                | —                  | —                |
| Investment income.....  | —   | —                | 18,905           | 41,244           | —                  | —                |
| Interest income .....   | 16,235  | 47,948           | 33,203           | 26,771           | 52,031             | 8,267            |
| Interest expense.....   | (25)  | (95)             | (4)              | (5)              | —                  | —                |
| Others, net .....   | (2)   | (29)             | 1,534            | 351              | 22,436             | 3,564            |
| Changes in fair value of contingent consideration payables .....  | —   | —                | (5,946)          | —                | —                  | —                |
| <b>Income (loss) from continuing operation before income taxes and income of affiliates and discontinued operations .....</b> | <b>154,112</b>  | <b>262,346</b>   | <b>392,921</b>   | <b>462,886</b>   | <b>(674,306)</b>   | <b>(107,136)</b> |
| Income tax expense.....   | (3,178)   | (64,111)         | (97,309)         | (89,125)         | (84,030)           | (13,351)         |
| Share of income of affiliates .....   | —   | 135              | 774              | 12,904           | 14,246             | 2,263            |
| <b>Net income (loss) from continuing operations .....</b>   | <b>150,934</b>  | <b>198,370</b>   | <b>296,386</b>   | <b>386,665</b>   | <b>(744,090)</b>   | <b>(118,224)</b> |
| <b>Net income (loss) from discontinued operations, net of tax.....</b>  | <b>—</b>  | <b>(2,504)</b>   | <b>(17,372)</b>  | <b>29,665</b>    | <b>127,553</b>     | <b>20,266</b>    |
| <b>Net income (loss) .....</b>  | <b>150,934</b>  | <b>195,866</b>   | <b>279,014</b>   | <b>416,330</b>   | <b>(616,537)</b>   | <b>(97,958)</b>  |
| Less: Net income (loss) attributable to the noncontrolling interests .....  | (2,424)   | 4,129            | (21,827)         | (5,978)          | (317,163)          | (50,392)         |
| <b>Net income (loss) attributable to the Company's shareholders .....</b>   | <b>153,358</b>  | <b>191,737</b>   | <b>300,841</b>   | <b>422,308</b>   | <b>(299,374)</b>   | <b>(47,566)</b>  |
| <b>Net income (loss) per share (giving effect to the 10,000-for-1 share exchange in 2007):</b>                                |   |                  |                  |                  |                    |                  |
| <b>Basic:</b>   |   |                  |                  |                  |                    |                  |
| Net income (loss) from continuing operations .....  | 0.2178  | 0.2144           | 0.3308           | 0.4098           | (0.4257)           | (0.0676)         |
| Net income (loss) from discontinued operations .....  | —   | (0.0043)         | (0.0011)         | 0.0310           | 0.1272             | 0.0202           |
| <b>Net income (loss) .....</b>  | <b>0.2178</b>   | <b>0.2101</b>    | <b>0.3297</b>    | <b>0.4408</b>    | <b>(0.2985)</b>    | <b>(0.0474)</b>  |
| <b>Diluted:</b>   |   |                  |                  |                  |                    |                  |
| Net income (loss) from continuing operations .....  | 0.2143  | 0.2132           | 0.3251           | 0.3965           | (0.4257)           | (0.0676)         |
| Net income (loss) from discontinued operations .....  | —   | (0.0042)         | (0.0010)         | 0.0299           | 0.1272             | 0.0202           |
| <b>Net income (loss) .....</b>  | <b>0.2143</b>   | <b>0.2090</b>    | <b>0.3241</b>    | <b>0.4264</b>    | <b>(0.2985)</b>    | <b>(0.0474)</b>  |

| For the Year Ended December 31,   |               |               |               |               |                 |                 |
|---|---------------|---------------|---------------|---------------|-----------------|-----------------|
|   | 2007          | 2008          | 2009          | 2010          | 2011            |                 |
|   | RMB           | RMB           | RMB           | RMB           | RMB             | US\$            |
| <b>Net income (loss) per ADS:</b>   |               |               |               |               |                 |                 |
| <b>Basic:</b>   |               |               |               |               |                 |                 |
| Net income (loss) from continuing operations .....  | 4.3551        | 4.2875        | 6.6153        | 8.1969        | (8.5140)        | (1.3528)        |
| Net income (loss) from discontinued operations .....  | —             | (0.0850)      | (0.0215)      | 0.6193        | 2.5433          | 0.4042          |
| <b>Net income (loss) .....</b>  | <b>4.3551</b> | <b>4.2025</b> | <b>6.5938</b> | <b>8.8162</b> | <b>(5.9707)</b> | <b>(0.9486)</b> |
| <b>Diluted:</b>   |               |               |               |               |                 |                 |
| Net income (loss) from continuing operations .....  | 4.2858        | 4.2648        | 6.5026        | 7.9297        | (8.5140)        | (1.3528)        |
| Net income (loss) from discontinued operations .....  | —             | (0.0845)      | (0.0211)      | 0.5991        | 2.5433          | 0.4042          |
| <b>Net income (loss) .....</b>  | <b>4.2858</b> | <b>4.1803</b> | <b>6.4815</b> | <b>8.5288</b> | <b>(5.9707)</b> | <b>(0.9486)</b> |
| <b>Shares used in calculating net income (loss) per share (giving effect to the 10,000-for-1 share exchange in 2007):</b> |               |               |               |               |                 |                 |
| Basic .....   | 704,273,232   | 912,497,726   | 912,497,726   | 958,029,717   | 1,002,810,673   | 1,002,810,673   |
| Diluted .....   | 715,649,950   | 917,335,390   | 928,312,312   | 990,318,528   | 1,002,810,673   | 1,002,810,673   |
| Dividends declared per share <sup>(2)</sup> .....   | 0.1023        | —             | 0.075         | 0.089         | —               | —               |

(1) Including share-based compensation expenses of RMB5.0 million, RMB45.7 million, RMB7.6 million, RMB22.2 million and RMB57.0 million (US\$9.1 million) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011, respectively;

(2) The 2007 dividends were declared in 2007. These dividends were not paid at the time they were declared. In 2007, we paid all of the previously declared but unpaid dividends totaling approximately RMB140.0 million. A dividend of US\$0.22 per ADS was declared on May 21, 2009, payable to our shareholders of record as of the close of business on June 26, 2009. Dividend of US\$0.26 per ADS was declared on April 23, 2010, payable to our shareholders of record as of the close of business on May 20, 2010.

| As of December 31,                               |           |           |           |           |           |         |
|--|-----------|-----------|-----------|-----------|-----------|---------|
|  | 2007      | 2008      | 2009      | 2010      | 2011      |         |
|  | RMB       | RMB       | RMB       | RMB       | RMB       | US\$    |
| (in thousands)                                   |           |           |           |           |           |         |
| <b>Consolidated Balance Sheet Data:</b>          |           |           |           |           |           |         |
| Cash and cash equivalents .....                  | 1,544,817 | 1,510,432 | 1,457,890 | 1,924,884 | 2,222,160 | 353,066 |
| Total current assets .....                       | 1,608,256 | 1,876,883 | 1,727,499 | 2,302,425 | 2,898,414 | 460,512 |
| Total assets .....                               | 1,640,164 | 2,046,515 | 2,545,965 | 3,854,456 | 3,280,996 | 521,298 |
| Total current liabilities .....                  | 53,337    | 190,222   | 337,648   | 288,361   | 328,309   | 52,164  |
| Total liabilities .....                          | 54,928    | 200,444   | 359,260   | 337,393   | 402,001   | 63,872  |
| Noncontrolling interests .....                   | 18,324    | 94,423    | 194,897   | 456,079   | 124,948   | 19,852  |
| Total equity .....                               | 1,585,236 | 1,846,071 | 2,186,705 | 3,517,063 | 2,878,995 | 457,426 |
| Total liabilities and shareholders' equity ..... | 1,640,164 | 2,046,515 | 2,545,965 | 3,854,456 | 3,280,996 | 521,298 |

### Exchange Rate Information

Our business is primarily conducted in China and all of our revenues are denominated in RMB. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the readers. Unless otherwise noted, all translations from RMB to U.S. dollars in this annual report were made at a rate of RMB 6.2939 to US\$1.00, the noon buying rate in effect as of December 30, 2011 in The City of New York for cable transfers of RMB, as set forth in H.10 weekly statistical release of the Federal Reserve Board. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 20, 2012, the noon buying rate was RMB 6.3080 to US\$1.00.



The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our future periodic reports or any other information to be provided to you.

| <u>Period</u>                 | Noon Buying Rate<br>(RMB per US\$1.00) |                              |            |             |
|-------------------------------|--|------------------------------|------------|-------------|
|                               | <u>Period End</u>                      | <u>Average<sup>(1)</sup></u> | <u>Low</u> | <u>High</u> |
| 2007.....                     | 7.2946                                 | 7.5806                       | 7.8127     | 7.2946      |
| 2008.....                     | 6.8225                                 | 6.9193                       | 7.2946     | 6.7800      |
| 2009.....                     | 6.8259                                 | 6.8295                       | 6.8470     | 6.8176      |
| 2010.....                     | 6.6000                                 | 6.7603                       | 6.8330     | 6.6000      |
| 2011.....                     | 6.2939                                 | 6.4475                       | 6.6364     | 6.2939      |
| October .....                 | 6.3547                                 | 6.3710                       | 6.3825     | 6.3534      |
| November .....                | 6.3765                                 | 6.3564                       | 6.3839     | 6.3400      |
| December .....                | 6.2939                                 | 6.3482                       | 6.3733     | 6.2939      |
| 2012                          |  |                              |            |             |
| January .....                 | 6.3080                                 | 6.3119                       | 6.3330     | 6.2940      |
| February .....                | 6.2935                                 | 6.2997                       | 6.3120     | 6.2935      |
| March.....                    | 6.2975                                 | 6.3125                       | 6.3315     | 6.2975      |
| April (through April 20)..... | 6.3080                                 | 6.3052                       | 6.3150     | 6.2975      |

Source: H.10 weekly statistical release of the Federal Reserve Board

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

**B. Capitalization and Indebtedness**

Not Applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors**

**Risks Related to Our Business and Our Industry**

*If our investment in e-commerce business is not successful, our business and results of operations may be adversely affected.*

On January 1, 2012, we launched an insurance comparison website under the name of Baowang ([www.baoxian.com](http://www.baoxian.com)) that allows customers to compare a wide range of insurance products from various insurance carriers across price, services and policy benefits and that facilitates the full transaction process from quote comparison and application to online payment. In the next few years, we intend to continue to devote significant resources to refining the IT infrastructure of the insurance comparison website and to building brand awareness. However, our efforts to develop this new business may not be successful or yield the benefits that we anticipate due to our limited experience in the online insurance distribution business. In addition, our expansion may depend on a number of factors, many of which are beyond our control, including but not limited to:

- the effectiveness of our marketing campaign to build brand recognition among consumers and our ability to attract and retain customers;
- the acceptance of third-party e-commerce platform as an effective channel for underwriters to distribute their insurance products;
- public concerns over security of e-commerce transactions and confidentiality of information;

- increased competition from insurance companies which directly sell insurance products through their own websites and call centers, portal websites which provide insurance product information and links to insurance companies' websites and other professional insurance intermediary companies which may launch independent websites in the future; and
- further development and changes in applicable rules and regulations which may increase our operating costs and expenses, impede the execution of our business plan or change the competitive landscape.

On September 20, 2011, the China Insurance Regulatory Commission, or CIRC, promulgated the Provisional Regulations on the Internet Insurance Business of Insurance Agencies and Brokerages, or Provisional Regulations, effective January 1, 2012, which sets forth the qualification requirements and procedures for insurance intermediaries to operate internet insurance businesses in China. Since online insurance distribution has emerged only recently in China and is evolving rapidly, the CIRC may implement new laws and regulations to govern this sector from time to time. Although we have obtained necessary approvals and licenses and meet qualification requirements for the operation of the Provisional Regulations, we cannot assure you that our operation will always be consistent with the changes and further development of regulations applicable to us or we will be able to obtain necessary approvals and licenses as required on a timely basis.

Any failure to successfully identify the risks as part of our expansion into the online insurance distribution business may have a material adverse impact on our growth, business prospects and results of operations, which could lead to a decline in the price of our ADSs.

***If we fail to attract and retain productive agents, especially entrepreneurial agents, and qualified claims adjusters, our business could suffer.***

A substantial portion of our sales of property and casualty insurance products and all our sales of life insurance products are conducted through our individual sales agents, who are not our employees. Some of these sales agents are significantly more productive than others in generating sales. In recent years, some entrepreneurial management staff or senior sales agents of major insurance companies in China have chosen to leave their employers or principals and become independent agents. We refer to these individuals as entrepreneurial agents. An entrepreneurial agent is usually able to assemble and lead a team of sales agents. We have been actively recruiting and will continue to recruit entrepreneurial agents to join our distribution and service network as our sales agents. Entrepreneurial agents have been instrumental to the development of our life insurance business. In addition, we rely entirely on our in-house claims adjusters to provide claims adjusting services. Because claims adjusting requires technical skills, the technical competence of claims adjusters is essential to establishing and maintaining our brand image and relationships with our customers. If we are unable to attract and retain the core group of highly productive sales agents, particularly entrepreneurial agents, and qualified claims adjusters, our business could be materially and adversely affected. Competition for sales personnel and claims adjusters from insurance companies and other insurance intermediaries may also force us to increase the compensation of our sales agents, in-house sales representatives and claims adjusters, which would increase operating costs and reduce our profitability.

***Our business and prospects could be materially and adversely affected if we are not able to manage our growth successfully.***

We commenced our insurance intermediary business in 1999 and have expanded our operations substantially in recent years. Our distribution and service networks expanded from one company in one province to 41 insurance agencies, three insurance brokerages, three claims adjusting firms, one online insurance service company, one wealth management service company and one automobile service company in 26 provinces as of March 31, 2012. Meanwhile, we have broadened our service offerings from the distribution of only automobile insurance products to cover a wide variety of property and casualty insurance and life insurance products, insurance claims adjusting services, consumer financial services and wealth management products and services. We anticipate continued growth in the future through multiple means. Our expansion has placed, and will continue to place, substantial demands on our managerial, operational, technological and other resources. To manage and support our continued growth, we must continue to improve our operational, administrative, financial and technological systems, procedures and controls, and expand, train and manage our growing employee and agent base. Furthermore, our management will be required to maintain and expand our relationships with insurance companies, other insurance intermediaries, regulators and other third parties. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations. Any failure to effectively and efficiently manage our expansion could materially and adversely affect our ability to capitalize on new business opportunities, which in turn could have a material adverse effect on our results of operations.

***We are in the process of implementing a strategic transformation plan, which if not successful could have a material adverse effect on our business.***

In light of the challenges we face in 2012, we intend to implement a strategic transformation plan. As part of this plan, we will focus our efforts mainly on the following areas:

- concentrating resources on key cities and cutting back our presence in regions at or below the county level;
- shifting to high value-added businesses;
- encouraging innovation in product design in order to meet the rising demands of medium-to-high-end customers for diversified financial services and products and avoid homogeneous competition;
- building a customer-centric integrated e-commerce platform;
- targeting medium-to-high-end customers by establishing a professional and high-caliber sales team specialized in providing financial advisory services; and
- adopting specialized distribution channels to sell homogeneous products by consolidating market resources, in particular, from ancillary insurance intermediaries.

As we implement these strategic moves, we may experience a slowdown in growth during the coming two to three years. While we believe that the transformation plan will reinforce our long-term competitiveness we cannot guarantee that this will be the case.

***We have been named as a defendant in certain purported shareholder class action lawsuits that could have a material adverse impact on our operating results and financial condition.***

We are currently a defendant in a class action lawsuit as described in Item 8. “Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.” We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of this lawsuit. An unfavorable outcome from this lawsuit could have a material adverse effect on our consolidated financial position, results of operations, or cash flows in the future. The litigation process may utilize a material portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. In addition, we may become the subject of unfavorable market reports which may increase the likelihood of future litigation.

***We may be unsuccessful in identifying and acquiring suitable acquisition candidates, which could adversely affect our growth.***

Since our initial public offering in October 2007, we have significantly expanded our operations through a number of acquisitions. We expect a significant portion of our future growth to come from acquisitions of high-quality independent insurance agencies, brokerages and claims adjusting firms. There is no assurance that we can successfully identify suitable acquisition candidates, especially in those provinces where we do not yet have a presence. Even if we identify suitable candidates, we may not be able to complete an acquisition on terms that are commercially acceptable to us. In addition, we compete with other entities to acquire high-quality independent insurance agencies, brokerages and claims adjusting firms. Many of our competitors may have substantially greater financial resources than we do and may be able to outbid us for these acquisition targets. If we are unable to complete acquisitions, our growth strategy may be impeded and our earnings or revenue growth may be negatively affected.

***The change of acquisition model might increase our acquisition risks and costs or even adversely affect our growth.***

The professional insurance intermediary sector in China is still at its early stage of development, and is fragmented with over 2,500 professional insurance intermediaries, most of which are small and do not have effective management mechanisms. Acquisitions in the professional insurance intermediary sector involve substantial risks. We have adopted two acquisition models to target insurance intermediary companies in different

development stages. For mature insurance intermediary companies, we tend to acquire a majority equity interest directly from management who will be holding the remaining equity interest of the acquired entities. For acquisitions of small businesses, which generally carry higher risks, including potential legal risks and hidden tax or debt liabilities, we previously partnered with a third-party venture capital fund investing in start-up companies in the financial services industry. While this arrangement reduced the risks and costs of our acquisitions in past years, in order to simplify our acquisition model we decided to cease acquiring small businesses in cooperation with the third-party venture capital fund. Going forward our future acquisition targets may be limited to relatively mature insurance intermediary companies or we may have to develop start-up companies by ourselves, which can be time-consuming and may slow down our acquisition pace. In addition, we may have to bear all risks and losses if any of these acquisitions fail to be profitable. Although we have accumulated experience from our previous acquisitions, there is no assurance that we can identify and remove all risks and make future acquisitions in an efficient and cost-effective manner, which might have an adverse impact on our growth and results of operations.

***If we fail to integrate acquired companies efficiently, or if the acquired companies do not perform to our expectations, our business and results of operations may be adversely affected.***

Even if we succeed in acquiring other insurance agencies, brokerages and claims adjusting firms, our ability to integrate an acquired entity and its operations is subject to a number of factors. These factors include difficulties in the integration of acquired operations and retention of personnel, especially the sales agents who are not employees of the acquired company, entry into unfamiliar markets, unanticipated problems or legal liabilities, and tax and accounting issues. The need to address these factors may divert management's attention from other aspects of our business and materially and adversely affect our business prospects. In addition, costs associated with integrating newly acquired companies could negatively affect our operating margins.

Furthermore, the acquired companies may not perform to our expectations for various reasons, including legislative or regulatory changes that affect the insurance products in which a company specializes, the loss of key clients after the acquisition closes, general economic factors that impact a company in a direct way and the cultural incompatibility of an acquired company's management team with us. If an acquired company can not be operated at the same profitability level as our existing operations, the acquisition would have a negative impact on our operating margin. Our inability to successfully integrate an acquired entity or its failure to perform to our expectations may materially and adversely affect our business, prospects, results of operations and financial condition.

***If we are required to write down goodwill and other intangible assets, our financial condition and results may be materially and adversely affected.***

When we acquire a business, a substantial portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable tangible assets acquired. As of December 31, 2011, goodwill represented RMB78.6 million (US\$12.5 million), or 2.7% of our total shareholders' equity, and other net intangible assets represented RMB58.1 million (US\$9.2 million), or 2.0% of our total shareholders' equity. Management performs impairment assessment annually and we recognized an impairment loss of RMB1.1 billion (US\$168.0 million) in goodwill and intangible assets in 2011. This impairment loss reflected the expected adverse impact of the overall economic uncertainties in China, growth slowdown within the Chinese insurance market and our strategic business transition on our earnings in the next two to three years.

Under current accounting standards, if we determine that goodwill or intangible assets are further impaired, we will be required to write down the value of such assets and recognize corresponding impairment charges. As we implement our growth strategy through acquisitions, goodwill and intangible assets may comprise an increasingly larger percentage of our shareholders' equity. As such, any write-down related to such goodwill and intangible assets may adversely and materially affect our shareholders' equity and financial results.

***Because the commission and fee revenue we earn on the sale of insurance products is based on premiums, commission and fee rates set by insurance companies, any decrease in these premiums, commission or fee rates may have an adverse effect on our results of operations.***

We are engaged in the insurance agency, brokerage and claims adjusting business and derive revenues primarily from commissions and fees paid by the insurance companies whose policies our customers purchase and to whom we provide claims adjusting services. The commission and fee rates are set by insurance companies and are based on the premiums that the insurance companies charge or the amount recovered from insurance companies. Commission and fee rates and premiums can change based on the prevailing economic, regulatory, taxation-related

and competitive factors that affect insurance companies. These factors, which are not within our control, include the ability of insurance companies to place new business, underwriting and non-underwriting profits of insurance companies, consumer demand for insurance products, the availability of comparable products from other insurance companies at a lower cost, the availability of alternative insurance products such as government benefits and self-insurance plans, as well as the tax deductibility of commissions and fees and the consumers themselves. In addition, premium rates for certain insurance products, such as the mandatory automobile liability insurance that each automobile owner in the PRC is legally required to purchase, are tightly regulated by CIRC.

Because we do not determine, and cannot predict, the timing or extent of premium or commission and fee rate changes, we cannot predict the effect any of these changes may have on our operations. Any decrease in premiums or commission and fee rates may significantly affect our profitability. In addition, our budget for future acquisitions, capital expenditures and other expenditures may be disrupted by unexpected decreases in revenues caused by decreases in premiums or commission and fee rates, thereby adversely affecting our operations.

***Competition in our industry is intense and, if we are unable to compete effectively, we may lose customers and our financial results may be negatively affected.***

The insurance intermediary industry in China is highly competitive, and we expect competition to persist and intensify. In insurance product distribution, we face competition from insurance companies that use their in-house sales force, exclusive sales agents, telemarketing and internet channels to distribute their products, and from business entities that distribute insurance products on an ancillary basis, such as commercial banks, postal offices and automobile dealerships, as well as from other professional insurance intermediaries. In our claims adjusting business, we primarily compete with other independent claims adjusting firms. We compete for customers on the basis of product offerings, customer services and reputation. Many of our competitors have greater financial and marketing resources than we do and may be able to offer products and services that we do not currently offer and may not offer in the future. If we are unable to compete effectively against those competitors, we may lose customers and our financial results may be negatively affected.

***Quarterly and annual variations in our commission and fee revenue may have unexpected impacts on our results of operations.***

Our commission and fee revenue is subject to both quarterly and annual fluctuations as a result of the seasonality of our business, the timing of policy renewals and the net effect of new and lost business. Historically, our commission and fee revenue, particularly revenue derived from distribution of property and casualty insurance products, for the fourth quarter of any given year has been the highest among all four quarters, while our commission and fee revenue for the first quarter of any given year has been the lowest among all four quarters. The factors that cause the quarterly and annual variations are not within our control. Specifically, consumer demand for insurance products can influence the timing of renewals, new business and lost business, which generally includes policies that are not renewed, and cancellations. As a result, you may not be able to rely on quarterly or annual comparisons of our operating results as an indication of our future performance.

***If our contracts with insurance companies are terminated or changed, our business and operating results could be adversely affected.***

We primarily act as agents for insurance companies in distributing their products to retail customers. We also provide claims adjusting services principally to insurance companies. Our relationships with the insurance companies are governed by agreements between us and the insurance companies. We have entered into strategic partnership agreements with most of our major insurance company partners for the distribution of life, property and casualty insurance products and the provision of claims adjusting services at the corporate headquarters level. While this approach allows us to obtain more favorable terms from insurance companies by combining the sales volumes of our affiliated insurance agencies and brokerages, it also means that the termination of a major contract could have a material adverse effect on our business. Under the framework of the headquarter-to-headquarter agreements, our affiliated insurance agencies, brokerages and claims adjusting firms generally also enter into contracts at a local level with the respective provincial, city and district branches of the insurance companies. Generally, each branch of these insurance companies has independent authority to enter into contracts with our affiliated insurance agencies, brokerages and claims adjusting firms, and the termination of a contract with one branch has no significant effect on our contracts with the other branches. See “Item 4. Information on the Company—B. Business Overview—Insurance Company Partners.” These contracts establish, among other things, the scope of our authority, the pricing of the insurance products we distribute and our fee rates. These contracts typically have a term of one year and some of them can be terminated by the insurance companies with little advance notice. Moreover, before or upon

expiration of a contract, the insurance company that is a party to that contract may agree to renew it only with changes in its terms, including the amount of commissions and fees we receive, which could reduce our revenues from that contract.

For the year ended December 31, 2011, our top five insurance company partners were PICC Property and Casualty Company Limited, or PICC, China Pacific Property Insurance Co., Ltd., or CPIC, Ping An Property & Casualty Insurance Company of China, Ltd., or Ping An, AVIVA-COFCO Life Insurance Co., Ltd., or AVIVA-COFCO, and Tianping Auto Insurance Co., Ltd.. Among them, PICC, CPIC and Ping An each accounted for more than 10% of our total net revenues in 2011 with PICC accounting for 21.9%, CPIC accounting for 12.2%, and Ping An accounting for 12.0% of our total net revenues. The termination of our contracts with insurance companies that in aggregate account for a significant portion of our business, or changes to material terms of these contracts, could adversely affect our business and operating results.

***Our operating structure may make it difficult to respond quickly to operational or financial problems, which could negatively affect our financial results.***

We currently operate through affiliated insurance agencies, brokerages and claims adjusting firms located in 26 provinces in China. These companies report their results to our corporate headquarters monthly. If these companies delay either reporting results or informing corporate headquarters of negative business developments such as losses of relationships with insurance companies, regulatory inquiries or any other negative events, we may not be able to take action to remedy the situation in a timely fashion. This in turn could have a negative effect on our financial results. In addition, if one of these companies were to report inaccurate financial information, we might not learn of the inaccuracies on a timely basis and be able to take corrective measures promptly, which could negatively affect our ability to report our financial results.

***Our dependence on the founders and key managers of firms that we acquire may limit our ability to effectively manage our business.***

In the acquisitions we have completed to date, the founders and key managers of the acquired firms continue to manage the acquired businesses. They are responsible for ordinary course operational decisions, including personnel and office location, subject to our oversight. They also maintain the primary relationship with customers and the local branches of insurance companies. Although we maintain internal controls to oversee our nationwide operations, this operating structure exposes us to the risk of losses resulting from day-to-day decisions of the managers of the acquired firms. Unsatisfactory performance by these managers could hinder our ability to grow and could have a material adverse effect on our business.

***Our future success depends on the continuing efforts of our senior management team and other key personnel, and our business may be harmed if we lose their services.***

Our future success depends heavily upon the continuing services of the members of our senior management team and other key personnel, in particular, Mr. Chunlin Wang, our chief executive officer, Mr. Qiuping Lai, our president, and Mr. Peng Ge, our chief financial officer. If one or more of our senior executives or other key personnel, are unable or unwilling to continue in their present positions, we may not be able to replace them easily, or at all. As such, our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for senior management and key personnel is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. As is customary in the PRC, we do not have insurance coverage for the loss of our senior management team or other key personnel.

In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose customers, sensitive trade information, key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us which contains confidentiality and non-competition provisions. These agreements generally have an initial term of three years, and are automatically extended for successive one-year terms unless terminated earlier pursuant to the terms of the agreement. See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Employment Agreements” for a more detailed description of the key terms of these employment agreements. If any disputes arise between any of our senior executives or key personnel and us, we cannot assure you of the extent to which any of these agreements may be enforced.

***Salesperson and employee misconduct is difficult to detect and deter and could harm our reputation or lead to regulatory sanctions or litigation costs.***

Salesperson and employee misconduct could result in violations of law by us, regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include:

- making misrepresentations when marketing or selling insurance products to customers;
- hindering insurance applicants from making full and accurate mandatory disclosures or inducing applicants to make misrepresentations;
- hiding or falsifying material information in relation to insurance contracts;
- fabricating or altering insurance contracts without authorization from relevant parties, selling false policies, or providing false documents on behalf of the applicants;
- falsifying insurance agency business or fraudulently returning insurance policies to obtain commissions;
- colluding with applicants, insureds, or beneficiaries to obtain insurance benefits;
- engaging in false claims; or
- otherwise not complying with laws and regulations or our control policies or procedures.

We cannot always deter salesperson or employee misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We cannot assure you, therefore, that salesperson or employee misconduct will not lead to a material adverse effect on our business, results of operations or financial condition.

***All of our personnel engaging in insurance agency, brokering or claims adjusting activities are required under relevant PRC regulations to have a qualification certificate issued by the CIRC. If these qualification requirements are strictly enforced in the future, our business may be materially and adversely affected.***

All of our personnel who engage in insurance agency, brokering and claims adjusting activities are required under relevant PRC regulations to obtain a qualification certificate from the CIRC. See “Item 4. Information on the Company—B. Business Overview—Regulation.” In addition, we understand that the CIRC requires that every individual agent carry the qualification certificate and other credentials showing specified information when conducting agency business. Under the relevant PRC regulations, an insurance agency, brokerage or claims adjusting firm that retains unqualified personnel to engage in insurance intermediary activities may be fined up to RMB10,000 per agency. Pursuant to the consultation papers on the Supervision of Insurance Sales Practitioners, Insurance Brokers and Claims Adjustors issued by the CIRC in April 2011, the fine may increase up to RMB30,000 per agency. As of March 31, 2012, approximately 86% of our sales professionals had received a qualification certificate. If more local CIRC agencies were to strictly enforce these regulations in the future, and if a substantial number of our sales forces remain unqualified, our business may be adversely affected. Moreover, we may be subject to fines and other administrative proceedings for the failure of our insurance professionals to obtain the necessary CIRC qualification certificate. Such fines or administrative proceedings could materially and adversely affect our business, financial condition and results of operations.

***The fee-based revenue scheme adopted by several of our affiliated property and casualty insurance agencies may be subject to challenge by the PRC tax authorities.***

From the second quarter of 2009 to the first quarter of 2011, several of our affiliated property and casualty insurance agencies had adopted a trial fee-based revenue scheme. Under this scheme, revenues of these affiliated agencies were reported on a net basis. If the PRC tax authorities determine that the tax liability assessment of those eight affiliated entities under the trial revenue scheme is inappropriate, the business tax liabilities of our affiliated entities could increase and our affiliated entities may be subject to fines for tax underpayment, which may materially adversely affect our results of operations.

***Our businesses are highly regulated, and the administration, interpretation and enforcement of the laws and regulations currently applicable to us involve uncertainties, which could materially and adversely affect our business and results of operations.***

We operate in a highly regulated industry. The CIRC has extensive authority to supervise and regulate the insurance industry in China. In exercising its authority, the CIRC is given wide discretion, and the administration, interpretation and enforcement of the laws and regulations applicable to us involve uncertainties that could materially and adversely affect our business and results of operations. For example, it is not clear when the CIRC will start strictly enforcing the qualification requirements for sales professionals affiliated with professional insurance intermediaries like us. Although we have not had any material violations to date, we cannot assure you that our operations will always be consistent with the interpretation and enforcement of the laws and regulations by the CIRC from time to time.

***Further development of regulations in China may impose additional costs and restrictions on our activities.***

China's insurance regulatory regime is undergoing significant changes. Some of these changes and the further development of regulations applicable to us may result in additional restrictions on our activities or more intensive competition in this industry. For example, under the provisions for administration of professional insurance agencies and brokerages adopted on September 18, 2009, insurance agencies and brokerage companies are required to increase their guaranty deposit, which generally cannot be withdrawn without the CIRC's approval, when they open any new branches. Furthermore, pursuant to the provisions, the minimum registered capital requirements for insurance agencies, brokerages and claims adjusting firms have been increased substantially. See "Item 4. Information on the Company—B. Business Overview—Regulation." Insurance agencies, brokerages and claims adjusting firms that have been established before October 1, 2009 will be given a three-year phase-in period until October 1, 2012 to meet the new minimum registered capital requirement. Such increase would reduce the amount of cash available for other business purposes. In addition, according to the Insurance Law amended on February 28, 2009, sole-proprietor insurance agencies are now allowed. According to the Opinions on Improving Sales Agent Management System issued by the CIRC on September 20, 2010, insurance companies are encouraged to establish exclusive sales agencies or insurance sales companies and all types of capital, including foreign capital are encouraged to invest in large scale insurance agencies and insurance sales companies. These changes may lead to intensified competition among insurance agencies. Such development of regulations could materially and adversely affect our business and results of operations.

***We have conducted some of our business through four of our subsidiaries that do not possess insurance agency or brokerage licenses.***

Four of our subsidiaries run our operating platform and maintain our customer database. One of them has provided information about potential customers to insurance companies, which paid fees to these subsidiaries if these customers purchased insurance policies. Our PRC counsel, Commerce & Finance Law Offices, has informed us that in its opinion, the provision of customer information to and the collection of fees from insurance companies by our subsidiaries comply with existing PRC laws and regulations. We cannot assure you, however, that the relevant PRC regulatory authorities will not take a view contrary to ours or that of our PRC counsel. If the CIRC clarifies existing regulations on insurance agencies and brokerages or adopts new regulations that classify the provision of customer information to insurance companies as a form of insurance agency or brokerage services, our subsidiaries may be deemed to have engaged in insurance agency or brokerage services without proper licenses and as a result, we may be subject to administrative penalties, which may have a material adverse effect on our results of operations.

***If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud.***

We are subject to reporting obligations under U.S. securities laws. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules adopted by the Securities and Exchange Commission, every public company is required to include a management report on the company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company's internal controls over financial reporting. These requirements first applied to our annual report on Form 20-F for the fiscal year ended on December 31, 2008.



Our management has concluded that our internal control over financial reporting was effective as of December 31, 2011. See “Item 15. Controls and Procedures.” However, there is no assurance that we will be able to maintain effective internal controls over financial reporting in the future. If we fail to do so, we may not be able to produce reliable financial reports and prevent fraud. Moreover, if we are not able to conclude that we have effective internal controls over financial reporting, investors may lose confidence in the reliability of our financial statements, which would negatively impact the trading price of our ADSs. Our reporting obligations as a public company, including our efforts to comply with Section 404 of the Sarbanes-Oxley Act, will continue to place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

***We may face legal action by former employers or principals of entrepreneurial agents who join our distribution and service network.***

Competition for productive sales agents is intense within the Chinese insurance industry. When an entrepreneurial agent leaves his or her employer or principal to join our distribution and service network as our sales agent, we may face legal action by the former employer or principal of the entrepreneurial agent on the ground of unfair competition or breach of contract. As of the date of this annual report, there has been no such action filed or threatened against us. We cannot assure you that this will not happen in the future. Any such legal actions, regardless of merit, could be expensive and time-consuming and could divert resources and management’s attention from the operation of our business. If we were found liable in such a legal action, we might be required to pay substantial damages to the former employer or principal of the entrepreneurial agent, and our business reputation might be harmed. Moreover, the filing of such a legal action may discourage potential entrepreneurial agents from leaving their employers or principals, thus reducing the number of entrepreneurial agents we can recruit and potentially harming our growth prospects.

***If we are unable to successfully expand into the consumer financial services and wealth management sectors, our business and results of operations may be adversely affected.***

We have been expanding into new business areas to leverage our existing sales network, customer resources and operating platform so as to better serve our customers’ needs for insurance protection, financing and wealth management. For example, in October 2009, we acquired a non-controlling equity interest in Sincere Fame International Limited, or Sincere Fame, which owns 100% of the equity interest in China Financial Services Group Limited, or CFSG, a consumer credit brokerage company specializing in the distribution of personal loans and residential mortgage loans for commercial banks. This investment marked our expansion into the consumer financial services sector. In addition, we formed one joint venture named Fanhua Puyi Asset Management Co., Ltd., or Puyi Asset Management, in which we own 57%, to engage in the provision of wealth management services. We plan to continue our expansion in these areas in the future. However, our efforts to develop these new businesses may not be successful or yield the benefits that we anticipate due to our limited experience in distributing non-insurance related financial services and products. In addition, our expansion may subject us to risks associated with operating in the consumer financial services and wealth management sectors in China, including but not limited to, changes in monetary or industry policies and other economic measures that may affect our cooperation with financial institutions and their product supply, as well as competition from other consumer credit brokerage companies and other financial services companies that offer wealth management products. Currently, changes in regulations for the consumer credit brokerage and wealth management sectors may impose burdensome approval, licensing or other requirements on CFSG and its affiliated subsidiaries and Puyi Asset Management. Any failure to successfully identify, execute and integrate acquisitions, investments, joint ventures and alliances as part of our expansion into the consumer financial services sector may have a material adverse impact on our growth, business prospects and results of operations, which could lead to a decline in the price of our ADSs.

***Any significant failure in our information technology systems could have a material adverse effect on our business and profitability.***

Our business is highly dependent on the ability of our information technology systems to timely process a large number of transactions across different markets and products at a time when transaction processes have become increasingly complex and the volume of such transactions is growing rapidly. The proper functioning of our financial control, accounting, customer database, customer service and other data processing systems, together with the communication systems of our various subsidiaries and consolidated affiliated entities and our main offices in Guangzhou, is critical to our business and to our ability to compete effectively. We cannot assure you that our business activities would not be materially disrupted in the event of a partial or complete failure of any of these primary information technology or communication systems, which could be caused by, among other things, software malfunction, computer virus attacks or conversion errors due to system upgrading. In addition, a prolonged

failure of our information technology system could damage our reputation and materially and adversely affect our future prospects and profitability.

***We may face potential liability, loss of customers and damage to our reputation for any failure to protect the confidential information of our customers.***

Through our insurance comparison website, our customer database holds confidential information concerning our customers. We may be unable to prevent third parties, such as hackers or criminal organizations, from stealing information provided by our customers to us through our website. Confidential information of our customers may also be misappropriated or inadvertently disclosed through employee misconduct or mistake. We may also in the future be required to disclose to government authorities certain confidential information concerning our customers.

In addition, many of our customers pay for our insurance services through third-party online payment services. In such transactions, maintaining complete security during the transmission of confidential information, such as personal information, is essential to maintaining consumer confidence. We have limited influence over the security measures of third-party online payment service providers. In addition, our third-party merchants may violate their confidentiality obligations and disclose information about our customers. Any compromise of our security or third-party service providers' security could have a material adverse effect on our reputation, business, prospects, financial condition and results of operations.

If we are accused of failing to protect the confidential information of our customers, we may be forced to expend significant financial and managerial resources in defending against these accusations and we may face potential liability. Any negative publicity may adversely affect our public image and reputation. In addition, any perception by the public that online commerce is becoming increasingly unsafe or that the privacy of customer information is vulnerable to attack could inhibit the growth of online services generally, which in turn may reduce the number of our customers.

***If we are unable to respond in a timely and cost-effective manner to rapid technological change in the insurance intermediary industry, it may result in an adverse effect.***

The insurance industry is increasingly influenced by rapid technological change, frequent new product and service introductions and evolving industry standards. For example, the insurance intermediary industry has increased use of the Internet to communicate benefits and related information to consumers and to facilitate information exchange and transactions. We believe that our future success will depend on our ability to continue to anticipate technological changes and to offer additional product and service opportunities that meet evolving standards on a timely and cost-effective basis. There is a risk that we may not successfully identify new product and service opportunities or develop and introduce these opportunities in a timely and cost-effective manner. In addition, product and service opportunities that our competitors develop or introduce may render our products and services uncompetitive. As a result, we can give no assurances that technological changes that may affect our industry in the future will not have a material adverse effect on our business and results of operations.

***We face risks related to health epidemics, severe weather conditions and other catastrophes, which could materially and adversely affect our business.***

Our business could be materially and adversely affected by the outbreak of avian flu, severe acute respiratory syndrome, or SARS, another health epidemic, severe weather conditions or other catastrophes. In April 2009, influenza A (H1N1), a new strain of flu virus commonly referred to as "swine flu," was first discovered in North America and quickly spread to other parts of the world, including China. In January and February 2008, a series of severe winter storms afflicted extensive damages and significantly disrupted people's lives in large portions of southern and central China. In May 2008, an earthquake measuring 8.0 on the Richter scale hit Sichuan Province in southwestern China, causing huge casualties and property damages. Because our business operations rely heavily on the efforts of individual sales agents, in-house sales representatives and claims adjusters, any prolonged recurrence of avian flu or SARS, or the occurrence of other adverse public health developments such as influenza A (H1N1), severe weather conditions such as the massive snow storms in January and February 2008 and other catastrophes such as the Sichuan earthquake may significantly disrupt our staffing and otherwise reduce the activity level of our work force, thus causing a material and adverse effect on our business operations.

## Risks Related to Our Corporate Structure

*If the PRC government finds that the agreements that establish the structure for operating part of our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties.*

Historically, PRC laws and regulations have placed certain restrictions on foreign investment in and ownership of insurance intermediary companies. In recent years, there have been some rules and regulations that favor foreign investment in the insurance intermediary sector in China. For instance, under the Closer Economic Partnership Arrangement, or CEPA, Supplement IV signed in July 2007 and CEPA Supplement VIII signed on December 13, 2011 between the PRC Ministry of Commerce and the governments of Hong Kong and Macao Special Administrative Region, local insurance agencies in Hong Kong and Macao are allowed to set up wholly-owned insurance agency companies in Guangdong Province if they meet certain threshold requirements. On December 26, 2007, the CIRC issued an Announcement on the Establishment of Wholly-owned Insurance Agencies in Mainland China by Hong Kong and Macao Insurance Agencies, which sets forth specific qualification criteria for implementation purposes. On August 26, 2010, the CIRC released a Circular on the Cancellation of the Fifth Batch of Administrative Approval Items, pursuant to which foreign ownership in a professional insurance intermediary in excess of 25% only requires a filing to be made with the relevant authorities and no longer requires prior approval. Accordingly, we have commenced a restructuring of our Company which may result in us obtaining direct ownership of our affiliated PRC insurance intermediary companies, after obtaining approval from the CIRC on our restructuring plan. We are currently proceeding with the restructuring. See “Item 4. Information on the Company—C. Organizational Structure.”

However, there remains uncertainty regarding the interpretation and implementation of the relevant regulations and the timing of the restructuring process. In addition, restrictions by PRC laws and regulations on foreign investments in and ownership of internet businesses still exists. Therefore, we have conducted and expect to continue to conduct our operations in China principally through contractual arrangements among our PRC affiliated subsidiaries (Guangdong Meidiya Investment Co., Ltd., or Meidiya Investment, Sichuan Yihe Investment Co., Ltd., or Yihe Investment, Shenzhen Xinbao Investment Management Co., Ltd., or Xinbao Investment), and the individual shareholders and the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao investment until the organizational restructuring is completed. Meidiya Investment, Yihe Investment and Xinbao Investment together, directly or indirectly, held equity interests ranging from 51% to 100% in 41 agencies, three brokerage companies, three claims adjusting firms, one online insurance service company, one wealth management service company and one automobile service company as of March 31, 2012. These wholly and majority-owned subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment hold the licenses and permits necessary to conduct our insurance intermediary business in China.

Our contractual arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment, their shareholders and their subsidiaries enable us to:

- exercise effective control over Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries;
- receive a substantial portion of the economic benefits of the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment in consideration for the services provided by our wholly-owned subsidiaries in China; and
- have an exclusive option to purchase all or part of the equity interests in each of Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries and have consolidated them into our consolidated financial statements. If we, our PRC subsidiaries, Meidiya Investment, Yihe Investment, Xinbao Investment or any of the existing and future subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the CIRC, will have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries and consolidated affiliated entities;

- restricting or prohibiting any related-party transactions among our PRC subsidiaries and consolidated affiliated entities;
- imposing fines or other requirements with which we, our PRC subsidiaries or our consolidated affiliated entities may not be able to comply;
- requiring us, our PRC subsidiaries or our consolidated affiliated entities to restructure the relevant ownership structure or operations; or
- restricting or prohibiting us from providing additional funding for our business and operations in China.

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business.

***We rely principally on contractual arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries and shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.***

Although we have obtained direct ownership in Meidiya Investment, the organizational restructuring is still an ongoing process and we have relied principally and expect to continue to rely on contractual arrangements with our PRC consolidated affiliated entities, Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries and individual shareholders to operate our business in China. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” These contractual arrangements may not be as effective in providing us with control over Yihe Investment and Xinbao Investment and their subsidiaries as direct ownership.

If we had direct controlling ownership of Yihe Investment, Xinbao Investment and their subsidiaries, we would be able to exercise our rights as a controlling shareholder to effect changes in the board of directors of, Yihe Investment, Xinbao Investment and their subsidiaries, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. But under the current contractual arrangements, as a legal matter, if Meidiya Investment, Yihe Investment, Xinbao Investment or any of their subsidiaries and shareholders fails to perform its or his obligations under these contractual arrangements, we may have to incur substantial costs and other resources to enforce such arrangements and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages, which may not be effective. For example, if the shareholders of Meidiya Investment, Yihe Investment and Xinbao Investment were to refuse to transfer their equity interest in Meidiya Investment, Yihe Investment and Xinbao Investment to us or our designee when we exercise the call option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to fulfill their contractual obligations.

All of our contractual arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries and individual shareholders are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our consolidated affiliated entities, and our ability to conduct our business may be negatively affected.

***The individual shareholders of Meidiya Investment, Yihe Investment and Xinbao Investment may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.***

As of March 31, 2012, two individual shareholders, Mr. Qiuping Lai and Mr. Peng Ge, collectively held 10% of the equity interest in Meidiya Investment and 80% in Yihe Investment, respectively, and two individual shareholders, Mr. Chunlin Wang and Mr. Yuan Tian, collectively held 80% of the equity interest in Xinbao Investment. Conflicts of interest may arise between the dual roles of Mr. Lai, Mr. Ge, Mr. Wang and Mr. Tian as a shareholder of our consolidated affiliated entities and as an executive officer of our company. We do not have existing arrangements to address these potential conflicts of interest and cannot assure you that when conflicts arise, those individuals will act in the best interest of our company or that conflicts will be resolved in our favor.

***Contractual arrangements we have entered into with the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.***

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between our subsidiaries and the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment are not on an arm's-length basis and adjust the income of the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment, which could in turn increase their respective tax liabilities. Moreover, the PRC tax authorities may impose penalties on our consolidated affiliated entities for underpayment of taxes. Our consolidated net income may be materially and adversely affected by the occurrence of any of the foregoing.

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans to our PRC subsidiaries and consolidated affiliated entities or making additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

We are an offshore holding company conducting our operations in China through PRC subsidiaries and consolidated affiliated entities. In order to provide additional funding to our PRC subsidiaries and consolidated affiliated entities, we may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries.

Any loans we make to any of our directly-held PRC subsidiaries (which are treated as foreign-invested enterprises under PRC law), Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (formerly known as Haidileji Enterprise Image Planning (Shenzhen) Co., Ltd.), or Zhonglian Enterprise, and Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (formerly known as Yiqiman Enterprise Management Consulting (Shenzhen) Co., Ltd.), or Xinlian Information, and Ying Si Kang Information Technology (Shenzhen) Co., Ltd., or Ying Si Kang Information, cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or the SAFE, or its local counterparts. Under applicable PRC law, the Chinese regulators must approve the amount of a foreign-invested enterprise's registered capital, which represents shareholders' equity investments over a defined period of time, and the foreign-invested enterprise's total investment, which represents the total of the company's registered capital plus permitted loans. The registered capital/total investment ratio cannot be lower than the minimum statutory requirement and the excess of the total investment over the registered capital represents the maximum amount of borrowings that a foreign-invested enterprise is permitted to have under PRC law. Our directly-held PRC subsidiaries were allowed to incur a total of HK\$300 million (US\$38.5 million) in foreign debts as of March 31, 2012. If we were to provide loans to our directly-held PRC subsidiaries in excess of the above amount, we would have to apply to the relevant government authorities for an increase in their permitted total investment amounts. The various applications could be time-consuming and their outcomes would be uncertain. Concurrently with the loans, we might have to make capital contributions to these subsidiaries in order to maintain the statutory minimum registered capital/total investment ratio, and such capital contributions involve uncertainties of their own, as discussed below. Furthermore, even if we make loans to our directly-held PRC subsidiaries that do not exceed their current maximum amount of borrowings, we will have to register each loan with the SAFE or its local counterpart within 15 days after the signing of the relevant loan agreement. Subject to the conditions stipulated by the SAFE, the SAFE or its local counterpart will issue a registration certificate of foreign debts to us within 20 days after reviewing and accepting our application. In practice, it may take longer to complete such SAFE registration process.

Any loans we make to any of our indirectly-held PRC subsidiaries (those PRC subsidiaries which we hold indirectly through Zhonglian Enterprise, Xinlian Information and Ying Si Kang) or to any of our PRC consolidated affiliated entities, all of which are treated as PRC domestic companies rather than foreign-invested enterprises under PRC law, are also subject to various PRC regulations and approvals. Under applicable PRC regulations, medium- and long-term international commercial loans to PRC domestic companies are subject to approval by the National Development and Reform Commission. Short-term international commercial loans to PRC domestic companies are subject to the balance control system effected by the SAFE. Due to the above restrictions, we are not likely to make loans to any of our indirectly-held PRC subsidiaries or to any of our PRC consolidated affiliated entities.

Any capital contributions we make to our PRC subsidiaries, including directly-held and indirectly-held PRC subsidiaries, must be approved by the PRC Ministry of Commerce or its local counterparts, and registered with the SAFE or its local counterparts. Such applications and registrations could be time consuming and their outcomes would be uncertain.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or PRC consolidated affiliated entities, or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

In addition, on August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into RMB. The notice requires that the capital of a foreign-invested company settled in RMB converted from foreign currencies shall be used only for purposes within the business scope as approved by the authorities in charge of foreign investment or by other government authorities and as registered with the Administration for Industry and Commerce and, unless set forth in the business scope or in other regulations, may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the capital of a foreign-invested company settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without SAFE's approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, including heavy fines. As a result, Circular 142 may significantly limit our ability to provide additional funding to our PRC subsidiaries and consolidated affiliated entities through our directly-held PRC subsidiaries in the PRC, which may adversely affect our ability to expand our business.

### **Risks Related to Doing Business in China**

***Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.***

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years or so, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, the PRC government still owns a substantial portion of productive assets in China. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Actions and policies of the PRC government could materially affect our ability to operate our business.

***Uncertainties with respect to the PRC legal system could adversely affect us.***

We conduct our business primarily through our subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Although since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China, China has not developed a fully integrated legal system, and recently

enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. But approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Under our current corporate structure, the primary source of our income at the holding company level is dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency needs, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***The PRC Enterprise Income Tax Law may increase the enterprise income tax rate applicable to some of our PRC subsidiaries and consolidated affiliated entities, which could have a material adverse effect on our result of operations.***

According to the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008, as further clarified by subsequent tax regulations implementing the EIT Law, foreign-invested enterprises and domestic enterprises are subject to enterprise income tax, or EIT, at a uniform rate of 25%, unless otherwise provided. Enterprises that were established and enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy such preferential tax treatments in the following manners: (1) in the case of preferential tax rates, for a five-year transition period starting from January 1, 2008, during which the EIT rate of such enterprises will gradually increase to the uniform 25% EIT rate by January 1, 2012; or (2) in the case of preferential tax exemption or reduction with a specified term, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make a profit, its term for preferential treatments will be deemed to start from 2008.

As a result of the implementation of the EIT Law, certain preferential tax treatments enjoyed by some of our consolidated affiliated entities expired on January 1, 2008. According to the EIT Law and related regulations, the preferential tax rates enjoyed by some of our PRC subsidiaries and consolidated affiliated entities incorporated in Shenzhen, a special economic zone, will gradually increase to the uniform 25% EIT rate during the five year transition period. An increase in the EIT rates for those entities pursuant to the EIT Law could result in an increase in our effective tax rate, which could materially and adversely affect our results of operations.

***Our global income or the dividends we receive from our PRC subsidiaries may be subject to PRC tax under the EIT Law, which could have a material adverse effect on our results of operations.***

Under the EIT Law, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and will be subject to the EIT at the rate of 25% on its worldwide income. The Implementation Rules of the EIT Law, or the Implementation Rules, define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” If we are deemed a resident enterprise, we may be subject to the EIT at 25% on our global income, except that the dividends we receive from our PRC subsidiary will be exempt from the EIT. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under the applicable PRC tax laws in effect before January 1, 2008, dividend payments to foreign investors made by foreign-invested enterprises in China, such as our subsidiaries Zhonglian Enterprise and Xinlian Information, were exempt from PRC withholding tax. We have also been advised by our PRC counsel, Commerce & Finance Law Offices, that pursuant to the EIT Law and the Implementation Rules, however, dividends payable by a foreign-invested enterprise in China to its foreign investors will be subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Pursuant to the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement, which became effective on January 1, 2007, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary Inscom HK Limited, in which we indirectly hold a 65.1% equity interest, may be subject to a withholding tax at a rate of 5%. The British Virgin Islands, where our wholly-owned subsidiary and the 100% shareholder of Zhonglian Enterprise and Xinlian Information is incorporated, does not have such a tax treaty with China. Under the EIT Law and the Implementation Rules, if we are regarded as a resident enterprise, the dividends we receive from our PRC subsidiaries will be exempt from the EIT. If, however, we are not regarded as a resident enterprise, our PRC subsidiaries will be required to pay a 5% or 10% withholding tax, as the case may be, for any dividends they pay to us. As a result, the amount of fund available to us to meet our cash requirements, including the payment of dividends to our shareholders and ADS holders, could be materially reduced.

***Under the EIT Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation.***

We have been advised by our PRC counsel, Commerce & Finance Law Offices, that because there remains uncertainty regarding the interpretation and implementation of the EIT Law and its Implementation Rules, it is uncertain whether any dividends to be distributed by us, if we are regarded as a PRC resident enterprise, to our non-PRC shareholders and ADS holders would be subject to any PRC withholding tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders and ADS holders, or if gains on the disposition of our shares or ADSs are subject to the PRC EIT, your investment in our ADSs or ordinary shares may be materially and adversely affected.

***We rely principally on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.***

We are a holding company, and we rely principally on dividends from our subsidiaries in China and service, license and other fees paid to our subsidiaries by our consolidated affiliated entities for our cash requirements, including any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year as reported in its PRC statutory financial statements, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. In addition, each of our PRC subsidiaries that are considered foreign-invested enterprises is required to further set aside a portion of its after-tax profits as reported in its PRC statutory financial statements to fund the employee welfare fund at the discretion of its board. These reserves are not distributable as cash dividends. As of December 31, 2011, the total retained earnings of our PRC subsidiaries available for dividend distributions were RMB1.5 billion (US\$245.2 million). Furthermore, if our subsidiaries and consolidated affiliated entities in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect our subsidiaries' ability to pay dividends and other distributions to us. Any limitation on the ability of our subsidiaries and consolidated affiliated entities to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.



***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity, or otherwise adversely affect us. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.***

The SAFE issued a public notice in October 2005, commonly known in China as “SAFE Circular 75,” requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China, referred to in the notice as an “offshore special purpose company,” for the purpose of raising capital backed by assets or equities of PRC companies. PRC residents that are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Exchange—Foreign Exchange Registration of Offshore Investment by PRC Residents.”

We have requested our beneficial owners who to our knowledge are PRC residents to make the necessary applications, filings and amendments as required under SAFE Circular 75 and other related rules. We attempt to comply, and attempt to ensure that our beneficial owners who are subject to these rules comply, with the relevant requirements. However, we cannot assure you that all of our beneficial owners who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements under SAFE Circular 75 or other related rules. The failure of these beneficial owners to timely amend their SAFE registrations pursuant to SAFE Circular 75 or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 75 may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute dividends to our company or otherwise adversely affect our business.

On December 25, 2006, the People’s Bank of China promulgated the Measures for the Administration of Individual Foreign Exchange, and on January 5, 2007, the SAFE further promulgated implementation rules for those measures. We refer to these regulations collectively as the Individual Foreign Exchange Rules. The Individual Foreign Exchange Rules became effective on February 1, 2007. According to these regulations, PRC citizens who are granted shares or share options by a company listed on an overseas stock market according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or any other qualified PRC agent, to register with the SAFE and to complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options became subject to the Individual Foreign Exchange Rules upon the listing of our ADSs on the Nasdaq stock exchange.

On February 15, 2012, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Abroad, or the No. 7 Notice, which supersedes the Operation Rules on Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule, in its entirety and immediately became effective upon circulation. According to the No. 7 Notice, domestic individuals, which include any directors, supervisors, senior managerial personnel or other employees of a domestic company who are Chinese citizens (including citizens of Hong Kong, Macao and Taiwan) or foreign individuals who consecutively reside in the territory of RPC for one year, who participate in the same equity incentive plan of an overseas listed company shall, through the domestic companies they serve, collectively entrust a domestic agency to handle issues like foreign exchange registration, account opening, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchasing and sale of related stocks or equity, and funds transfer. As an overseas publicly listed company, we and our employees who have been granted stock options or any type of equity awards may be subject to the No. 7 Notice. If we or our employees who are subject to the No. 7 Notice fail to comply with these regulations, we may be subject to fines and legal sanctions. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Exchange—SAFE Regulations on Employee Share Options.”

**Fluctuation in the value of the RMB may have a material adverse effect on your investment.**

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted

to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has caused the value of the RMB to appreciate by more than 24% against the value of the U.S. dollar in the last six years. However, under the current global financial and economic conditions, it is impossible to predict with any certainty how the RMB will move vis-à-vis the U.S. dollar in the near future.

Our revenues and costs are mostly denominated in the RMB, and a significant portion of our financial assets are also denominated in RMB. We rely entirely on dividends and other fees paid to us by our subsidiaries and consolidated affiliated entities in China. Any significant appreciation or depreciation of the RMB against the U.S. dollar may affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, a further appreciation of the RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of the RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into the RMB, as the RMB is our reporting currency. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our reported earnings, and may adversely affect the price of our ADSs.

***The approval of the China Securities Regulatory Commission, or the CSRC, may have been required in connection with our initial public offering in October 2007 under a PRC regulation adopted in August 2006. Based on advice of our PRC counsel, we did not seek CSRC's approval for our initial public offering. Any requirement to obtain prior CSRC approval and a failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.***

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006. These regulations purport, among other things, to require offshore special purpose vehicles, or SPVs, formed for overseas listing purposes and controlled by PRC companies or individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings.

At the time of our initial public offering in October 2007, while the application of the new regulations remained unclear, our PRC counsel, Commerce & Finance Law Offices, advised us that, based on their understanding of the PRC laws and regulations effective at that time as well as the procedures announced on September 21, 2006:

- the CSRC had jurisdiction over our offering;
- the CSRC by then had not issued any definitive rule or interpretation concerning whether offerings like our initial public offering were subject to this new procedure; and
- despite the above, given that we had completed our inbound investment before September 8, 2006, the effective date of the M&A Rule, an application was not required under the M&A Rule to be submitted to the CSRC for its approval of the listing and trading of our ADSs on the Nasdaq Global Market, unless we were clearly required to do so by subsequent rules of the CSRC.

Based on advice of our PRC counsel, we did not seek CSRC's approval for our initial public offering. We, however, cannot assure you that the relevant PRC government agencies, including the CSRC, would have reached the same conclusion as our PRC counsel. If the CSRC or other PRC regulatory agencies subsequently determine that the CSRC's approval was required for our initial public offering, we may face sanctions by the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

***The regulation discussed above could also make it more difficult for us to pursue growth through acquisitions.***

The regulation discussed in the preceding risk factor also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. To date, we have conducted our acquisitions in China exclusively through our PRC consolidated affiliated entities. In the future, we may grow our business in part by directly acquiring complementary businesses rather than through our PRC consolidated affiliated entities, although we currently do not have any plans to do so. Complying with the requirements of the new regulations to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may prevent us from completing such transactions on a timely basis, or at all, which could affect our ability to expand our business or maintain our market share.

***The PRC Labor Contract Law and its implementing rules may adversely affect our business and results of operations.***

On June 29, 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. On September 18, 2008, the State Council adopted the implementing rules for the Labor Contract Law, which became effective upon adoption. The Labor Contract Law and its implementing rules impose greater liabilities on employers and significantly affect the cost of an employer's decision to reduce its workforce. In the event that we decide to significantly reduce our workforce, the Labor Contract Law and its implementing rules could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could lead to a negative impact on our business and results of operations.

## **Risks Related to Our ADSs**

***The market price for our ADSs may be volatile.***

The market price for our ADSs may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in the Chinese insurance industry;
- changes in the economic performance or market valuations of other insurance intermediaries;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between the RMB and U.S. dollar or other foreign currencies;
- potential litigation or administrative investigations;
- sales of additional ADSs; and
- general economic or political conditions in China and abroad.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

***We may need additional capital, and the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders.***

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

***Substantial future sales of our ordinary shares or ADSs, or the perception that these sales could occur, could cause the price of our ADSs to decline.***

Additional sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. If any existing shareholder or shareholders sell a substantial amount of ordinary shares in the form of ADSs, the market price of our ADSs could decline. In addition, we may issue additional ordinary shares as considerations for future acquisitions. If we do so, your ownership interests in our company would be diluted and this in turn could have an adverse effect on the price of our ADSs.

***Our corporate actions are substantially controlled by our officers, directors and principal shareholders.***

As of March 31, 2012, our executive officers, directors and principal shareholders beneficially owned approximately 69.9% of our outstanding shares. These shareholders could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions, and they may not act in the best interests of other noncontrolling shareholders. This concentration of our share ownership also may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

***You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.***

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of ADSs may instruct the depositary to exercise the voting rights attaching to the shares represented by the ADSs. If no instructions are received by the depositary on or before a date established by the depositary, the depositary shall deem the holders to have instructed it to give a discretionary proxy to a person designated by us to exercise their voting rights. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

***You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act of 1933 or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

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

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the

books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct substantially all of our operations in China and most of our directors and officers reside outside the United States. In addition, Cayman Islands securities laws provide significantly less protection to investors as compared to U.S. laws.***

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our wholly owned subsidiaries and consolidated affiliated entities in China. Most of our directors and officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult for you to effect service of process within the United States or elsewhere outside China upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and some or all of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or our officers and directors predicated upon the civil liability provisions of the securities laws of the United States or any state. Our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. It is also uncertain whether the Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or our officers and directors predicated upon the securities laws of the United States or any state.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2011 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors, actions by noncontrolling shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, because Cayman Islands law has no legislation specifically dedicated to the rights of investors in securities, and thus no statutorily defined private causes of action specific to investors in securities such as those found under the Securities Act or the Securities Exchange Act of 1934 in the United States, it provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

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

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and as a firm registered with the US Public Company Accounting Oversight Board (United States), or the “PCAOB”, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because we have substantial operations within the Peoples' Republic of China and the PCAOB is currently unable to inspect the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditors are not currently inspected fully by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections. The inability of the PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as

compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.***

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

***You may have to rely on price appreciation of our ADSs for any return on your investment.***

Our board of directors has discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

***We were a passive foreign investment company for the taxable year ended December 31, 2011, which could result in adverse United States federal income tax consequences to U.S. Holders of our ADSs or ordinary shares.***

Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we believe we were a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2011. In addition, it is likely that one or more of our subsidiaries were also PFICs for such year. A non-U.S. corporation will be a PFIC for any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ADSs or ordinary shares, our PFIC status will depend in large part on the market price of the ADSs or ordinary shares, which may fluctuate significantly. Because we believe we were a PFIC for the taxable year ended December 31, 2011, certain adverse U.S. federal income tax consequences could apply to U.S. Holders (as defined in “Item 10. Additional Information — E. Taxation — United States Federal Income Taxation”) of our ADSs or ordinary shares with respect to any “excess distribution” received from us and any gain from a sale or other disposition of the ADSs or ordinary shares. See “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company**

Our founders, Mr. Yinan Hu and Mr. Qiuping Lai, formed two PRC companies, Guangzhou Nanyun Car Rental Services Co., Ltd. and Guangdong Nanfeng Automobile Association Co., Ltd., initially to provide automobile-related services, such as car rental and emergency services. In 1999, we began distributing automobile insurance products and automobile loans on an ancillary basis. In 2001, our founders transferred their interests in the two PRC companies to China United Financial Services Holdings Limited (then known as China Automobile Association Holdings Limited), or China United Financial Services, a newly established British Virgin Islands

company, as part of a series of transactions in which Cathay Capital Group, a private equity group, made an investment in China United Financial Services by subscribing for 40% of the equity interests.

We established two insurance agencies, Beijing Fanlian Insurance Agency Co., Ltd. and Guangdong Fanhua Nanfeng Insurance Agency Co., Ltd. (formerly known as Guangdong Nanfeng Insurance Agency Co., Ltd.), or Guangdong Nanfeng, in April and May 2002, respectively, and obtained professional agency licenses to distribute insurance products in Beijing and Guangdong.

In June 2004, as part of its corporate restructuring to facilitate international fundraising, China United Financial Services incorporated CISG Holdings Ltd., or CISG Holdings, in the British Virgin Islands to be the holding company for its insurance agency and brokerage businesses. China United Financial Services transferred to CISG Holdings all of its rights and interests in four PRC insurance intermediary companies it then controlled. In September 2004, Cathay Capital Group subscribed for approximately 27.8% of the equity interests in CISG Holdings.

From June 2004 to December 2005, we expanded our operations by establishing eight insurance agencies and brokerages in Beijing, Sichuan and Guangdong.

In December 2005, an entity affiliated with CDH Growth Capital Holdings Company Limited, or CDH Growth Capital Holdings, a private equity firm, subscribed for approximately 26.4% of the equity interests in CISG Holdings. Through CDH China Holdings Management Company Limited, or CDH Investment, we commenced our life insurance business by acquiring controlling interests in three insurance agencies in Sichuan, Hebei and Fujian and further expanded our operations by establishing four insurance agencies in Shandong, Hunan, Shenzhen and Shanghai in 2006. We established one insurance agency in Fujian and one insurance brokerage in Guangdong in early 2007.

In anticipation of our initial public offering, we incorporated CNinsure Inc. in the Cayman Islands in April 2007. In July 2007, CNinsure Inc., on a 10,000-for-one basis, issued its ordinary shares to the then existing shareholders of CISG Holdings in exchange for all of the outstanding shares of CISG Holdings. After this restructuring transaction, CNinsure Inc. became the ultimate holding company of our group.

On October 31, 2007, we listed our ADSs on the Nasdaq Global Market under the symbol “CISG.” We and certain selling shareholders of our company completed the initial public offering of 13,526,773 ADSs, each representing 20 ordinary shares, on November 5, 2007.

On July 14, 2010, we completed a follow-on public offering of 4,600,000 ADSs, each representing 20 ordinary shares.

From the completion of our initial public offering to March 31, 2012, we further expanded our service offerings to include claims adjusting services, certain consumer financial products and services and wealth management services, and extended our distribution and service network both organically and through acquisitions. As of March 31, 2012, we, through our PRC subsidiaries and our consolidated affiliated entities, directly or indirectly, owned majority interests of 41 agencies, three brokerage companies, three claims adjusting firms, one online insurance service company, one automobile service company and one wealth management service company in the PRC. We also own a 20.6% equity interest in a consumer credit brokerage company. The following table sets forth detailed information of the entities we acquired or established in China between January 1, 2011 and March 31, 2012:

| <b>Date of Acquisition<sup>(1)</sup><br/>or Establishment<sup>(2)</sup></b> | <b>Name of Established or Acquired<br/>Company</b>            | <b>% of Equity<br/>Interests<br/>Attributable to<br/>Us</b> | <b>Main Insurance Products Distributed<br/>or Services Provided</b> | <b>Location<br/>(Province)</b> |
|---|---|---|---|--------------------------------|
| February 17, 2011 <sup>(2)</sup>  | Fanhua Lianxing Insurance Sales Co., Ltd., or Fanhua Lianxing | 100%  | Nation-wide distribution of insurance products                      | Beijing                        |
| March 2, 2011 <sup>(2)</sup>  | Shenzhen Bangbang Auto Services Co., Ltd.                     | 100%  | Automobile services   | Guangdong                      |
| June 20, 2011 <sup>(2)</sup>  | Fanhua Shiji Insurance Sales Co.,                             | 65.1%   | Nationwide distribution of  | Beijing                        |

| <b>Date of Acquisition<sup>(1)</sup><br/>or Establishment<sup>(2)</sup></b> | <b>Name of Established or Acquired<br/>Company</b>                                  | <b>% of Equity<br/>Interests<br/>Attributable to<br/>Us</b> | <b>Main Insurance Products Distributed<br/>or Services Provided</b> | <b>Location<br/>(Province)</b> |
|---|---|---|---|--------------------------------|
|   | Ltd., or Fanhua Shiji <sup>(3)</sup>  |   | insurance products  |                                |
| August 31, 2011 <sup>(1)</sup>  | Guangzhou Huajie Insurance Agency Co., Ltd.   | 100%  | Distribution of property and casualty products                      | Guangdong                      |
| August 31, 2011 <sup>(1)</sup>  | Dongguan Zhongxin Insurance Agency Co., Ltd.  | 100%  | Distribution of property and casualty products                      | Guangdong                      |
| October 11, 2011 <sup>(1)</sup>   | Minkfair Insurance Management Limited or Minkfair                                   | 100%  | Distribution of insurance products                                  | Hong Kong                      |
| October 1, 2011 <sup>(1)</sup>  | Jinan Fanhua Rongtai Insurance Agency Co., Ltd. or Jinan Rongtai <sup>(4)</sup>     | 90%   | Distribution of life insurance products                             | Shandong                       |
| December 26, 2011 <sup>(1)</sup>  | Shandong Fanhua Xintai Insurance Agency Co., Ltd. or Shandong Xintai <sup>(5)</sup> | 90%   | Distribution of life insurance products                             | Shandong                       |
| December 26, 2011 <sup>(1)</sup>  | Shijiazhuang Fanhua Anxin Investment Co., Ltd. or Shijiazhuang Anxin <sup>(6)</sup> | 95%   | Distribution of life insurance products                             | Hebei                          |
| March 6, 2012 <sup>(2)</sup>  | Fanhua Puyi Asset Management Co., Ltd. <sup>(7)</sup>                               | 57%   | Provision of wealth management services                             | Guangdong                      |

(1) Refers to the date on which we completed the acquisition or additional acquisition of subsidiaries.

(2) Refers to the date on which we obtained business licenses for the newly established company.

(3) We hold 65.1% of the equity interest in InsCom Holding, which beneficially own 100% of the equity interest in Fanhua Shiji.

(4) On September 22, 2011, we signed definitive agreements to acquire an additional 45% in Jinan Rongtai through Shandong Xintai, increasing Shandong Xintai's shareholding in Jinan Rongtai from 55% to 100%.

(5) On February 22, 2011, we injected RMB5.3 million in Shandong Xintai to increase its registered capital. As a result, our shareholding in Shandong Xintai increased from 63% to 72%. On December 26, 2011, we signed definitive agreements to acquire an additional 18.0% equity interest in Shandong Xintai for RMB6.1 million, increasing our shareholding in Shandong Xintai to 90%.

(6) On December 26, 2011, we signed definitive agreements to acquire an additional 40% equity interest in Shijiazhuang Anxin for RMB35.5 million, increasing our shareholding in Shijiazhuang Anxin from 55% to 95%. Shijiazhuang Anxin owns 100% of the equity interests in Hebei Anxin Insurance Agency Co., Ltd. and 70% of the equity interests in Hebei Lianda Insurance Agency Co., Ltd.

(7) Fifty-five percent of our equity interest in Puyi Asset Management is held by our wholly owned subsidiary, Fanhua Lianxing. Two percent of our equity interest in Puyi Asset Management is held through Fanhua Puyi Investment Management Co., Ltd. in which we hold a 19.5% interest which is accounted as other investment.

Our principal executive offices are located at 22/F, Yinhai Building, No. 299 Yanjiang Zhong Road, Guangzhou, Guangdong 510110, People's Republic of China. Our telephone number at this address is +86-20-6122-2777. Our registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place as our board of directors may from time to time decide. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

## Recent Developments and Principal Transactions

### *Disposal of Datong*



We started our life insurance distribution business by building a life insurance business unit in 2006 and acquired a 55% stake in Datong in 2008. The remaining 45% of Datong was held by Mr. Keping Lin. In March 2011, we sold our interest in Datong to Winner Sight Global Limited, an affiliated entity of Warburg Pincus LLC, for consideration of approximately US\$63.69 million. Datong declared a cash dividend of RMB10 million exclusively to us on March 25, 2011.

### ***Strategic Transformation Plan***

In the next two to three years, we intend to alter the factors that drive our growth by transforming our operating tactics and sales and marketing model to more clearly define our market positioning and target customers. As we do so, we will focus our efforts mainly on the following areas:

- concentrating resources on key cities and cutting back our presence in regions at or below the county level;
- shifting to high value-added businesses;
- encouraging innovation in product design in order to meet the rising demands of medium-to-high-end customers for diversified financial services and products and to distinguish ourselves from our competition;
- building a customer-centric integrated e-commerce platform;
- targeting medium-to-high-end customers by establishing a professional and high-caliber sales team specialized in providing financial advisory services; and
- adopting specialized distribution channels to sell homogeneous products by consolidating market resources, in particular, from ancillary insurance intermediaries.

### ***Going Private Proposal***

In May 2011, our board of directors received a preliminary non-binding proposal letter, from TPG Asia V MU, Inc., Kingsford Resources Limited, a company previously controlled by Mr. Yinan Hu, our chairman of the board of directors and former chief executive officer, entities affiliated with him, and CDH Inservice Limited, or CDH Inservice, to acquire all of our outstanding ordinary shares in a going-private transaction for US\$19.00 per ADS, or US\$0.95 per ordinary share, in cash, subject to certain conditions. The going-private proposal was withdrawn in September 2011.

## **B. Business Overview**

We are a leading independent insurance intermediary company operating in China. With 47,425 sales professionals, 1,337 claims adjusters and 532 sales and service outlets operating in 26 provinces as of March 31, 2012, our distribution and service network reaches some of China's most economically developed regions and some of the most affluent cities in China, such as Beijing, Shanghai, Guangzhou and Shenzhen.

As an insurance intermediary company, we do not assume underwriting risks. Instead, we distribute to customers in China a wide variety of property, casualty and life insurance products underwritten by domestic and foreign insurance companies operating in China and provide insurance claims adjusting services, such as damage assessments, surveys, authentications and loss estimations. We also provide certain value-added services, such as 24-hour emergency services in select cities and assistance with claim settlement, to our customers—individuals and institutions that purchase insurance products through us. In addition, we provide information about potential customers to insurance companies, which then sell insurance products to them, either directly or through our affiliated insurance intermediaries. We primarily distribute insurance products to customers through our sales agents. We also operate an insurance comparison website which allows customers to directly compare and purchase insurance products online. We are compensated for our services primarily by commissions and fees paid by insurance companies, typically based on a percentage of the premium paid by the insured or a percentage of the amount recovered from insurance companies. Commission and fee rates generally depend on the type of insurance products, the particular insurance company and the region in which the products are sold. Furthermore, we offer certain consumer financial products and services through a consumer credit brokerage company in which we hold noncontrolling interests and certain wealth management services through a majority-owned wealth management service company.

As of March 31, 2012, we had one affiliated online insurance service company, one wealth management service company, one automobile service company and 47 affiliated insurance intermediary companies in the PRC, of which 41 are insurance agencies including two with national operating licenses, three are insurance brokerages and three are insurance adjusting firms. We also own 20.6% of the equity interest in a consumer credit brokerage company. According to the Insurance Intermediary Market Development Report for the first half of 2011 published by the CIRC, our affiliates included:

- seven of China's top 20 insurance agencies, accounting for approximately 6.9% of total insurance agency revenue in China in the first half of 2011;
- one of China's top 20 insurance brokerages, accounting for approximately 1.8% of total insurance brokerage revenue in China in the first half of 2011; and
- two of China's top 20 insurance claims adjusting firms, accounting for approximately 15.6% of total claims adjusting revenue in China in the first half of 2011.

The professional insurance intermediary sector in China is at an early stage of development and highly fragmented. We believe this offers substantial opportunities for further growth and consolidation. We intend to take advantage of these opportunities to increase our market share by aggressively expanding our distribution network through selective acquisitions, recruitment of experienced and entrepreneurial sales agents and franchising. In particular, we intend to devote significant resources to distributing life insurance products in order to benefit from the recurring fee income they generate and to better take advantage of the huge growth potential in the China's life insurance market.

In addition, as more and more Chinese people become accustomed to online shopping, the e-commerce space has grown rapidly in China. We believe there are substantial opportunities for online insurance distribution in China. We launched an insurance price comparison website on January 1, 2012 and intend to continue to devote significant resources to building up the e-commerce platform in order to benefit from the emerging e-commerce opportunities and further enhance our competitive positions in the insurance marketplace.

## **Products and Services**

We market and sell two broad categories of insurance products: property and casualty insurance products and life insurance products, both focused on meeting the insurance needs of individuals. The insurance products we sell are underwritten by some of the leading insurance companies in China. We provide insurance claims adjusting services to both insurance companies and the insured. We also provide certain value-added services to our customers in conjunction with distributing automobile insurance products. In addition, we offer certain consumer financial products and services through a consumer credit brokerage company in which we hold noncontrolling interests and certain wealth management services and products through a majority-owned wealth management service company.

### ***Property and Casualty Insurance Products***

Our main property and casualty insurance products are automobile insurance. In addition, we also offer individual accident insurance, commercial property insurance, and construction insurance products. Total net revenues from property and casualty insurance products accounted for 68.1% of our total net revenue in 2011. The property and casualty insurance products we distribute can be further classified into the following categories:

- *Automobile Insurance.* Automobile insurance is the largest segment of property and casualty insurance in the PRC in terms of gross written premiums. We distribute both standard automobile insurance policies and supplemental policies, which we refer to as riders. The standard automobile insurance policies we sell generally have a term of one year and cover damages caused to the insured vehicle by collision and other traffic accidents, falling or flying objects, fire, explosion and natural disasters. We also sell standard third-party liability insurance policies, which cover bodily injury and property damage caused by an accident involving an insured vehicle to a person not in the insured vehicle. The riders we distribute cover additional losses, such as liability to passengers, losses arising from vehicle theft and robbery, broken glass and vehicle body scratches.

- *Individual Accident Insurance.* The individual accident insurance products we distribute generally provide a guaranteed benefit during the coverage period, which usually is one year or a shorter period, in the event of death or disability of the insured as a result of an accident, or a reimbursement of medical expenses to the insured in connection with an accident. These products typically require only a single premium payment for each coverage period. Because most of the individual accident insurance products we distribute are underwritten by property and casualty insurance companies, we classify individual accident insurance products as property and casualty insurance products.
- *Commercial Property Insurance.* The commercial property insurance products we distribute include basic, comprehensive and all risk policies. Basic commercial property insurance policies generally cover damage to the insured property caused by fire, explosion and thunder and lightning. Comprehensive commercial property insurance policies generally cover damage to the insured property caused by fire, explosion and certain natural disasters. All risk commercial property insurance policies cover all causes of damage to the insured property not specifically excluded from the policies.
- *Homeowner Insurance.* The homeowner insurance products we distribute are primarily home mortgage-based insurance policies. Home mortgage-based policies cover damage to mortgaged property caused by a number of standard risks such as fire, flood and explosion. Some policies also provide mortgage repayment protection in the event the policyholder is unable to make mortgage payment due to death or injury.
- *Cargo Insurance.* The cargo insurance products we distribute cover damage to or loss of goods in transit by sea, land or air.
- *Hull Insurance.* The hull insurance products we distribute cover vessels against losses, liabilities and expenses caused by natural calamities, negligence of crew members and marine accidents, as well as collision liability.
- *Liability Insurance.* The liability insurance products we distribute are primarily product liability and employer's liability insurance products. These products generally cover losses to third parties due to the misconduct or negligence of the insured party, but exclude losses due to fraud or the willful misconduct of the insured party.
- *Construction Insurance.* The construction insurance products we distribute cover property damages and personal injury losses caused by natural disasters and accidents in connection with construction projects in China.

The property and casualty insurance products we distributed in 2011 were primarily underwritten by PICC, CPIC, Ping An, Tian Ping Auto and Sunshine Property and Casualty Insurance Co., Ltd. or Sunshine.

### ***Life Insurance Products***

The life insurance products we distribute can be broadly classified into the categories set forth below. Due to constant product innovation by insurance companies, some of the insurance products we distribute combine features of one or more of the categories listed below. Total net revenues from life insurance products accounted for 18.2% of our total net revenues in 2011.

- *Individual Whole Life Insurance.* The individual whole life insurance products we distribute provide insurance for the insured person's entire life in exchange for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years, or until the insured reaches a certain age. The face amount of the policy or, for some policies, the face amount plus accumulated interests is paid upon the death of the insured.
- *Individual Term Life Insurance.* The individual term life insurance products we distribute provide insurance for the insured for a specified time period or until the attainment of a certain age, in return for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years. Term life insurance policies generally expire without value if the insured survives the coverage period.

- *Individual Endowment Life Insurance.* The individual endowment products we distribute generally provide maturity benefits if the insured reaches a specified age, and provide to a beneficiary designated by the insured guaranteed benefits upon the death of the insured within the coverage period. In return, the insured makes periodic payment of premiums over a pre-determined period, generally ranging from five to 25 years.
- *Individual Education Annuity.* The individual annuity products we distribute are primarily education related products. They provide annual benefit payments after the insured attains a certain age, or for a fixed time period, and provide a lump payment at the end of the coverage period. In addition, the beneficiary designated in the annuity contract will receive guaranteed benefits upon the death of the insured during the coverage period. In return, the purchaser of the annuity products makes periodic payment of premiums during a pre-determined accumulation period.
- *Universal Insurance.* We distribute certain universal insurance products that provide not only insurance coverage but also a minimum guaranteed return on the amount the insured puts into an individual investment account. In return the insured makes periodic payment of premiums over a pre-determined period.
- *Individual Health Insurance.* The individual health insurance products we distribute primarily consist of catastrophic health insurance products, which provide guaranteed benefits for specified serious illnesses during the coverage period. In return, the insured makes periodic payment of premiums over a pre-determined period.
- *Group Life Insurance.* We distribute several group life insurance products, including group health insurance. These group products generally have a policy period of one year and require a single premium payment.

In addition to the periodic premium payment schedules described above, most of the individual life insurance products we distribute also allow the insured to choose to make a single, lump-sum premium payment at the beginning of the policy term. If a periodic payment schedule is adopted by the insured, a life insurance policy can generate periodic payment of fixed premiums to the insurance company for a specified period of time. This means that once we sell a life insurance policy with a periodic premium payment schedule, we will be able to derive commission and fee income from that policy for an extended period of time, sometimes up to 25 years. Because of this attractive feature and the expected sustained growth of life insurance sales in China, we have focused significant resources since 2006 on developing our capability to distribute individual life insurance products with periodic payment schedules. We expect that sales of life insurance products will become an important source of our revenue in the next several years. The life insurance products we distributed in 2011 were primarily underwritten by AVIVA-COFCO, Sino Life., Great Wall Life Insurance Co., Ltd., Minsheng Life Insurance Co., Ltd. and AEGON-CNOOC Life Insurance Co., Ltd.

### ***Insurance Claims Adjusting Services***

In 2011, total net revenues from claims adjusting services accounted for 13.3% of our total net revenue. We offer the following insurance claims adjusting services:

- *Pre-underwriting Survey.* Before an insurance policy is sold, we conduct a survey of the item to be insured to assess its current value and help our clients determine the insurable value and the amount to be insured. We also help our clients assess the underwriting risk with respect to the item to be insured through surveys, appraisals and analysis.
- *Claims Adjusting.* When an accident involving the insured subject matter has occurred, we conduct an onsite survey to determine the cause of the accident and assess damage. We then determine the extent of the loss to the insured subject matter and prepare and submit a report to the insurance company summarizing our preliminary findings. Upon final conclusion of the case, we prepare and submit a detailed report to the insurance company setting forth details of the accident, cause of the loss, details of the loss, adjustment and determination of loss, an indemnity proposal and, where appropriate, a request for payment.

- *Disposal of Residual Value.* In the course of providing claims adjusting services, we also can appraise the residual value of the insured property and offer suggestions on the disposal of such property. Upon appointment by the insurance company, we handle the actual disposal of the insured property through auction, discounted sale, lease or other means.
- *Loading and Unloading Supervision.* Upon appointment by ship owners, shippers, consignees or insurance companies, we can monitor and record the loading and unloading processes of specific cargos.
- *Consulting Services.* We provide consulting services to both the insured and the insurance companies on risk assessment and management, disaster and damage prevention, investigation, and loss assessment.

We are compensated primarily by insurance companies for our claims adjusting services, which we provide on behalf of insurance companies. The fees we receive are calculated based on the types of insurance involved. For services provided in connection with property and casualty insurance (other than marine cargo insurance and automobile insurance), our fees are calculated as a percentage of the recovered amount from insurance companies plus travel expenses. For services provided in connection with marine cargo insurance, our fees are charged primarily on an hourly basis and, in some cases, as a percentage of the amount recovered from insurance companies. For automobile insurance, our fees are generally fixed and the amounts collected are based on the types of services provided. In 2011, we primarily provided claims adjusting services to Ping An, PICC, CPIC, Bank of China Insurance Company Limited and Sunshine.

As competition intensifies and the insurance market becomes more mature in China, we believe there will be a further division of labor in the insurance intermediary sector. We expect that more insurance companies will choose to outsource claims adjusting functions to professional service providers while they focus on the core aspects of their business, including product development and asset and risk management. We believe we are well-positioned to capture such outsourcing opportunities.

### ***Other Services***

In 2011, other services contributed 0.4% of our total net revenue which mainly represented service fees derived from the provision of IT services provided to a subsidiary of CFSG and third-parties.

In conjunction with the sale of automobile insurance products, we provide our customers with a number of value-added services under our service slogan, “You take care of driving, and we’ll take care of the rest.” For example, we assist our customers with obtaining vehicle licenses and subsequent annual inspections. We maintain 24-hour service hotlines in most of our principal markets. When an accident involving an insured vehicle occurs within these markets, our service staff can arrive at the scene quickly after being notified through the 24-hour service hotline and provide onsite assistance to our customers. Fees derived from other services related to insurances products are recorded as net revenues from property and casualty insurance products and life insurance products, respectively, depending on the type of main business of the agencies or brokerages which provide the services.

In addition, we also distribute mortgage loans, mortgage refinancings, homeowner loans and auto loans through CFSG, a consumer credit brokerage company in which we hold 20.6% equity interests, and offer wealth management services to both institutions and individuals through Puyi Asset Management in which we hold a 57% equity interest.

### **Entrepreneurial Agent Program**

In recent years, some entrepreneurial management staff and senior sales agents of major insurance companies in China have chosen to leave their employers or principals and become independent. We call these individuals “entrepreneurial agents.” We have designed and implemented a comprehensive program to attract and retain productive entrepreneurial agents. Under this program, only entrepreneurial agents who meet specific professional criteria and successfully pass a six-month trial period will be formally admitted to our distribution and service network, and only those who continue to meet specified performance standards will be allowed to remain in our network. In addition to cash compensation, these entrepreneurial agents also have the opportunity to subscribe for the equity of our affiliated subsidiaries. We believe that our entrepreneurial agent program provides productive entrepreneurial agents a strong incentive to grow their business within our network and enables us to grow our sales force with productive, motivated professionals. As of March 31, 2012, we had 443 entrepreneurial sales teams in our network.

## Scalable Unified Operating Platform

In accordance with our growth strategy, we have made significant efforts to expand and upgrade our unified operating platform since our initial public offering. We expect that our upgraded operating platform will make selling easier for sales agents, facilitate standardized business and financial management, enhance risk control and increase operational efficiency. Since January 1, 2010, we have successfully implemented the following components of our operating platform across the company:

- standardized operating procedures;
- Core Business System, which encompasses our property and casualty insurance unit, life insurance unit, and claims adjusting unit, that will better support business operations and facilitate risk control;
- a centralized and computerized accounting and financial management system;
- a human resources management system;
- an office automation system;
- an e-learning system to provide online training to sales agents; and
- a nationwide IT network and data center to support front-office operations.

In addition, we have been refining our Business Operation Support System, which facilitates sales support to our agents with various functions such as e-sales solutions, product portfolio proposals, product centers, auto insurance premium calculation and call centers. We have also initiated a module for data transmission with insurance companies and we are in the process of developing an image and workflow system which aims to enhance our operating efficiency.

We have developed and refined this platform through more than ten years of operations and believe that it is difficult for our competitors, particularly new market entrants, to reproduce a similar platform without substantial financial resources, time and operating experience. Because the various systems, policies and procedures of our operating platform can be rolled out quickly as we enter new regions or make acquisitions, we believe we can expand our distribution network rapidly and efficiently while maintaining the quality of our services.

## Distribution and Service Network and Marketing

Since our establishment in 1998, we have built a distribution and service network that, as of March 31, 2012, consisted of 41 insurance agencies, three insurance brokerages, three claims adjusting firms, one online insurance service company, one automobile service company and one wealth management service company, with 532 sales and service outlets, 47,290 registered sales agents, 135 in-house sales representatives and 1,337 in-house claims adjusters. Our distribution and service network covers 26 provinces and reaches some of the most economically developed regions in China and some of the wealthiest Chinese cities, such as Beijing, Shanghai, Guangzhou and Shenzhen.

The following table sets forth some additional information of our distribution and service network as of March 31, 2012, broken down by provinces:

| Province        | Number of Sales and Service Outlets | Number of In-house Sales Representatives | Number of Sales Agents | Number of In-house Adjustors |
|-----------------|-------------------------------------|--|------------------------|------------------------------|
| Hebei.....      | 99                                  | —  | 8,887                  | 94                           |
| Shandong.....   | 27                                  | 3  | 8,442                  | 17                           |
| Beijing.....    | 26                                  | 8  | 6,437                  | 65                           |
| Guangdong ..... | 103                                 | 120                                      | 6,088                  | 569                          |
| Henan.....      | 14                                  | —  | 3,815                  | 7                            |
| Hunan .....     | 13                                  | 2  | 3,214                  | 8                            |
| Sichuan .....   | 66                                  | —  | 3,078                  | 112                          |
| Liaoning .....  | 41                                  | —  | 2,416                  | 91                           |
| Fujian.....     | 36                                  | —  | 2,415                  | 9                            |
| Hubei .....     | 14                                  | —  | 863                    | 25                           |

| Province             | Number of Sales and Service Outlets | Number of In-house Sales Representatives | Number of Sales Agents | Number of In-house Adjustors |
|----------------------|-------------------------------------|--|------------------------|------------------------------|
| Zhejiang .....       | 28                                  | 1  | 628                    | 29                           |
| Shanghai.....        | 15                                  | —  | 328                    | 156                          |
| Tianjin.....         | 4                                   | 1  | 298                    | 5                            |
| Jiangxi.....         | 23                                  | —  | 267                    | 19                           |
| Jiangsu .....        | 6                                   | —  | 114                    | 30                           |
| Yunnan.....          | 4                                   | —  | —                      | 43                           |
| Shaanxi .....        | 1                                   | —  | —                      | 12                           |
| Hainan.....          | 1                                   | —  | —                      | 4                            |
| Guangxi.....         | 1                                   | —  | —                      | 4                            |
| Anhui .....          | 2                                   | —  | —                      | 5                            |
| Chongqing.....       | 1                                   | —  | —                      | 3                            |
| Guizhou.....         | 3                                   | —  | —                      | 12                           |
| Inner Mongolia ..... | 1                                   | —  | —                      | 4                            |
| Gansu .....          | 1                                   | —  | —                      | 5                            |
| Shanxi .....         | 1                                   | —  | —                      | 6                            |
| Xinjiang .....       | 1                                   | —  | —                      | 3                            |
| <b>Total</b>         | <b>532</b>                          | <b>135</b>                               | <b>47,290</b>          | <b>1,337</b>                 |

We market and sell property and casualty insurance products directly to targeted customers through both sales agents, who are not our employees, and our in-house sales representatives. For the marketing and sale of life insurance products, we rely exclusively on the sales agents working on our unified operating platform. We market and sell insurance claims adjusting services primarily to insurance companies through our professional claims adjustors by bidding for claims adjusting business contracts.

### Customers

We sell automobile insurance, individual accident insurance and homeowner insurance products primarily to individual customers. We sell commercial property insurance, cargo insurance, hull insurance, liability insurance and construction insurance products to institutional customers. Customers for the life insurance products we distribute are primarily individuals under 50 years of age. For the year ended December 31, 2011, no single customer accounted for more than 3% of our net revenues.

Since our establishment in 1998, we have built a database of more than one million individuals, who originally were members of our automobile association. Using information contained in this database, our sales agents contact potential customers with our target demographics on a regular basis. In 2011, we had approximately 1.8 million customers, 1.4 million of whom bought our property and casualty insurance products and 364,000 of whom bought our life insurance products. By providing certain value-added services to these customers at no additional charge, we seek to build a loyal customer base that generates referrals and cross-selling opportunities.

We offer insurance adjusting services primarily to insurance companies and to a lesser extent to insureds.

### Insurance Company Partners

As of March 31, 2012, we had established business relationships with 74 insurance companies and one reinsurance company in the PRC. In the Chinese insurance market, local branches of insurance companies generally have the authority to enter into contracts in their own names with insurance intermediaries. Historically, we have entered into and maintained business relationships with insurance companies at the local level. That is, our insurance agencies, brokerages and claims adjusting firms enter into contracts with different local branches of an insurance company that are located within their respective regions. The termination of a business relationship between one of our insurance agencies, brokerages or claims adjusting firms and a local branch of an insurance company generally would have no significant impact on the business relationships between our other insurance agencies, brokerages and claims adjusting firms and the other branches of the same insurance company. Since 2007, we have also sought to establish business relationships with insurance companies at the corporate headquarters level in order to leverage the combined sales volumes of our various affiliated insurance agencies and brokerages located

in different parts of the country. As a result of this effort, we have entered into contracts with 15 life insurance companies and 12 property and casualty insurance companies at the corporate headquarters level for the distribution of insurance products and outsourcing of claims adjusting services.

For the year ended December 31, 2011, our top five insurance company partners, after aggregating the business conducted between our insurance agencies and brokerages and the various local branches of the insurance companies, were PICC, CPIC, Ping An, AVIVA-COFCO and Tian Ping Auto. Among them, PICC, CPIC, and Ping An each accounted for more than 10% of our total net revenues from commissions and fees in 2011, with PICC accounting for 21.9%, CPIC accounting for 12.2%, and Ping An accounting for 12.0%.

## Competition

A number of industry players are involved in the distribution of insurance products in the PRC. We compete for customers on the basis of product offerings, customer services and reputation. Because we primarily distribute individual insurance products, our principal competitors include:

- *Professional insurance intermediaries.* The professional insurance intermediary sector in China is at an early stage of development and highly fragmented, accounting for only 6.3% of the total insurance premiums generated in China in 2011. Several insurance intermediary companies have received private equity or venture capital funding in recent years and are actively pursuing expansion, such as HuaKang Financial Service Inc. We believe that we can compete effectively with these insurance intermediary companies because we have a longer operational history and over the years have assembled a strong and stable team of managers and sales professionals and built a unified operating platform. With increasing consolidation expected in the insurance intermediary sector in the coming years, we expect competition within this sector to intensify.
- *Insurance companies.* The distribution of individual life insurance products in China historically has been dominated by insurance companies, which usually use both in-house sales forces and exclusive sales agents to distribute their own products. We believe that we can compete effectively with insurance companies because we focus only on distribution and offer our customers a broad range of insurance products underwritten by multiple insurance companies.
- *Entities that offer insurance products online.* In recent years, domestic insurance companies, portal websites and professional insurance intermediaries have begun providing online information to consumers interested in purchasing insurance products. However, each of their insurance e-commerce operations has its own limitations. The insurance products offered on an insurance company's website are usually confined to those under its own brand. Most portal websites provide separate product information with little ability to compare among insurance plans. None of the professional insurance intermediaries that organize online product distribution has a nation-wide sales and service network to support after-sale service. We believe we can compete effectively with these business entities because our independent insurance comparison website offers a broad range of insurance products underwritten by multiple insurance companies, product comparisons between prices, services and policy benefits and good after-sale services that are backed by our call center and nation-wide service network.
- *Other business entities.* In recent years, business entities that distribute insurance products as an ancillary business, primarily commercial banks and postal offices, have been playing an increasingly important role in the distribution of insurance products, especially life insurance products. However, the insurance products distributed by these entities are mostly confined to those related to their main lines of business, such as investment-related life insurance products. We believe that we can compete effectively with these business entities because we offer our customers a broader variety of products.

In addition to individual insurance products, we also distribute commercial property and casualty insurance products. As a result, we also compete, to a lesser degree, with insurance intermediaries that focus on the distribution of commercial property and casualty insurance products, such as large insurance brokerages backed by state-owned enterprises and major international insurance brokerage companies that have entered the Chinese market, including Marsh & McLennan Companies, Inc., Aon Corporation and Willis Group Holdings Limited. However, those insurance brokerages backed by state-owned enterprises tend to dominantly rely on business from their shareholders or affiliates while the businesses of the international insurance brokerage companies in China, lacking localized operations, are usually confined to the extension of their global businesses. We believe we can compete effectively with these business entities because our expertise and localized operations allow us to reach out



to a broader customer base and better serve customers' needs. In addition, we can leverage our leading position in the distribution of individual insurance products, including our strong relationship with insurance companies, existing abundant customer resources and large distribution network, to rapidly develop our brokerage business.

According to the Insurance Intermediary Market Development Report for the first half of 2011 published by the CIRC, the top 20 insurance claims adjusting firms by revenues accounted for approximately 62.3% of the total revenues of all 315 insurance claims adjusting firms in China in the first half of 2011. Our affiliates include two of these top 20 insurance claims adjusting firms that contributed approximately 15.6% of the total claims adjusting revenue in China in the first half of 2011. We compete primarily with the other major claims adjusting firms in China, particularly Min Taian Insurance Surveyors & Loss Adjusters Co., Ltd., or Min Taian. We believe that we can compete effectively with Min Taian and other major insurance claims adjusting firms because we offer our customers a diversified range of claims adjusting services covering property insurance, automobile insurance and marine and cargo insurance and are able to leverage the business relationships we have developed with insurance companies through the distribution of property and casualty insurance products.

## **Intellectual Property**

Our brand, trade names, trademarks, trade secrets and other intellectual property rights distinguish our business platform, services and products from those of our competitors and contribute to our competitive advantage in the professional insurance intermediary sector. To protect our intellectual property, we rely on a combination of trademark, copyright and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. We have eight registered trademarks in China, including our corporate logo. Our main website is [www.cninsure.net](http://www.cninsure.net). Our insurance comparison website is located at [www.baoxian.com](http://www.baoxian.com).

## **Regulation**

### ***Regulations of the Insurance Industry***

The insurance industry in the PRC is highly regulated. CIRC is the regulatory authority responsible for the supervision of the Chinese insurance industry. Insurance activities undertaken within the PRC are primarily governed by the Insurance Law and the related rules and regulations.

#### *Initial Development of Regulatory Framework*

The Chinese Insurance Law was enacted in 1995. The original insurance law, which we refer to as the 1995 Insurance Law, provided the initial framework for regulating the domestic insurance industry. Among the steps taken under the 1995 Insurance Law were the following:

- Licensing of insurance companies and insurance intermediaries, such as agencies and brokerages. The 1995 Insurance Law established requirements for minimum registered capital levels, form of organization, qualification of senior management and adequacy of the information systems for insurance companies and insurance agencies and brokerages.
- Separation of property and casualty insurance businesses and life insurance businesses. The 1995 Insurance Law classified insurance between property, casualty, liability and credit insurance businesses, on the one hand, and life, accident and health insurance businesses on the other, and prohibited insurance companies from engaging in both types of businesses.
- Regulation of market conduct by participants. The 1995 Insurance Law prohibited fraudulent and other unlawful conduct by insurance companies, agencies and brokerages.
- Substantive regulation of insurance products. The 1995 Insurance Law gave insurance regulators the authority to approve the basic policy terms and premium rates for major insurance products.
- Financial condition and performance of insurance companies. The 1995 Insurance Law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers and established mandatory reinsurance requirements, and put in place a reporting regime to facilitate monitoring by insurance regulators.

- Supervisory and enforcement powers of the principal regulatory authority. The principal regulatory authority, then the People's Bank of China, was given broad powers under the 1995 Insurance Law to regulate the insurance industry.

#### *Establishment of the CIRC and 2002 Amendments to the Insurance Law*

China's insurance regulatory regime was further strengthened with the establishment of the CIRC in 1998. The CIRC was given the mandate to implement reform in the insurance industry, minimize insolvency risk for Chinese insurers and promote the development of the insurance market.

The 1995 Insurance Law was significantly amended in 2002 and the amended insurance law, which we refer to as the 2002 Insurance Law, became effective on January 1, 2003. The major amendments to the 1995 Insurance Law include:

- Authorizing the CIRC to be the insurance supervisory and regulatory body nationwide. The 2002 Insurance Law expressly grants the CIRC the authority to supervise and administer the insurance industry nationwide.
- Expanding the permitted scope of business of property and casualty insurers. Under the 2002 Insurance Law, property and casualty insurance companies may engage in the short-term health insurance and accident insurance businesses upon the CIRC's approval.
- Providing additional guidelines for the relationship between insurance companies and insurance agents. The 2002 Insurance Law requires an insurance company to enter into an agent agreement with each insurance agent that will act as an agent for that insurance company. The agent agreement sets forth the rights and obligations of the parties to the agreement as well as other matters pursuant to law. An insurance company is responsible for the acts of its agents when the acts are within the scope authorized by the insurance company.
- Relaxing restrictions on the use of funds by insurance companies. Under the 2002 Insurance Law, an insurance company may use its funds to make equity investments in insurance-related enterprises, such as asset management companies.
- Allowing greater freedom for insurance companies to develop insurance products. The 2002 Insurance Law allowed insurance companies to set their own policy terms and premium rates, subject to the approval of, or a filing with, the CIRC.

#### *2009 Amendments to the Insurance Law*

The 2002 Insurance Law was significantly amended again in 2009 and the amended insurance law, which we refer to as the 2009 Insurance Law, became effective on October 1, 2009. The major amendments to the 2009 Insurance Law include:

- Strengthening protection of the insured's interests. The 2009 Insurance Law added a variety of clauses such as incontestable clause, abstained and estoppels clause, common disaster clause and amending immunity clause, claims-settlement prescription clause, reasons for claims rejection and contract modification clause.
- Strengthening supervision on the qualification of the shareholders of the insurance companies and setting forth specific qualification requirements for the major shareholders, directors, supervisors and senior managers of insurance companies.
- Expanding the business scope of insurers and further relaxing restriction on the use of fund by insurers.
- Strengthening supervision on solvency of insurers with stricter measures.
- Tightening regulations governing the administration of insurance intermediary companies, especially those relating to behaviors of insurance agents.

According to the 2009 Insurance Law, the minimum registered capital required to establish an insurance agency or insurance brokerage as a company must comply with the PRC Company Law. The registered capital or the capital contribution of insurance agencies or insurance brokerages must be paid-up capital in cash. The 2009 Insurance Law also sets forth some specific qualification requirements for insurance agency and brokerage practitioners. The senior managers of insurance agencies or insurance brokerages must meet specific qualification requirements, and their appointments are subject to approval of the CIRC. Personnel of an insurance agency or insurance brokerage engaging in the sales of insurance products must meet the qualification requirements set by the CIRC and obtain a qualification certificate issued by the CIRC. Under the 2009 Insurance Law, the parties to an insurance transaction may engage insurance adjusting firms or other independent appraisal firms that are established in accordance with applicable laws, or persons who possess the requisite professional expertise, to conduct assessment and adjustment of the insured subject matters. Additionally, the 2009 Insurance Law specifies additional legal obligations for insurance agencies and brokerages.

#### *The CIRC*

The CIRC has extensive authority to supervise insurance companies and insurance intermediaries operating in the PRC, including the power to:

- promulgate regulations applicable to the Chinese insurance industry;
- investigate insurance companies and insurance intermediaries;
- establish investment regulations;
- approve policy terms and premium rates for certain insurance products;
- set the standards for measuring the financial soundness of insurance companies and insurance intermediaries;
- require insurance companies and insurance intermediaries to submit reports concerning their business operations and condition of assets;
- order the suspension of all or part of an insurance company or an insurance intermediary's business;
- approve the establishment, change and dissolution of an insurance company, an insurance intermediary or their branches;
- review and approve the appointment of senior managers of an insurance company, an insurance intermediary or their branches; and
- punish improper behaviors or misconducts of an insurance company or an insurance intermediary.

#### *Regulation of Insurance Agencies*

The principal regulation governing insurance agencies is the Provisions on the Supervision of Professional Insurance Agencies promulgated by the CIRC on September 18, 2009 and effective on October 1, 2009, which replaced the Provisions on the Administration of Insurance Agencies issued by the CIRC on December 1, 2004 and effective on January 1, 2005. According to the regulation, the establishment of an insurance agency is subject to minimum registered capital requirement and other requirements and to the approval of the CIRC. The term "insurance agency" refers to an entity that meets the qualification requirements specified by the CIRC, has obtained the license to conduct an insurance agency business with the approval of the CIRC, engages in the insurance business by and within the authorization of, and which collects commissions from, insurance companies. An insurance agency may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company. An insurance agency must have a registered capital or capital contribution of at least RMB2 million. Where it is established as a nationwide company, its registered capital must be at least RMB10 million. The registered capital must be paid up in cash. An insurance agency may engage in the following insurance agency businesses:

- selling insurance products on behalf of the insurance companies;

- collecting insurance premiums on behalf of the insurance companies;
- conducting loss surveys and handling claims of insurance businesses on behalf of the insurer principal; and
- other business activities approved by the CIRC.

The name of an insurance agency must contain the words “insurance agency” or “insurance sales.” The license of an insurance agency is valid for a period of three years. Division of or merger with an insurance agency or change of organizational form thereof shall be subject to approval by the CIRC. An insurance agency shall submit a written report to the CIRC for approval within five days from the date of occurrence of any of the following matters: (i) change of name or a branch’s name; (ii) change of domicile or a branch’s business premises; (iii) change of names of sponsors or major shareholders; (iv) change of major shareholders; (v) change of registered capital; (vi) major changes to equity structure; (vii) amendment to the articles of association; or (viii) divestment of a branch. Personnel of an insurance agency and its branches engaging in the sales of insurance products or relevant loss survey and claim settlement comply with the qualification requirements prescribed by the CIRC and obtain a “Qualification Certificate for Insurance Agency Practitioners.” The senior managers of an insurance agency or its branches must meet specific qualification requirements set forth in the Provisions on the Supervision of Professional Insurance Agencies. The appointment of the senior managers of an insurance agency or its branches is subject to review and approval of the CIRC.

#### *Regulation of Insurance Brokerages*

The principal regulation governing insurance brokerages is the Provisions on the Supervision of Insurance Brokerages promulgated by the CIRC on September 18, 2009 and effective on October 1, 2009, which replaced the Provisions on the Administration of Insurance Brokerages issued by the CIRC on December 15, 2004 and effective on January 1, 2005. According to this regulation, the establishment of an insurance brokerage is subject to the approval of the CIRC. The term “insurance brokerage” refers to an entity engaging in the insurance brokering business that meets the qualification requirements specified by the CIRC and has obtained the license to operate an insurance brokering business with the approval of the CIRC. Insurance brokering business includes both direct insurance brokering, which refers to brokering activities on behalf of insurance applicants or the insured in their dealings with the insurance companies, and reinsurance brokering, which refers to brokering activities on behalf of insurance companies in their dealings with reinsurance companies. An insurance brokerage may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company. An insurance brokerage company must have a registered capital of at least RMB10 million. The registered capital must be paid up in cash.

An insurance brokerage may conduct the following insurance brokering businesses:

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

The name of an insurance brokerage must contain the words “insurance brokerage.” The license of an insurance brokerage is valid for a period of three years. Division of or merger with an insurance brokerage or change of organizational form thereof shall be subject to approval by the CIRC. An insurance brokerage shall submit a written report to the CIRC within five days from the date of occurrence of any of the following matters: (i) change of name or a branch’s name; (ii) change of domicile or a branch’s business premises; (iii) change of names of sponsors or major shareholders; (vi) change of major shareholders; (v) change of registered capital; (vi) major changes to equity structure; (vii) amendment to the articles of association; or (viii) divestment of a branch. Personnel of an insurance brokerage and its branches who engage in any of the insurance brokering businesses described above must comply with the qualification requirements prescribed by the CIRC and obtain a qualification

certificate for insurance brokering practitioners. The senior managers of an insurance brokerage must meet specific qualification requirements set forth in the Provisions on the Supervision of Insurance Brokerages. Appointment of the senior managers of an insurance brokerage is subject to review and approval by the CIRC.

#### *Regulation of Insurance Claims Adjusting Firms*

The principal regulation governing insurance adjusting firms is the Provisions on the Supervision of Insurance Claims Adjusting Firms issued by the CIRC on September 18, 2009 and effective on October 1, 2009, which replaced the Provisions on the Administration of Insurance Claims Adjusting Firms promulgated on November 16, 2001 and effective on January 1, 2002. According to the regulation, the term “insurance adjusting firm” refers to an entity that is established in accordance with applicable laws and regulations and with the approval of the CIRC and engages in the assessment, survey, authentication, loss estimation and adjustment of the insured subject matters upon the entrustment of the parties concerned. An insurance adjusting firm may take any of the following forms: (i) a limited liability company; (ii) a joint stock limited company; or (iii) a partnership. An insurance adjusting firm must have a registered capital or capital contribution of at least RMB2 million. The registered capital must be paid up in cash.

Upon approval of the CIRC, an insurance adjusting firm may engage in the following businesses:

- inspecting, appraising the value of and assessing the risks of the subject matter before it is insured;
- surveying, inspecting, estimating the loss of and adjusting the insured subject matter after loss has been incurred;
- risk management consulting; and
- other business activities approved by the CIRC.

The name of an insurance adjusting firm must contain the words “insurance adjusting.” The license of an insurance adjusting firm is valid for a period of three years. In any of the following situations, an insurance adjusting firm shall submit a written report to the CIRC for approval when it within five days from the date the resolution for change has been passed: (i) change of name or a branch’s name; (ii) change of domicile or a branch’s business premises; (iii) change of names of sponsor, major shareholders or capital contributors; (iv) change of major shareholders or capital contributors; (v) major changes to the equity structure or the proportion of capital contributions; (vi) change of registered capital or capital contributions; (vii) amendment to the articles of association or the partnership agreement; (viii) division, merger and dissolution or any change in the form of organization; or (ix) divestment of a branch. Personnel of an insurance adjusting firm or its branches engaged in any of the insurance adjusting businesses described above comply with the qualification requirements prescribed by the CIRC and obtain a qualification certificate for insurance adjusting practitioners. The senior managers of an insurance adjusting firm must meet specific qualification requirements set forth in the Provisions on the Supervision of Insurance Adjusting Firms. Appointment of the senior managers of an insurance adjusting firm or its branches is subject to review and approval by the CIRC.

#### *Regulation of Ancillary-Business Insurance Agencies*

The principal regulation governing ancillary-business insurance agencies is the Interim Measures on the Administration of Ancillary-Business Insurance Agency issued by the CIRC on and effective as of August 4, 2000. The term “ancillary-business insurance agencies” refer to entities that are engaged by insurers to handle insurance business on behalf of insurers while concurrently engaging in another non-insurance-related business. Ancillary-business insurance agencies must meet the qualifications requirements set forth in this regulation. Upon reviewing and approving the qualifications of an entity applying to become an ancillary-business insurance agency, the CIRC will issue a “License for Ancillary-Business Insurance Agency,” which will be valid for three years. An ancillary-business insurance agency may only undertake insurance business on behalf of one insurance company, and the scope of the undertaken business is limited to the scope specified in the License for Ancillary- Business Insurance Agency.

### *Regulation of Insurance Salespersons*

The principal regulation governing individual insurance salespersons is the Provisions on the Administration of Insurance Salespersons issued by the CIRC on April 6, 2006 and effective on July 1, 2006. Under this regulation, the term “insurance salesperson” refers to an individual who has acquired a qualification certificate issued by the CIRC, sells insurance products and provides related services for an insurance company and collects fees or commissions. In order to engage in insurance sales activities as an insurance salesperson, a person first must pass the qualification examination for the insurance agency practitioners organized by the CIRC and obtain a “Qualification Certificate of Insurance Agency Practitioners,” which is valid for three years and renewable upon fulfillment of certain requirements. In addition to the qualification certificate, a person also must obtain a “Practice Certificate of Insurance Salespersons” issued by the insurance company to which he or she belongs in order to conduct insurance sales activities. Those who have obtained a “Practicing Certificate of Insurance Agency Practitioner,” “Practicing Certificate of Insurance Brokerage Practitioner” or “Practicing Certificate of Insurance Adjustment Practitioners” are not allowed to obtain a Practice Certificate for Insurance Salespersons. No insurance salesperson may concurrently sign agent agreements with, or act on behalf of, two or more insurance companies.

### *Regulation of Insurance Intermediary Service Group Companies*

The principal regulation governing insurance intermediary groups is the Provisional Measures on the Insurance Intermediary Service Group Companies issued by the CIRC on September 22, 2011 with immediate effect. According to the regulation, the term “insurance intermediary service group company” (a “group”) refers to a professional insurance intermediary company that is established in accordance with applicable laws and regulations and with the approval of the CIRC that exercises sole or shared control of, or is able to exert major influence over, at least two subsidiaries that are professional insurance intermediary companies primarily engaged in the insurance intermediary business.

An insurance intermediary service group company must have:

- a registered capital of at least RMB100 million;
- no record of material violation by investors of applicable laws and regulations in the previous three years; and
- at least five subsidiaries, among which at least two are professional insurance intermediary companies which contribute at least 50% of the total revenues of the group.

The name of an insurance intermediary service group must contain the words “Group” or “Holding.” Its principal business must be equity investment, management and provision of supporting services. An insurance intermediary service group company shall, submit a written report to the CIRC and its local counterparts at the place of registration within five working days after the date of occurrence of the following: (i) changing its registered name or address; (ii) changing its registered capital; (iii) changing its equity structure by more than 5% or shareholders holding more than 5% of shares; (iv) changing its articles of association; (v) establishing, acquiring, merging or closing its subsidiary; (vi) engaging in related party transactions between member companies; (vii) disincorporating; (viii) significantly changing its business scope; or (ix) making a major strategic investment, suffering a significant investment loss or experiencing other material events or emergencies that affect or may affect the business management, financial status or risk control of the group. Senior managers of an insurance intermediary service group company must meet specific qualification requirements and appointment of the senior managers of an insurance intermediary service group company is subject to review and approval by the CIRC.

### *Content Related to Insurance Industry in the Legal Documents of China’s Accession to the WTO*

According to the Circular of the CIRC on Distributing the Content Related to Insurance Industry in the Legal Documents of China’s Accession to the WTO, for the life insurance sector, within three years of China’s accession to the WTO on December 11, 2001, geographical restrictions were to be lifted, equity joint venture companies allowed to provide health insurance, group insurance, and pension/annuity services to Chinese citizens and foreign citizens, and for there to be no other restrictions except those on the proportion of foreign investment (no more than 50%) and establishment conditions. For the non-life insurance sector, within three years of China’s accession, the geographical restrictions were to be lifted and no restrictions allowed other than establishment conditions. For the insurance brokerage sector, within five years of China’s accession, the establishment of wholly foreign-funded

subsidiary companies was to be allowed, and no restriction other than establishment conditions and restrictions on business scope.

#### *Content Related to Insurance Industry in the Closer Economic Partnership Arrangements*

Under CEPA Supplement IV signed in July 2007 and CEPA Supplement VIII signed in December 2011, local insurance agencies in Hong Kong and Macao are allowed to set up wholly-owned insurance agency companies and conduct insurance intermediary businesses in Guangdong Province (including Shenzhen) on a pilot basis if they fulfill the following criteria:

- The applicant must have operated an insurance brokerage businesses in Hong Kong and Macao for over 10 years;
- The applicant's average annual revenue of insurance brokerage business for the past three years before application must not be less than HKD500,000 and the total assets as at the end of the year before application must not be less than HKD500,000;
- Within the years before application, there has been no serious misconduct or record of disciplinary action; and
- The applicant must have set up a representative office in mainland China for over one year.

#### ***Regulations on Foreign Exchange***

##### *Foreign Currency Exchange*

Foreign exchange regulation in China is primarily governed by the following rules:

- Foreign Currency Administration Rules (1996), as amended, or the Exchange Rules; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Under the Exchange Rules, the RMB is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of RMB for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the SAFE.

Under the Administration Rules, foreign-invested enterprises may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Development and Reform Commission.

##### *Foreign Exchange Registration of Offshore Investment by PRC Residents*

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, generally known in China as SAFE Circular No. 75, issued on October 21, 2005, prior to establishing or assuming control of an overseas SPV for the purpose of overseas equity financing (including convertible debts financing) with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, shall complete certain overseas investment foreign exchange registration procedures with the relevant local SAFE branch. An amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that SPV upon either (i) the injection of equity interests or assets of an onshore enterprise to that SPV or (ii) the completion of any overseas fund-raising by such SPV. An amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the SPV, such as (i) an increase or decrease in its capital, (ii) a

transfer or swap of shares, (iii) a merger or division, (iv) a long-term equity or debt investment or (v) the creation of any security interests.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity, or otherwise adversely affect us. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

#### *SAFE Regulations on Employee Share Options*

On December 25, 2006, the People's Bank of China promulgated the "Measures for the Administration of Individual Foreign Exchange," and on January 5, 2007, the SAFE further promulgated the implementation rules on those measures. Both became effective on February 1, 2007. According to the implementation rules, PRC citizens who are granted shares or share options by a company listed on an overseas stock market according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or any other qualified PRC agent, to register with the SAFE and to complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted share options are subject to the Individual Foreign Exchange Rules.

On March 28, 2007, SAFE promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Holding Plan or Share Option Plan of Overseas Listed Company, or the Share Option Rule. On February 15, 2012, SAFE promulgated the No. 7 Notice, which supersedes the Share Option Rule in its entirety and immediately became effective upon circulation. According to the No. 7 Notice, domestic individuals, which include any directors, supervisors, senior managerial personnel or other employees of a domestic company who are Chinese citizens (including citizens of Hong Kong, Macao and Taiwan) or foreign individuals who consecutively reside in the territory of PRC for one year, who participate in the same equity incentive plan of an overseas listed company shall, through the domestic companies they serve, collectively entrust a domestic agency to handle issues like foreign exchange registration, account opening, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchasing and sale of related stocks or equity, and funds transfer. Where a domestic agency needs to remit funds out of China as required for individuals' participation in an equity incentive plan, the domestic agency shall apply with the local office of the SAFE for a foreign exchange payment quota on a yearly basis. A domestic agency shall open a domestic special foreign exchange account in the bank. After repatriation of foreign currency income earned by individuals from participation in an equity incentive plan, the domestic agency shall request the bank to transfer the funds from its special foreign currency account to respective personal foreign currency deposit accounts. In the case of any significant change to the equity incentive plan of a company listed abroad (such as amendment to any major terms of the original plan, addition of a new plan, or other changes to the original plan due to merger, acquisition or reorganization of the overseas listed company or the domestic company or other major events), the domestic agency or the overseas trustee, the domestic agency shall, within three months of the occurrence of such changes, go through procedures for change of foreign exchange registration with the local office of the SAFE. The SAFE and its branches shall supervise, administer and inspect foreign exchange operations related to individuals' participation in equity incentive plans of companies listed abroad, and may take regulatory measures and impose administrative sanctions on individuals, domestic companies, domestic agencies and banks violating the provisions of this Notice.

We and our employees who have been granted applicable equity awards shall be subject to the No.7 Notice. If we fail to comply with the No. 7 Notice, we and/or our employees who are subject to the No.7 Notice may face sanctions imposed by foreign exchange authority or any other PRC government authorities.

#### ***Regulations on Dividend Distribution***

The principal regulations governing dividend distributions of wholly foreign-owned companies include:



- Wholly Foreign-Owned Enterprise Law (1986), as amended; and
- Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended.

Under these regulations, wholly foreign-owned companies in the PRC may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards. In addition, these wholly foreign-owned companies are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds, until the accumulative amount of such fund reaches 50% of its registered capital. These reserve funds are not distributable as cash dividends.

### ***Regulation on Overseas Listing***

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly adopted the M&A Rule which became effective on September 8, 2006. The M&A Rule purports, among other things, to require offshore SPVs, formed for overseas listing purposes and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings.

At the time of our initial public offering in October 2007, while the application of the M&A Rule remained unclear, our PRC counsel, Commerce & Finance Law Offices, had advised us that, based on their understanding of the then PRC laws and regulations as well as the procedures announced on September 21, 2006:

- the CSRC had jurisdiction over our initial public offering;
- the CSRC had not issued any definitive rule or interpretation concerning whether offerings like our initial public offering are subject to the M&A Rule; and
- despite the above, given that we had completed our inbound investment before September 8, 2006, the effective date of the M&A Rule, an application was not required under the M&A Rule to be submitted to the CSRC for its approval of the listing and trading of our ADSs on the Nasdaq Global Market, unless we are clearly required to do so by subsequent rules of the CSRC.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of the China Securities Regulatory Commission, or the CSRC, may have been required in connection with our initial public offering in October 2007 under a PRC regulation adopted in August 2006. Based on advice of our PRC counsel, we did not seek CSRC’s approval for our initial public offering. Any requirement to obtain prior CSRC approval and a failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.”

### ***Regulations on Tax***

#### ***PRC Enterprise Income Tax***

The PRC EIT is calculated base on the taxable income determined under the PRC accounting standards and regulations, as well as the EIT law. On March 16, 2007, the National People’s Congress of China enacted the EIT Law, a new EIT law which became effective on January 1, 2008. On December 6, 2007, the State Council promulgated the Implementation Rules which also became effective on January 1, 2008. On December 26, 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the EIT Law, or the Transition Preferential Policy Circular, which became effective simultaneously with the EIT Law. The EIT Law imposes a uniform EIT rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain exceptions. Under the EIT Law, as further clarified by the Implementation Rules, the Transition Preferential Policy Circular and other related regulations, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them in the following manners: (i) in the case of preferential tax rates, for a five-year period starting from January 1, 2008, during which the tax rate will gradually increase to 25%; or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential

treatments yet because of its failure to make a profit, its term for preferential treatment will be deemed to start from 2008. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC Enterprise Income Tax Law may increase the enterprise income tax rate applicable to some of our PRC subsidiaries and consolidated affiliated entities, which could have a material adverse effect on our result of operations.”

Under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore subject to PRC EIT at the rate of 25% on their worldwide income. The Implementation Rules define the term “de facto management body” as the management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. Because substantially all of our operations and all of our senior management are located within China, we may be considered a PRC resident enterprise for EIT purposes, in which case: (i) we would be subject to the PRC EIT at the rate of 25% on our worldwide income; and (ii) dividends income received by us from our PRC subsidiaries, however, would be exempt from the PRC withholding tax since such income is exempted under the EIT Law for a PRC resident enterprise recipient. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our global income or the dividends we receive from our PRC subsidiaries may be subject to PRC tax under the EIT Law, which could have a material adverse effect on our results of operations.”

#### *PRC Business Tax*

Taxpayers providing taxable services in China are required to pay a business tax at a normal tax rate of 5% of their revenues, unless otherwise provided.

#### *Dividend Withholding Tax*

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises are exempt from PRC withholding tax. Pursuant to the EIT Law and the Implementation Rules, dividends generated after January 1, 2008 and distributed to us by our PRC subsidiaries through our BVI subsidiary are subject to a 10% withholding tax, provided that we are determined by the relevant PRC tax authorities to be a “non-resident enterprise” under the EIT Law. Pursuant to the Double Taxation Arrangement, which became effective on January 1, 2007, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary Inscom HK Limited, in which we indirectly hold a 65.1% equity interest, may be subject to a withholding tax at a rate of 5%. However, as described above, we may be considered a PRC resident enterprise for EIT purposes, in which case dividends received by us from our PRC subsidiary would be exempt from the PRC withholding tax because such income is exempted under the EIT Law for a PRC resident enterprise recipient.

As there remains uncertainty regarding the interpretation and implementation of the EIT Law and the Implementation Rules, it is uncertain whether any dividends to be distributed by us, if we are deemed a PRC resident enterprise, to our non-PRC shareholders and ADS holders would be subject to any PRC withholding tax. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the EIT Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation.”

### C. Organizational Structure

Historically, PRC laws and regulations have placed certain restrictions on foreign investment in and ownership of insurance intermediary companies. Accordingly, we conduct our operations in China principally through contractual arrangements among our PRC subsidiaries, three PRC affiliated entities, Meidiya Investment, Yihe Investment, Xinbao Investment and their shareholders, and the subsidiaries of the three PRC affiliated entities.

Prior to March 2009, three individual shareholders, Mr. Jianguo Cui, Mr. Zhenyu Wang and Mr. Qiuping Lai held 24.7%, 26.4% and 48.9%, respectively, of the equity interests in each of Meidiya Investment and Yihe Investment. Mr. Cui and Mr. Wang were designated by our shareholders Cathay Auto Services Limited and CDH Inservice, respectively. Mr. Lai is our president and co-founder.

In March 2009, Mr. Cui and Mr. Wang transferred all of their equity interests in Meidiya Investment and Yihe Investment to Mr. Peng Ge, our chief financial officer. After the completion of these transfers, Mr. Lai and Mr. Ge held 48.9% and 51.1%, respectively, of the equity interests in each of Meidiya Investment and Yihe Investment. Both individual shareholders are PRC citizens. After the completion of the transfers, we entered into a new set of contractual arrangements with Mr. Ge to replace the previous agreements entered into with Mr. Cui and Mr. Wang.

In July 2010, CISG Holdings, our wholly owned subsidiary, acquired an interest in Inscom Holdings, a company in which we currently hold a 65.1% interest. We subsequently undertook a restructuring in which we transferred the beneficial equity interests in six PRC affiliated companies held by Meidiya Investment and/or Yihe Investment to Xinbao Investment, an affiliated subsidiary of Inscom Holding.

In October 2010, Nanfeng Investment invested RMB5.0 million in Yihe Investment. In February 2011, Nanfeng Investment invested RMB1.5 million in Meidiya Investment. After the completion of the investment, Mr. Lai, Mr. Ge and Nanfeng Investment held 39.1%, 40.9% and 20.0%, respectively, of the equity interests in each of Yihe Investment and Meidiya Investment.

Prior to April 26, 2011, two individual shareholders, Mr. Chunlin Wang, our chief executive officer and Mr. Yuan Tian, vice president of our e-commerce insurance unit, held 95% and 5% respectively, of the equity interests in Xinbao Investment. In April 2011, Ying Si Kang Information, Mr. Wang and Mr. Tian each contributed RMB2 million, RMB7.5 million and RMB0.5 million, respectively, to increase the registered capital of Xinbao Investment. After the completion of the capital injection, Ying Si Kang Information, Mr. Wang and Mr. Tian each holds 20%, 75% and 5%, respectively, of the equity interests in Xinbao Investment.

In order to simplify our corporate structure to enable more effective control over our PRC affiliated subsidiaries, we commenced a corporate restructuring onshore and offshore in October 2011, after obtaining approval from the CIRC on our onshore and offshore restructuring plan.

In August 2011, CISG Holdings acquired Minkfair, a Hong Kong incorporated company whose principal business is engaging in insurance distribution in Hong Kong, for a total consideration of HK\$1.2 million. Subsequently, CNinsure Holdings Ltd., or CNinsure Holdings, a wholly-owned subsidiary of CISG Holdings, issued 1,000 of its shares with par value of \$1.00 to Minkfair. At the same time, CNinsure Holdings repurchased from CISG Holdings one issued and fully paid ordinary share of par value US\$1.00 of CISG Holdings for a total consideration of US\$1.00. As a result of these transactions, Minkfair directly owns 100% of the equity interests in CNinsure Holdings.

In February 2012, Nanfeng Investment, a PRC wholly-owned subsidiary of CNinsure Holdings, subscribed for a share capital of RMB52.5 million in Meidiya Investment. As a result, Nanfeng Investment's shareholding in Meidiya Investment increased from 20% to 90%. Mr. Lai and Mr. Ge's shareholdings in Meidiya Investment decreased from 39.1% and 40.9% to 5.1% and 4.9%, respectively.

Meidiya Investment, Yihe Investment and Xinbao Investment together hold equity interests, directly or indirectly, ranging from 51% to 100% in 41 insurance agencies, three insurance brokerages, three insurance claims adjusting firms, one online insurance service company and one wealth management service company as of March 31, 2012, of which Meidiya directly or indirectly owns the majority interests in 16 insurance agencies, two insurance brokerages, three insurance claims adjusting firms and one wealth management service company. Most of the noncontrolling shareholders of the insurance intermediary companies majority-owned by Meidiya Investment, Yihe Investment and Xinbao Investment are founders of such company, entrepreneurial agents with whom we jointly set up such company or a venture capital firm which invests in start-up insurance agency companies. Some of those noncontrolling shareholders are in charge of the day-to-day operations of the companies in which they hold noncontrolling interests. The subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment hold the licenses and permits necessary to conduct our insurance intermediary business in China. We rely principally on contractual arrangements to control and derive economic benefit from these companies.

Our contractual arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment, their shareholders and their subsidiaries enable us to:

- exercise effective control over Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries;
- receive a substantial portion of the economic benefits of the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment in consideration for the services provided by our subsidiaries in China; and
- have an exclusive option to purchase all or part of the equity interests in each of Meidiya Investment, Yihe Investment and Xinbao Investment when and to the extent permitted by PRC law.

The diagram illustrates the ownership structure of CNinsure Inc. [Cayman Islands] and its subsidiaries, categorized into 'Outside China' and 'Inside China'.

**Outside China:**

- CNinsure Inc. [Cayman Islands]** (100% owner)
  - CISG Holdings Ltd, [BVI]** (100% owner)
    - InsCom Holdings Limited [BVI]** (65.1% owner)
      - InsCom Group Limited [BVI]** (100% owner)
        - InsCom HK Limited [Hong Kong]** (100% owner)
          - Ying Si Kang Information Technology (Shenzhen) Co., Ltd. [WFOE]** (100% owner)
            - Nominee Arrangement** (dashed line)
            - Two Individual Shareholders** (dashed line)
            - Shenzhen Xinbao Investment Management Co., Ltd. [PRC Co]** (80% owner)
              - Fanhua Shiji Insurance Sales Co., Ltd. [PRC Co]** (100% owner)
                - Shenzhen InsCom E-commerce Co., Ltd. [PRC Co]** (100% owner)
                  - 6 insurance agencies** (51%-70% (2))

**Inside China:**

- CISG Holdings Ltd, [BVI]** (100% owner)
  - Minkfair Insurance Management Limited [Hong Kong]** (100% owner)
    - CNinsure Holdings Ltd. [BVI]** (100% owner)
      - Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. [WFOE]** (100% owner)
        - Shenzhen Fanhua Nanfeng Investment Holding Co., Ltd. [PRC Co]** (40% owner)
          - Guangzhou Zhongqi Enterprise Management Consulting Co., Ltd. [PRC Co] (3)** (90% owner)
            - Beijing Ruisike Management Consulting Co., Ltd. [PRC Co]** (5% owner)
              - Beijing Fanlian Investment Co., Ltd. [PRC Co]** (5% owner)
                - Fanhua Puyi Investment Management Co., Limited [PRC Co]** (19.48% owner)
                  - Shenzhen Bangbang Auto Services Co., Ltd. [PRC Co]** (100% owner)

**Legend:**

- Equity Interest** (solid line with arrow)
- Contractual arrangements between our subsidiaries and each of the insurance agencies, brokerages, claims adjusting firms and ancillary business insurance company.** (dashed line with arrow)
- Nominee arrangements among Xinlian Information, Ying Si Kang Information and the shareholders of Yihe Investment, Meidiya Investment and** (dashed line)

(2) Direct or indirect ownership attributable to Xinbao Investment.

(3) The remaining equity interests are held by one of our executive offices on behalf of our company.

For a complete listing of our subsidiaries and consolidated affiliated entities as of March 31, 2012, see Exhibit 8.1 to this annual report. The following is a summary of the key terms of our contractual arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment, their shareholders and their subsidiaries.

**Agreements that Provide Us Effective Control over Meidiya Investment, Yihe Investment, Xinbao Investment and their Subsidiaries**

**Loan Agreements.** Each of the original individual shareholders of Meidiya Investment, being Messrs. Lai, Wang and Cui, entered into a loan agreement on December 20, 2005 with our subsidiary Xinlian Information evidencing a zero interest loan granted to them. In connection with the transfer of their respective equity interests in Meidiya Investment to Mr. Ge, Mr. Cui and Mr. Wang each entered into a credit and liability transfer agreement with Mr. Ge on February 27, 2009 to transfer all of their rights and obligations under the loan agreements to Mr. Ge. After the execution of the credit and liability transfer agreements, the principal amounts of the loans to Mr. Lai and Mr. Ge were RMB2.9 million and RMB3.1 million, respectively, equal to their respective capital contributions to Meidiya Investment.

The term of the loan agreement is ten years and may be extended upon written agreement of the parties, but it is not extended automatically. In the event that the loan is not renewed, then upon the expiration of its term and subject to then applicable PRC laws, the loan can be repaid only with the proceeds from the transfer of the individual shareholder's equity interests in Meidiya Investment to Xinlian Information or another person designated by Xinlian Information. Xinlian Information may accelerate the loan repayment upon certain events, including if the individual shareholder quits or is dismissed or if Xinlian Information exercises its option to purchase the shareholder's equity interests in Meidiya Investment pursuant to the exclusive equity purchase option agreement described below.

The loan agreement contains a number of covenants that restrict the actions the individual shareholder can take or cause Meidiya Investment to take, or that require the individual shareholder to take or cause Meidiya Investment to take specific actions. For example, these covenants provide that the individual shareholder will:

- not transfer, pledge or otherwise dispose of or encumber his equity interests in Meidiya Investment without the prior written consent of Xinlian Information, except for equity pledge for the benefit of Xinlian Information;
- not take any action without the prior written consent of Xinlian Information, if the action will have a material impact on the assets, business and liabilities of Meidiya Investment;
- not vote for, or execute any resolutions to approve, the sale, transfer, mortgage, or disposal of, or the creation of any encumbrance on, any legal or beneficial interests in the equity of Meidiya Investment without the prior written consent of Xinlian Information, except to Xinlian Information or its designee;
- not vote for, or execute any resolutions to approve, any merger or consolidation with any person, or any acquisition of or investment in any person by Meidiya Investment without the prior written consent of Xinlian Information;
- vote to elect the directors candidates nominated by Xinlian Information;
- cause Meidiya Investment not to supplement, amend or modify its articles of association in any manner, increase or decrease registered capital or change the capital structure in any way without the prior written consent of Xinlian Information; and
- cause Meidiya Investment not to execute any contract with a value exceeding RMB100,000 without the prior written consent of Xinlian Information, except in the ordinary course of business.

Each of the original shareholders of Yihe Investment, being Messrs. Lai, Wang and Cui, entered into a loan agreement on December 20, 2005 with Xinlian Information that is substantially similar to the loan agreements described above. In connection with the transfer of their respective equity interests in Yihe Investment to Mr. Ge, Mr. Cui and Mr. Wang each entered into a credit and liability transfer agreement with Mr. Ge on February 27, 2009 to transfer all of their rights and obligations under the loan agreements to Mr. Ge. After the execution of the credit

and liability transfer agreements, the principal amounts of the loans to Mr. Lai and Mr. Ge were RMB9.8 million and RMB10.2 million, respectively, equal to their respective capital contributions to Yihe Investment.

Each of the individual shareholders of Xinbao Investment, being Messrs. Wang and Tian, entered into a loan agreement on December 3, 2010 with our subsidiary Ying Si Kang Information in which we indirectly hold a 65.1% equity interest. The principal amounts of the zero-interest loans to Mr. Wang and Mr. Tian were RMB28,500 and RMB1,500, respectively, equal to their respective capital contributions to Xinbao Investment. The terms of the loan agreement are substantially similar to those in the loan agreements described above.

**Equity Pledge Agreements.** Pursuant to separate equity pledge agreements entered into by Mr. Lai on December 20, 2005 and by Mr. Ge on March 31, 2009, respectively, with Xinlian Information and Meidiya Investment, each individual shareholder of Meidiya Investment agreed to pledge his equity interests in Meidiya Investment to Xinlian Information to secure his obligations under the loan agreement with Xinlian Information. The individual shareholder also agreed not to transfer or create any encumbrance adverse to Xinlian Information on his equity interests in Meidiya Investment. During the term of the equity pledge agreement, Xinlian Information is entitled to all the dividends declared on the pledged equity interests. The equity pledge agreement will expire when the individual shareholder fully performed his obligations under the loan agreement. The equity pledges were recorded on the shareholders register of Meidiya Investment, and registered with the relevant local administration of industry and commerce. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely principally on contractual arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries and shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.”

Mr. Lai and Mr. Ge entered into separate equity pledge agreements on December 20, 2005 and March 31, 2009, respectively, with Xinlian Information and Yihe Investment to pledge their equity interests in Yihe Investment to Xinlian Information. These agreements are substantially similar to the equity pledge agreements described above.

Mr. Wang and Mr. Tian entered into separate equity pledge agreements on December 3, 2010 with Ying Si Kang Information and Xinbao Investment to pledge their equity interests in Xinbao Investment to Ying Si Kang Information. The agreements are substantially similar to the equity pledge agreements described above.

**Irrevocable Power of Attorney.** Mr. Lai and Mr. Ge, the current individual shareholders of Meidiya Investment and Yihe Investment, executed irrevocable powers of attorney on December 20, 2005 and March 31, 2009, respectively, appointing a person designated by Xinlian Information as his attorney-in-fact to vote on his behalf on all matters requiring shareholder approval. If Xinlian Information designates the shareholder to attend a shareholder’s meeting of Meidiya Investment or Yihe Investment, the individual shareholder agrees to vote his shares as instructed by Xinlian Information. The term of the power of attorney is ten years.

Mr. Wang and Mr. Tian, shareholders of Xinbao Investment, executed irrevocable powers of attorney on December 3, 2010, appointing a person designated by Ying Si Kang Information as his attorney-in-fact to vote on his behalf on all matters requiring shareholder approval. If Ying Si Kang Information designates the shareholder to attend a shareholder’s meeting of Xinbao Investment, the individual shareholder agrees to vote his shares as instructed by Ying Si Kang Information. The term of the power of attorney is ten years.

#### **Agreements that Provide Us the Option to Purchase the Equity Interests in Meidiya Investment, Yihe Investment and Xinbao Investment**

**Exclusive Purchase Option Agreements.** Pursuant to the exclusive purchase option agreements entered into by Mr. Lai on December 20, 2005 and by Mr. Ge on March 31, 2009, respectively, with Xinlian Information and Meidiya Investment, each individual shareholder irrevocably granted Xinlian Information an exclusive option to purchase part or all of his equity interests in Meidiya Investment, when and to the extent permitted by applicable PRC law. The purchase price to be paid by Xinlian Information will be equal to the amount of the individual shareholder’s actual capital contribution to Meidiya Investment, unless applicable PRC law requires otherwise. The actual capital contributions to Meidiya Investment by Mr. Lai and Mr. Ge were RMB2.9 million and RMB3.1 million, respectively. If applicable PRC law requires appraisals of the equity interests or has other restrictions on the transfer price, the purchase price will be the minimum price permitted under applicable PRC law. Under current applicable PRC law, if a foreign-invested enterprise, such as Xinlian Information, intends to acquire the equity interests in a domestic enterprise, such as Meidiya Investment or Yihe Investment, the transfer price must be determined based on appraisal conducted by a qualified domestic asset appraisal institution using internationally

recognized appraisal methodology, and it is prohibited to transfer any equities at a price clearly lower than the result of the appraisal.

Mr. Lai and Mr. Ge entered into separate exclusive purchase option agreements on December 20, 2005 and March 31, 2009, respectively, with Xinlian Information and Yihe Investment to irrevocably grant Xinlian Information an exclusive option to purchase part or all of his equity interests in Yihe Investment, when and to the extent permitted by applicable PRC law. These agreements are substantially similar to the exclusive purchase option agreements described above, except that the actual capital contributions to Yihe Investment by Mr. Lai and Mr. Ge under these agreements were RMB9.8 million and RMB10.2 million, respectively.

Mr. Wang and Mr. Tian entered into separate exclusive purchase option agreements on December 3, 2010 with Ying Si Kang Information and Xinbao Investment to irrevocably grant Ying Si Kang Information an exclusive option to purchase part or all of his equity interests in Xinbao Investment, when and to the extent permitted by applicable PRC law. These agreements are substantially similar to the exclusive purchase option agreements described above, except that the actual capital contributions to Xinbao Investment by Mr. Wang and Mr. Tian under these agreements were RMB28,500 and RMB1,500, respectively.

### **Agreements that Transfer Economic Benefits to Us**

***Consulting and Service Agreement.*** Pursuant to the consulting and service agreements entered into on various dates between our PRC subsidiary Zhonglian Enterprise and most of the insurance intermediary subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment, Zhonglian Enterprise agreed to grant the right to use the “Fanhua” brand and provide financial and tax consulting services and training services to each of the insurance intermediaries in exchange for fees payable quarterly calculated as a percentage of revenues of each insurance intermediary. The fees may be adjusted by agreement every quarter based on market condition and the business condition of each insurance intermediary company. Each of these agreements has an initial term of one year from the signing date and will be automatically renewed for one-year terms, unless Zhonglian Enterprise decides not to renew the agreement. Each agreement may be terminated by the insurance intermediary company only upon gross negligence, fraud, other illegal conduct or bankruptcy of Zhonglian Enterprise, or by Zhonglian Enterprise with 30 days’ notice.

Pursuant to the consulting and service agreements, replacing the technology consulting and service agreements entered into on various dates since April 1, 2010, between our PRC subsidiary Xinlian Information and most of the insurance intermediary subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment, Xinlian Information agreed to provide training services and consulting and other services relating to internal control compliance. In exchange, the insurance intermediary companies that are parties to these agreements each agree to pay a quarterly fee calculated primarily based on a percentage of the revenue generated by such company. The parties to each agreement also commit to negotiating adjustments to the fee level every three months by mutual agreement. Each of these agreements has an initial term of one year from the signing date, which will be automatically renewed for one-year terms unless Xinlian Information decides not to renew the agreement. Each agreement may be terminated by the insurance intermediary company only upon gross negligence, fraud, other illegal conduct or bankruptcy of Xinlian Information, or by Xinlian Information with 30 days’ notice.

***IT Platform Service Agreement.*** Pursuant to the IT platform service agreements entered into on various dates since April 1, 2010, between Litian Zhuoyue Software (Beijing) Co., Ltd, or Litian Zhuoyue, a subsidiary of Xinlian Information, and most of the insurance intermediary subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment, Litian Zhuoyue agreed to provide space for system operation and data storage, data maintenance, system security and efficiency maintenance, on-site support, software optimization and maintenance and other IT platform related services. In exchange, the insurance intermediary companies that are parties to these agreements each agree to pay a quarterly fee calculated primarily based on a percentage of the revenue generated by such company. The parties to each agreement also commit to negotiating adjustments to the fee level every three months by mutual agreement. Each of these agreements has an initial term of one year from the signing date, which will be automatically renewed for one-year terms unless Litian Zhuoyue decides not to renew the agreement. Each agreement may be terminated by the insurance intermediary company only upon gross negligence, fraud, other illegal conduct or bankruptcy of Litian Zhuoyue, or by Litian Zhuoyue with 30 days’ notice.

***Trademark Licensing Agreements.*** Pursuant to the trademark licensing agreements entered into on various dates between our subsidiary Beijing Ruisike Management Consulting Co., Ltd., or Ruisike Consulting, and some of the insurance intermediary subsidiaries of Meidiya Investment and Yihe Investment, Ruisike Consulting agreed to grant a nonexclusive right to use the trademark owned by it to the insurance intermediary companies, in exchange

for a fixed annual fee of RMB10,000 under each agreement. Each of these agreements has an initial term of ten years from the signing date, which will be automatically renewed for one-year terms unless Ruisike Consulting decides not to renew the agreement. Each agreement may be terminated by a party if there has been a material breach by the other party and the breach is not cured within 30 days after the breaching party receives a written notice from the non-breaching party. In addition, Ruisike Consulting may terminate each agreement at any time during the term of the agreement upon 30 days' notice. We subsequently decided to stop charging a fee for the use of our trademarks by our affiliated insurance intermediary companies under these trademark licensing agreements beginning from January 2008.

In 2011, our affiliated insurance intermediary companies paid a total of RMB459 million (US\$72.9 million) under the IT platform services agreements and consulting and service agreements to our subsidiaries, representing approximately 41.2% of the net revenues of these affiliated entities. Because of our direct ownership in Meidiya Investment and contractual arrangements with the individual shareholders of Meidiya Investment, Yihe Investment and Xinbao Investment and their subsidiaries, we are the primary beneficiary of Meidiya Investment, Yihe Investment and Xinbao Investment and have consolidated them into our consolidated financial statements. Revenues generated by the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment accounted for 91.9% of our total net revenues in 2011. The remainder of our total net revenues in 2011 mainly came from one of our subsidiaries, which runs our operating platform, maintains our customer database and provides information about potential customers to insurance companies. The insurance companies paid fees to this subsidiary if the potential customers introduced by this subsidiary actually purchased insurance. In the opinion of Commerce & Finance Law Offices, our PRC legal counsel:

- the ownership structures of Meidiya Investment, Yihe Investment and Xinbao Investment, their subsidiaries and our subsidiaries in China comply with all existing PRC laws and regulations;
- the contractual arrangements among our PRC subsidiaries, Meidiya Investment, Yihe Investment, Xinbao Investment, their individual shareholders and their subsidiaries governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and
- the business operations of our PRC subsidiaries, Meidiya Investment, Yihe Investment and Xinbao Investment and their subsidiaries comply in all material respects with existing PRC laws and regulations.

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC counsel that if the PRC government finds that the agreements that establish the structure for operating part of our PRC insurance intermediary businesses and online insurance distribution business do not comply with PRC government restrictions on foreign investment in the insurance intermediary industry, we could be subject to severe penalties including being prohibited from continuing operation. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating part of our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.” However, to date we have not encountered any interference or encumbrance from the PRC government on account of operating our business through these agreements.

#### **D. Property, Plant and Equipment**

Our headquarters are located in Guangzhou, China, where we lease approximately 2,382.6 square meters of office space. Our subsidiaries and consolidated affiliated entities lease approximately 81,417.1 square meters of office space. In 2011, our total rental expenses were RMB26.3 million (US\$4.2 million).

#### **Item 4A. Unresolved Staff Comments**

None.

#### **Item 5. Operating and Financial Review and Prospects**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in this annual report. This



discussion and analysis contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report.

Following the sale of Datong on March 25, 2011, we present our financial results for the years ended December 2008, 2009, 2010 and 2011 on both a continuing and discontinued basis. Revenues, expenses, assets and liabilities related to Datong for the years ended December 31, 2008, 2009, 2010 and 2011 have been carved out from the audited consolidated financial statements. Profits and losses related to Datong were presented as discontinued operations while profits and losses for the remaining business were presented as continuing operations.

## A. Operating Results

### **Factors Affecting Our Results of Operations**

Our financial condition and results of operations are primarily affected by the following factors:

- total premium payments to Chinese insurance companies;
- the extent to which insurance companies in the PRC outsource the distribution of their products and claims adjusting functions;
- premium rate levels and commission and fee rates;
- the size and productivity of our sales force;
- acquisitions;
- commission rates for individual sales agents;
- product and service mix;
- share-based compensation expenses; and
- seasonality.

### ***Total Premium Payments to Chinese Insurance Companies***

The Chinese insurance industry has grown substantially in recent years. Between 2001 and 2011, total insurance premiums increased from RMB212 billion to RMB1,434 billion, representing a compound annual growth rate of 21.1%, according to data published by CIRC. We believe that certain macroeconomic and demographic factors, such as increasing per capita GDP and an aging population, have contributed to and will continue to drive the growth of the Chinese insurance industry in the long term. However, in 2011, as a result of macroeconomic uncertainties and greater regulations on bancassurance, total insurance premiums in China in 2011 decreased 1.3% from 2010, with total life insurance premiums dropping 8.6% and total property and casualty insurance premiums increasing 18.5% from 2010.

We derive our revenue primarily from commissions and fees paid by insurance companies, typically calculated as a percentage of premiums paid by our customers to the insurance companies. Accordingly, industry-wide premium growth will have a positive impact on us. However, there is uncertainty when the growth trend will resume. Any continued downturn in the Chinese insurance industry, whether caused by a general slowdown of the PRC economy or otherwise, may adversely affect our financial condition and results of operations.

### ***The Extent to Which Insurance Companies in the PRC Outsource the Distribution of their Products and Claims Adjusting Functions***

Historically, insurance companies in the PRC have relied primarily on their exclusive individual sales agents and direct sales force to sell their products. Only in recent years, as a result of increased competition, have some insurance companies gradually expanded their distribution channels to include insurance intermediaries such as commercial banks, postal offices, insurance agencies and insurance brokerages. In addition, because of a lack of established distribution networks of their own, some newly established insurance companies have chosen to rely primarily on insurance intermediaries to distribute their products while they focus on other aspects of their business.

As insurance companies in the PRC become more accustomed to outsourcing the distribution of their products to insurance intermediaries, they may allow insurance intermediaries to distribute a wider variety of insurance products and may provide more monetary incentives to more productive and effective insurance intermediaries. These and other similar measures designed to boost sales through insurance intermediaries can have a positive impact on our financial condition and results of operations. Similarly, as competition intensifies and the insurance market becomes more mature in China, we expect that more insurance companies will choose to outsource claims adjusting functions to professional service providers such as our affiliated claims adjusting firms while they focus on the core aspects of their business, including product development, asset and risk management.

### ***Premium Rate Levels and Commission and Fee Rates***

Because the commissions and fees we receive from insurance companies for the distribution of insurance products are generally calculated as a percentage of premiums paid by our customers to the insurance companies, our revenue and results of operations are affected by premium rate levels and commission and fee rates. Premium rate levels and commission and fee rates can change based on the prevailing economic conditions, competitive and regulatory landscape, and other factors that affect insurance companies. These other factors include the ability of insurance companies to place new business, underwriting and non-underwriting profits of insurance companies, consumer demand for insurance products, the availability of comparable products from other insurance companies at a lower cost, and the tax deductibility of commissions and fees. In addition, premium rates for certain insurance products, such as the mandatory automobile liability insurance that each automobile owner in the PRC is legally required to purchase, are tightly regulated by the CIRC. In some instances, we can negotiate for better rates as an incentive for generating a larger volume of business.

Since China's entry into the WTO in December 2001, competition among insurance companies has intensified as a result of a significant increase in the number of insurance companies and the existing insurance companies' expansion into new geographic markets. This competition has led to a gradual increase in the commission and fee rates offered to insurance intermediaries, and such increase has had a positive impact on our results of operations. Meanwhile, the intense competition among insurance companies also has led to a gradual decline in premium rate levels of some property and casualty insurance products. While such decline has had a negative impact on the commissions and fees we earned on a per policy sold basis, it also may have had a positive impact on our total commissions and fees revenue by increasing demand for, and our total sales volume of, those policies.

### ***The Size and Productivity of Our Sales Force***

As a distributor of insurance products, we generate revenue primarily through our sales force, which consists of individual sales agents in our distribution and service network and a relatively small number of in-house sales representatives. The size of our sales force and its productivity, as measured by the average number of insurance products sold per person, the average premium per product sold and the average premiums generated per person during any specified period, directly affect our revenue and results of operations. In recent years, some entrepreneurial management staff or senior sales agents of major insurance companies in China have chosen to leave their employers or principals and become independent agents. We refer to these independent agents as "entrepreneurial agents." An entrepreneurial agent is usually able to assemble and lead a team of sales agents. We have been actively recruiting and will continue to recruit entrepreneurial agents to join our distribution and service network as our sales agents. Entrepreneurial agents have been instrumental to the development of our life insurance business.

### ***Acquisitions***

The professional insurance intermediary sector in China is still at an early development stage and highly fragmented. We believe this offers substantial opportunities for consolidation. We intend to grow our distribution

and service network in part through selective acquisitions of high-quality independent insurance intermediary companies. Since 2008, we, through our consolidated affiliated entities in the PRC, acquired controlling interests in 15 insurance agencies (excluding Datong and its subsidiaries), one brokerage, four insurance claims adjusting firms (one of which was restructured into a holding company of the three claims adjusting firms) and one online insurance service company as of March 31, 2012. We expect acquisitions to have a positive impact on our results of operations in the long run. However, acquisitions also involve significant risks and uncertainties. See “Item 3. Key Information—Risk Factors—D. Risks Related to Our Business and Our Industry—If we fail to integrate acquired companies efficiently, or if the acquired companies do not perform to our expectations, our business and results of operations may be adversely affected.” In addition, any write-down of goodwill due to impairment and the amortization of intangible assets acquired could have a negative impact on our results of operations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—If we are required to write down goodwill and other intangible assets, our financial condition and results may be materially and adversely affected.”

### ***Commission Rates for Individual Sales Agents***

A large component of our operating costs and expenses is commissions paid to our individual sales agents. In order to retain sales agents, we must pay commissions at a level comparable to the commissions paid by our competitors. Intensified competition for productive sales agents within the Chinese insurance industry and rising salaries in China have led to a significant increase in commission rates in recent years. The increase in commission rates has had a negative impact on our results of operations. If we are forced to further increase our commission rates for individual sales agents due to competition or otherwise, our operating costs and expenses will increase correspondingly.

### ***Product and Service Mix***

We began distributing automobile insurance products in 1999 and expanded our product offerings to other property and casualty insurance products in 2002 and then to individual life insurance products in 2006. We further broadened our service offering to cover insurance claims adjusting services in 2008. The property and casualty insurance policies we distribute are typically for one-year terms, with a single premium payable at the beginning of the term. Accordingly, we receive a single commission or fee for each property and casualty policy our customers purchase. In order for us to have recurring commission and fee revenue from property and casualty insurance products, our customers have to renew their policies or purchase new policies through us every year. Most individual life insurance policies we sell require periodic payment of premiums, typically annually, during a pre-determined payment period, generally ranging from five to 25 years. For each such policy that we sell, insurance companies will pay us a first-year commission and fee based on a percentage of the first year’s gross premiums, and subsequent commissions and fees based on smaller percentages of the renewal premiums paid by the insured throughout the payment period of the policy. Therefore, once we sell a life insurance policy with a periodic payment schedule, it can bring us a steady flow of commission and fee revenue throughout the payment period as long as the insured meets his or her premium payment commitment.

Because insurance companies pay us first-year commissions and fees for most life insurance products at rates higher than those for property and casualty insurance products, we expect a positive impact on our revenue if our distribution of life insurance products increases in the future. However, we will also incur a corresponding increase in operating costs because we pay our sales agents a higher commission and fee for distributing life insurance products. Accordingly, the operating margin attributable to life insurance products may not be as high as that of property and casualty insurance products, and may initially have a negative impact on our overall operating margin. We expect that the operating margin for life insurance products will improve because we only need to pay commissions to our sales agents for the first five years of a policy, but continue to earn renewal fees from the insurance company for the entire payment period of the policy, which could be up to 25 years.

The fees we receive for our claims adjusting services are calculated based on the types of insurance involved. For services provided in connection with property and casualty insurance (other than marine cargo insurance and automobile insurance), our fees are calculated as a percentage of the recovered amount from insurance companies plus travel expenses. For services provided in connection with marine cargo insurance, our fees are charged primarily on an hourly basis and, in some cases, as a percentage of the amount recovered from insurance companies. For automobile insurance, our fees are generally fixed and the amounts collected are based on the types of services provided. We pay our in-house claims adjusters a base salary plus a commission calculated based on a small percentage of the service fees we receive from insurance companies or the insured. The insurance claims adjusting business has become and likely will continue to be an important source of our net revenues. However, because the

gross margin and operating margin attributable to the claims adjusting business are generally lower than those for property and casualty insurance products but higher than those for new life insurance policies, we expect that the increase in revenues from our insurance claims adjusting business as a percentage of our total net revenues may have a negative impact on our gross margin and operating margin.

### ***Share-based Compensation Expenses***

Our historical results of operations have been materially affected by the share-based compensation expenses incurred. In 2009, 2010 and 2011, we incurred share-based compensation expenses of RMB7.6 million, RMB22.2 million, and RMB57.0 million (US\$9.1 million), respectively. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Key Performance Indicators—Operating Costs and Expenses—Share-based Compensation Expenses” for a more detailed discussion of our historical share-based compensation expenses. In order to attract and retain the best personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business, we adopted a share incentive plan in October 2007. Under our 2007 share incentive plan, as amended and restated in December 2008, we may issue an aggregate number of our ordinary shares, equal to 15% of our total number of shares outstanding immediately after the closing of our initial public offering, to cover awards granted under the plan. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentives—2007 Share Incentive Plan.” We expect that share-based compensation expenses will continue to be a significant component of our operating expenses.

### ***Seasonality***

Our quarterly results of operations are affected by seasonal variations caused by insurance companies’ business practices and consumer demand. Historically, insurance companies, under pressure to meet their annual sales targets, would increase their sales efforts during the fourth quarter of a year by, for example, offering more incentives for insurance intermediaries to increase sales. As a result, our commission and fee revenue for the fourth quarter of a year has generally been the highest among all four quarters. Business activities, including buying and selling insurance, usually slow down during the Chinese New Year festivities, which occur during the first quarter of each year. As a result, our commission and fee revenue for the first quarter of a year has generally been the lowest among all four quarters.

### **Key Performance Indicators**

#### ***Net Revenues***

Our revenues are net of PRC business tax. In 2009, 2010 and 2011, we generated net revenues of RMB1.1 billion, RMB1.2 billion and RMB1.5 billion (US\$241.0 million), respectively. We derive net revenues from the following sources:

- commissions and fees paid by insurance companies, which accounted for 99.9%, 99.9% and 99.6% of our net revenues for 2009, 2010 and 2011, respectively; and
- other service fees, which refers to fees paid by insurance companies for certain insurance-related services provided by us to the insured on behalf of the insurance companies and fees for IT platform and software services that we provide. These other service fees accounted for 0.1%, 0.1% and 0.4% of our net revenues for 2009, 2010 and 2011, respectively.

In 2009, 2010 and 2011, we generated commissions and fees of RMB1.1 billion, RMB1.2 billion and RMB1.5 billion (US\$240.0 million), respectively. We derive commissions and fees from distributing property and casualty insurance and life insurance products and providing claims adjusting services.

#### ***Total Net Revenues***

The following table sets forth our total net revenues earned from the distributions of property and casualty insurance and life insurance products and provision of claims adjusting services, both in absolute amounts and as percentages of total net revenues, for the periods indicated:

|  | Year Ended December 31,           |       |           |       |           |         |       |
|--|-----------------------------------|-------|-----------|-------|-----------|---------|-------|
|  | 2009                              |       | 2010      |       | 2011      |         |       |
|  | RMB                               | %     | RMB       | %     | RMB       | US\$    | %     |
|  | (in thousands except percentages) |       |           |       |           |         |       |
| Property and casualty insurance products ..... | 783,220                           | 71.1  | 821,259   | 66.6  | 1,032,594 | 164,063 | 68.1  |
| Life insurance products .....                  | 177,713                           | 16.1  | 235,584   | 19.1  | 276,402   | 43,916  | 18.2  |
| Claims adjusting services.....                 | 140,670                           | 12.8  | 177,094   | 14.3  | 202,003   | 32,095  | 13.3  |
| Other service.....                             | —                                 | —     | —         | —     | 5,676     | 902     | 0.4   |
| Total net revenues .....                       | 1,101,603                         | 100.0 | 1,233,937 | 100.0 | 1,516,675 | 240,976 | 100.0 |

Net revenues from property and casualty insurance products, in particular automobile insurance products, have been our primary source of revenue since our inception. While net revenues from property and casualty insurance products increased in absolute amounts from 2009 to 2011, their share as a percentage of our total net revenues decreased slightly from 71.1% in 2009 to 68.1% in 2011, primarily reflecting the growth of our life insurance businesses during the corresponding period. As the per capita automobile ownership in China is still low, automobile sales in China still have significant growth potential. Therefore, we expect that automobile insurance products will continue to be a significant contributor to our total net revenues in the next several years.

We began distributing individual life insurance products in 2006. Net revenues from life insurance products increased significantly in absolute amounts from 2009 to 2011. However, in 2011, impacted by the industry growth slow-down, net revenues from new life insurance policies dropped slightly although recurring commissions from life insurance products increased moderately. We will keep devoting significant efforts on the distribution of life insurance products and we expect net revenues from life insurance products will still constitute a significant portion of our total net revenues in the next several years.

We began providing claims adjusting services in 2008. Net revenues from claims adjusting services increased significantly from 2009 to 2011 in absolute amounts. As we continue to grow our claims adjusting business, we expect that net revenues from claims adjusting services will increase as a percentage of our total net revenues in the next few years.

The commissions and fees we receive from the distribution of insurance products are based on a percentage of the premiums paid by the insured. Commission and fee rates generally depend on the type of insurance products, the particular insurance company and the region in which the insurance products are sold. We typically receive payment of the commissions and fees from insurance companies for insurance products on a monthly basis. Some of the fees are paid to us annually or semi-annually in the form of performance bonuses after we have achieved specified premium volume or policy renewal goals as agreed upon between the insurance companies and us.

We are compensated primarily by insurance companies for our claims adjusting services. The fees we receive for our claims adjusting services depend on the types of insurance involved. For services provided in connection with marine cargo insurance, our fees are charged primarily on an hourly basis and, in some cases, as a percentage of the amount recovered from insurance companies. For claims adjusting services related to automobile insurance, our fees are generally fixed on a per claim basis. These fees are typically paid to us on a quarterly basis. For services provided in connection with other property and casualty insurance, our fees are calculated as a percentage of the recovered amount from insurance companies plus travel expenses. We typically receive payment for these fees on a semi-annual or annual basis.

#### *Other Service Fees*

In 2009, 2010 and 2011, we generated other service fees of RMB0.8 million, RMB0.6 million and RMB0.8 million (US\$0.1 million), respectively, for providing services related to the distribution of automobile insurance products, such as drivers' license renewal and annual inspection for the insured, which were included in net revenues from the distribution of property and casualty insurance products. We don't expect other service fees to constitute a significant portion of our total net revenues in the future.

In addition, in 2011, we began providing IT platform and software services to third parties through one of our affiliated entities, Litian Zhuoyue, including system operation, data storage, data maintenance, system security and efficiency maintenance, on-site support, software optimization and maintenance and other IT platform related

services. We generated IT service fees of RMB5.7 million (US\$0.9 million) during 2011. We don't expect these service fees to constitute a significant portion of our total net revenues in the future.

### *Operating Costs and Expenses*

Our operating costs and expenses consist of commissions and fees incurred in connection with the distribution of insurance products and provision of claims adjusting services, selling expenses and general and administrative expenses. The following table sets forth the components of our operating costs and expenses, both in absolute amounts and as percentages of our net revenues, for the periods indicated.

|   | Year Ended December 31,           |        |           |        |             |           |
|---|-----------------------------------|--------|-----------|--------|-------------|-----------|
|   | 2009                              |        | 2010      |        | 2011        |           |
|   | RMB                               | %      | RMB       | %      | RMB         | US\$      |
|   | (in thousands except percentages) |        |           |        |             |           |
| Total net revenues .....                  | 1,101,603                         | 100.0  | 1,233,937 | 100.0  | 1,516,675   | 240,976   |
| Operating costs and expenses:             |                                   |        |           |        |             |           |
| Commissions and fees .....                | (549,981)                         | (49.9) | (541,239) | (43.9) | (796,843)   | (126,606) |
| Selling expenses .....                    | (41,442)                          | (3.8)  | (60,055)  | (4.9)  | (77,802)    | (12,361)  |
| General and administrative expenses ..... | (164,951)                         | (15.0) | (233,518) | (18.9) | (333,281)   | (52,953)  |
| Impairment loss .....                     | —                                 | —      | (4,600)   | (0.4)  | (1,057,522) | (168,023) |
| Total operating costs and expenses .....  | (756,374)                         | (68.7) | (839,412) | (68.1) | (2,265,448) | (359,943) |

### *Commissions and Fees*

We incur commissions and fees in connection with the distributions of insurance products and provisions of claims adjusting services. The commissions and fees that we incurred increased in absolute amounts each year from 2009 to 2011 primarily as a result of increase in net revenues and increase in the size of our sales force and claims adjusters. We rely mainly on individual sales agents and, to a much lesser degree, on a small number of in-house sales representatives for the distributions of insurance products. For claims adjusting services, we rely entirely on our in-house claims adjusters. Commissions and fees incurred as a percentage of net revenues decreased from 2009 to 2010, primarily as a result of the implementation of the fee-based revenues scheme in three more affiliated insurance agencies in 2010 as compared with five affiliated insurance agencies in 2009. Commissions and fees incurred as a percentage of net revenues increased from 2010 to 2011, primarily due to significant rise in policy acquisition cost and commission cost as a result of increasing labor cost pressure and severer market competition. We anticipate that our commissions and fees will continue to increase as we add more sales agents and claims adjusters to our work force and further grow our business.

### *Selling Expenses*

Our selling expenses primarily consist of:

- salaries for employees who work in back office below the provincial management level and employment benefits for our in-house sales staff;
- office rental, telecommunications expenses and office supply expenses incurred in connection with sales activities; and
- advertising and marketing expenses.

We expect that our selling expenses will continue to increase as we expand our distribution and service network in both existing markets and new geographic regions. As we grow in size, we also intend to spend more on marketing and advertising to enhance our brand recognition.

### *General and Administrative Expenses*

Our general and administrative expenses principally comprise:

- salaries and benefits for our administrative staff;
- share-based compensation expenses for managerial and administrative staff;
- professional fees paid for valuation, market research, legal and auditing services;
- compliance-related expenses, including expenses for professional services;
- depreciations and amortizations;
- office rental expenses;
- travel and telecommunications expenses;
- entertainment expenses;
- office supply expenses for our administrative staff; and
- foreign exchange loss.

We expect that our general and administrative expenses will increase as we hire additional administrative personnel, increase in labor cost and incur additional costs in connection with the expansion of our business, our efforts to improve our operating platform and our status as a publicly traded company, including costs to enhance our internal controls.

*Share-based Compensation Expenses.* Share-based compensation expenses constituted a smaller portion of our general and administrative expenses in 2009, but were one of the largest components of our general and administrative expenses in 2010 and 2011. In 2009, 2010 and 2011, we incurred share-based compensation only with respect to certain managerial and administrative staff and accordingly, allocated all share-based compensation expenses to general and administrative expenses. The following table sets forth our share-based compensation expenses, both in absolute amounts and as percentages of our general and administrative expenses, for the periods indicated.

|   | For the Year Ended December 31, |       |         |       |         |              |
|---|---------------------------------|-------|---------|-------|---------|--------------|
|   | 2009                            |       | 2010    |       | 2011    |              |
|   | RMB                             | %     | RMB     | %     | RMB     | US\$ %       |
| (in thousands except percentages)         |                                 |       |         |       |         |              |
| General and administrative expenses ..... | 164,951                         | 100.0 | 233,518 | 100.0 | 333,281 | 52,953 100.0 |
| Share-based compensation expenses .....   | 7,553                           | 4.6   | 22,211  | 9.5   | 57,003  | 9,057 17.1   |

Our share-based compensation expenses in 2011 were primarily attributable to the options granted in November 2008, March 2009, February 2010 and April 2011, including a one-time recognition in the fourth quarter of 2011 of the remaining un-amortized expenses totaling RMB48.2 million (US\$7.7 million) in connection with the cancellation of certain options granted in February 2010 and April 2011.

Our share-based compensation expenses in 2010 were primarily attributable to options granted in November 2008, March 2009 and February 2010.

Our share-based compensation expenses in 2009 were primarily attributable to options granted to various directors, officers and employees to purchase 32,000,000 and 10,000,000 ordinary shares in November 2008 and March 2009, respectively.

For more information about our share-based compensation expenses, please see Note 20 to our audited consolidated financial statements included in this annual report.

#### *Impairment loss.*

Impairment loss reflected the expected adverse impact of the overall economic uncertainties in China,

growth slowdown within the Chinese insurance market and our strategic business transition on our earnings in the next two to three years. We perform annual impairment analysis, and for the years ended December 31, 2009, 2010 and 2011, impairment losses on goodwill and intangible asset were nil, RMB4.6 million and RMB1.1 billion (US\$168.0 million), respectively.

## **Taxation**

We and each of our subsidiaries and consolidated affiliated entities file separate income tax returns.

### ***The Cayman Islands, the British Virgin Islands and Hong Kong***

Under the current laws of the Cayman Islands and the British Virgin Islands, we and our subsidiaries incorporated in the British Virgin Islands are not subject to income or capital gains taxes. In addition, dividend payments are not subject to withholding tax in those jurisdictions. Our subsidiary incorporated in Hong Kong is subject to a normal profits tax rate of 16.5% of its assessable profits for the years of assessment ending March 31, 2010 and March 31, 2011. Payment of dividends is not subject to withholding tax in Hong Kong.

### ***PRC***

Pursuant to the PRC EIT laws in effect before January 1, 2008, most of our subsidiaries and consolidated affiliated entities in China were subject to the standard EIT rate, which was 33%. Our subsidiaries and consolidated affiliated entities located in Shenzhen, a special economic zone, were subject to an EIT rate of 15 %. The EIT was calculated based on taxable income under PRC accounting principles. For some entities, the EIT is calculated based on the actual revenue at a deemed tax rate according to the local practices of the respective local tax bureaus in charge. In addition, our subsidiaries and consolidated affiliated entities in China are subject to a 5% business tax on gross revenues generated from providing services and two additional fees, the city construction fee and the education fee, which are generally calculated at 7% and 3%, respectively, on business tax.

On March 16, 2007, the National People's Congress of China enacted the EIT Law which became effective on January 1, 2008. On December 6, 2007, the State Counsel issued the Implementation Rules which became effective on January 1, 2008. On December 26, 2007, the State Council issued the Transition Preferential Policy Circular which also became effective on January 1, 2008. According to the EIT Law, as further clarified by the Implementation Rules, the Transition Preferential Policy Circular and other related regulations, foreign-invested enterprises and domestic enterprises are subject to EIT at a uniform rate of 25%. The EIT rate of enterprises established before March 16, 2007 that were eligible for preferential tax treatments according to then effective tax laws and regulations will continue to enjoy such preferential tax treatments in the following manners: (1) in the case of preferential tax rates, for a five-year transition period starting from January 1, 2008, during which the EIT rate of such enterprises will gradually increase to the uniform 25% EIT rate by January 1, 2012; or (2) in the case of preferential tax exemption or reduction with a specified term, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make a profit, its term for preferential treatment will be deemed to start from 2008.

As a result of the implementation of the EIT Law, certain preferential tax treatments enjoyed by some of our consolidated affiliated entities expired on January 1, 2008. Our effective tax rate increased significantly in 2008 and 2009 compared to 2007, primarily due to these expirations. According to the EIT Law and related regulations, the preferential tax rates enjoyed by some of our PRC subsidiaries and consolidated affiliated entities incorporated in Shenzhen, a special economic zone, will gradually increase to the uniform 25% EIT rate during the five year transition period. An increase in the EIT rates for those entities pursuant to the EIT Law could result in an increase in our effective tax rate, which could materially and adversely affect our results of operations.

Pursuant to a Notice of Preferential Policies of EIT, jointly issued by the PRC Ministry of Finance and the State Administration of Taxation on February 22, 2008, a newly established software enterprise was entitled to an exemption from EIT for the first two years and a 50% reduction of EIT for the following three years starting from the first profit-making year. One of our affiliated entities, Litian Zhuoyue, will be entitled to the tax holidays under this notice from 2010 until 2014.

## **Critical Accounting Policies**

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our



contingent assets and liabilities at the end of each fiscal period, as well as the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable. This forms our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

### ***Revenue Recognition***

The Group's revenue is derived principally from the provision of insurance brokerage, agency and claims adjusting services. The Group recognizes revenue when all of the following have occurred: persuasive evidence of an agreement with the insurance companies or insurance agencies exists, services have been provided, the fees for such services are fixed or determinable and collectability of the fee is reasonably assured.

Insurance agency and brokerage services are considered to be rendered and completed, and revenue is recognized, at the time an insurance policy becomes effective, that is, when the signed insurance policy is in place and the premium is collected from the insured. The Group has met all the four criteria of revenue recognition when the premiums are collected by the Group or the respective insurance companies and not before, because collectability is not ensured until receipt of the premium. Accordingly, the Group does not accrue any commission and fees prior to the receipt of the related premiums. No allowance for cancellation has been recognized as the management of the Group estimates, based on its past experience, that the cancellation of policies rarely occurs. Any subsequent commission adjustments in connection with policy cancellations which have been de minimis to date are recognized upon notification from the insurance carriers. Actual commission and fee adjustments in connection with the cancellation of policies were 0.1%, 0.1% and 0.1% of the total commission and fee revenues for the years ended December 31, 2009, 2010 and 2011, respectively. For property insurance and life insurance, agency and brokerage companies may receive a performance bonus from insurance companies as agreed and per contract provisions. Once an agency and brokerage company achieves its performance target, typically a certain sales volume, the bonus will become due. The bonus amount is fixed by a formula based on the insurance premium amount multiplied by an agreed-upon percentage. The contingent commissions are recorded when a performance target is achieved.

Insurance claims adjusting services are considered to be rendered and completed, and revenue is recognized at the time loss adjusting reports are confirmed being received by insurance companies. The Group has met all the four criteria of revenue recognition when the service is provided and the loss adjusting report is accepted by insurance companies. The Group does not accrue any service fee before the receipt of an insurance company's acknowledgement of receiving the adjusting reports. Any subsequent adjustments in connection with discounts which have been de minimis to date are recognized in revenue upon notification from the insurance companies.

Other service fees include revenue from the provision of IT services and insurance-related services, such as driver's license renewal and annual inspection for the insured. Revenue is recognized when the services are rendered.

The Group presented revenue net of sales taxes incurred. The sales taxes amounted to RMB84.0 million, RMB102.2 million and RMB113.4 million (US\$18.0 million) for the years ended December 31, 2009, 2010 and 2011, respectively, of which RMB3.1 million, RMB14.9 million and RMB4.5 million (US\$0.7 million) were related to discontinued operations for the years ended December 31, 2009, 2010 and 2011, respectively.

### ***Share-based Compensation***

All forms of share-based payments to employees, including employee stock options and employee stock purchase plans, are treated the same as any other form of compensation by recognizing the related cost in the consolidated statement of operations. Compensation cost related to employee stock option or similar equity instruments is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. If an award requires satisfaction of one or more performance, or service

conditions (or any combination thereof), compensation cost is recognized if the requisite service is rendered, and no compensation cost is recognized if the requisite service is not rendered.

Awards of share-based employee compensation ordinarily specify a performance condition or a service condition (or both) that must be satisfied for an employee to earn the right to benefit from the award. No compensation cost is recognized for instruments that employees forfeit because a service condition or a performance condition is not satisfied, that is, instruments for which the requisite service is not rendered.

A cancellation of an award that is not accompanied by the concurrent grant of (or offer to grant) a replacement award or other valuable consideration is accounted for as a repurchase for no consideration. Accordingly, any previously unrecognized compensation cost is recognized at the cancellation date.

We use the Black-Scholes option-pricing model to determine the fair value of stock options and warrants. Determining the value of our share-based compensation expense in future periods requires the input of highly subjective assumptions, including estimated forfeitures and the price volatility of the underlying shares. The management estimates the forfeitures of the shares based on past employee retention rates and its expectations of future retention rates, and it will prospectively revise the forfeiture rates based on actual history. The share compensation charges may change based on changes to the actual forfeitures. The actual share-based compensation expenses may be materially different from the current expectations.

Share-based compensation expenses of RMB7.6 million, RMB22.2 million and RMB57.0 million for the years ended December 31, 2009, 2010 and 2011, respectively, were included in the general and administrative expenses.

#### ***Impairment of Goodwill, Intangible Assets and Long-lived Assets***

Goodwill and intangible assets with indefinite lives are required to be tested for impairment at least annually or more frequently if events or changes in circumstances indicate that these assets might be impaired. If we determine that the carrying value of our goodwill or acquired intangible assets have been impaired, the carrying value will be written down.

To assess potential impairment of goodwill, we perform an assessment of the carrying value of our reporting units at least on an annual basis or when events and changes in circumstances occur that would more likely than not reduce the fair value of our reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, we would perform the second step in our assessment process and record an impairment loss to earnings to the extent the carrying amount of the reporting unit's goodwill exceeds its implied fair value. We estimate the fair value of our reporting units through internal analysis and external valuations, which utilize income and market valuation approaches through the application of capitalized earnings and discounted cash flow. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, appropriate discount rates and long-term growth rates.

The fair value of each reporting unit is determined by analysis of discounted cash flows. The significant assumptions regarding our future operating performance are revenue growth rates, discount rates and terminal values. If any of these assumptions changes, the estimated fair value of our reporting units will change, which could affect the amount of goodwill impairment charges, if any.

In 2009 and 2010, management compared the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value, which is step one of the two-step impairment test. The income approach was used to estimate the fair value of all reporting units. Based on this quantitative test, it was determined that the fair value of each reporting unit tested exceeded its carrying amount and, therefore, step two of the two-step goodwill impairment test was unnecessary. Our management concluded that goodwill was not impaired for the years ended December 31, 2009 and 2010.

In 2011, management performed step one of the two-step impairment test by comparing the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value. The income approach was used to estimate the fair value of all reporting units. Based on this quantitative test, management determined that the fair value of the life insurance unit exceeded its carrying amount and, therefore, step two of the two-step goodwill impairment test was unnecessary. However, management determined that the fair values of the property and casualty insurance unit and the claims adjusting unit were less than their carrying amounts and, therefore step two of the goodwill impairment test was performed to measure the amount of impairment for these units. As a result, an

goodwill impairment loss of RMB1.0 billion (US\$159.0 million) was recorded for the year ended December 31, 2011.

Amortizable intangible assets and long-lived assets are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge shall be recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management performed an impairment test for intangible assets and all long-lived assets as of December 31, 2009, 2010 and 2011 and recognized an impairment loss of nil, RMB4.6 million and RMB56.8 million (US\$9.0 million) in intangible assets in 2009, 2010 and 2011, respectively.

### ***Income Taxes***

We recognize deferred tax assets and liabilities for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry-forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We record a valuation allowance to reduce our deferred income tax assets to an amount that we believe will more likely than not be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need and amount for the valuation allowance. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of our net recorded amount, an adjustment to our deferred income tax assets would increase income in the period such determination was made. Alternatively, should we determine that we would not be able to realize all or part of our net deferred income tax assets in the future, an adjustment to our deferred income tax assets would decrease income in the period such determination was made. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics.

ASC subtopic 740-10 ("ASC 740-10"), *Income taxes: Overall (Pre-Codification: FIN 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109)*, on January 1, 2007. ASC 740-10 clarifies accounting for uncertainty in income taxes recognized in any entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than- not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

### **Recent Accounting Pronouncements**

In May 2011, the FASB issued Accounting Standard Update ("ASU") 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, ("ASU 2011-04"). ASU 2011-04 amends ASC 820, Fair Value Measurements, ("ASC 820"), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 will be effective for our fiscal year beginning January 1, 2012. The adoption of ASU 2011-04 is not expected to have a material effect on our consolidated financial statements, but may require certain additional disclosures.

In September 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, ("ASU 2011-05"), which improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income ("OCI") by eliminating the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this standard do not change the items that must be reported in OCI, when an item of OCI must be reclassified to net income, or change the option for an entity to present components of OCI gross or net of the effect of income taxes. The amendments in ASU 2011-05 are effective for annual periods beginning January 1, 2012 and are to be applied retrospectively. The adoption of the provisions of ASU 2011-05 is not expected to have a material impact on our consolidated financial position or results of operations.

In September 2011, the FASB issued an amendment to ASC 350, Intangibles - Goodwill and Other ("ASC 350"), which simplifies how entities test goodwill for impairment. Previous guidance under ASC 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described under ASC 350. The amendments are effective for us for annual and interim goodwill impairment tests performed for fiscal years beginning January 1, 2012, and early adoption is permitted. We are planning to adopt this standard in 2012. The adoption of the provisions of ASC 350 is not expected to have a material impact on our consolidated financial position or results of operations.

## Results of Operations

|  | For the Year Ended December 31, |                |                   |                |                    |                  |
|--|---------------------------------|----------------|-------------------|----------------|--------------------|------------------|
|  | 2009 to 2010                    |                | 2010 to 2011      |                | 2011               |                  |
|  | Percentage Change               |                | Percentage Change |                |                    |                  |
|  | 2009                            |                | 2010              |                |                    |                  |
|  | RMB                             | %              | RMB               | %              | RMB                | US\$             |
| (in thousands except percentages)  |                                 |                |                   |                |                    |                  |
| <b>Consolidated Statement of Operations Data</b>   |                                 |                |                   |                |                    |                  |
| <b>Net revenues:</b>   |                                 |                |                   |                |                    |                  |
| Commissions and fees.....  | 1,100,842                       | 12.0           | 1,233,297         | 22.5           | 1,510,886          | 240,056          |
| Other service fees .....   | 761                             | (15.9)         | 640               | 804.5          | 5,789              | 920              |
| <b>Total net revenues .....</b>  | <b>1,101,603</b>                | <b>12.0</b>    | <b>1,233,937</b>  | <b>22.9</b>    | <b>1,516,675</b>   | <b>240,976</b>   |
| <b>Operating costs and expenses:</b>   |                                 |                |                   |                |                    |                  |
| Commissions and fees.....  | (549,981)                       | (1.6)          | (541,239)         | 47.2           | (796,843)          | (126,606)        |
| Selling expenses .....   | (41,442)                        | 44.9           | (60,055)          | 29.6           | (77,802)           | (12,361)         |
| General and administrative expenses .....  | (164,951)                       | 41.6           | (233,518)         | 42.7           | (333,281)          | (52,953)         |
| Impairment losses on goodwill and intangible assets .....  | —                               | *              | (4,600)           | 22,889.6       | (1,057,522)        | (168,023)        |
| <b>Total operating costs and expenses.....</b>   | <b>(756,374)</b>                | <b>11.0</b>    | <b>(839,412)</b>  | <b>169.9</b>   | <b>(2,265,448)</b> | <b>(359,943)</b> |
| <b>Income (loss) from operations .....</b>   | <b>345,229</b>                  | <b>14.3</b>    | <b>394,525</b>    | <b>(289.8)</b> | <b>(748,773)</b>   | <b>(118,967)</b> |
| <b>Other income, net:</b>  |                                 |                |                   |                |                    |                  |
| Investment income .....  | 18,905                          | 118.2          | 41,244            | (100.0)        | —                  | —                |
| Interest income .....  | 33,203                          | (19.4)         | 26,771            | 94.4           | 52,031             | 8,267            |
| Interest expense .....   | (4)                             | 25             | (5)               | (100.0)        | —                  | —                |
| Others, net .....  | 1,534                           | (77.1)         | 351               | 6,300.6        | 22,436             | 3,564            |
| Changes in fair value of contingent consideration payables .....   | (5,946)                         | 100.0          | —                 | *              | —                  | —                |
| <b>Income (loss) from continuing operations before income taxes and income of affiliates and discontinued operations .....</b> | <b>392,921</b>                  | <b>17.8</b>    | <b>462,886</b>    | <b>(245.7)</b> | <b>(674,306)</b>   | <b>(107,136)</b> |
| Income tax expense .....   | (97,309)                        | (8.4)          | (89,125)          | (5.7)          | (84,030)           | (13,351)         |
| Share of income of affiliates .....  | 774                             | 1,567.5        | 12,904            | 10.4           | 14,246             | 2,263            |
| <b>Net income (loss) from continuing operations .....</b>  | <b>296,386</b>                  | <b>30.5</b>    | <b>386,665</b>    | <b>(292.4)</b> | <b>(744,090)</b>   | <b>(118,224)</b> |
| <b>Net income (loss) from discontinued operations, net of tax.....</b>   | <b>(17,372)</b>                 | <b>(270.8)</b> | <b>29,665</b>     | <b>330.0</b>   | <b>127,553</b>     | <b>20,266</b>    |
| <b>Net income (loss).....</b>  | <b>279,014</b>                  | <b>49.2</b>    | <b>416,330</b>    | <b>(248.1)</b> | <b>(616,537)</b>   | <b>(97,958)</b>  |
| Less: Net loss attributable to the noncontrolling interests .....  | (21,827)                        | (72.6)         | (5,978)           | 5,205.2        | (317,163)          | (50,392)         |
| <b>Net income (loss) attributable to the Company's shareholders .....</b>  | <b>300,841</b>                  | <b>40.4</b>    | <b>422,308</b>    | <b>(170.9)</b> | <b>(299,374)</b>   | <b>(47,566)</b>  |

\* Not meaningful for analysis because the percentage change is mathematically undeterminable or involves a change from income or benefit to loss or expense, or vice versa.

### Year ended December 31, 2011 Compared to Year Ended December 31, 2010

**Net Revenues.** Our total net revenues increased by 22.9% from RMB1.2 billion in 2010 to RMB1.5 billion (US\$241.0 million) in 2011 primarily attributable to (i) an increase in sales of insurance policies due to enhanced sales marketing efforts with the number of sales agents increasing by 21.4% from 37,994 as of December 31, 2010

to 46,137 as of December 31, 2011 and the number of sales outlets increasing by 9.6% from 552 as of December 31, 2010 to 605 as of December 31, 2011, (ii) rising property and casualty insurance commission rates and (iii) growth of recurring commissions of life insurance products.

### ***Operating Costs and Expenses***

***Commissions and Fees.*** Commissions and fees we incurred increased by 47.2% from RMB541.2 million in 2010 to RMB796.8 million (US\$126.6 million) in 2011 primarily due to (i) growth of our sales force and sales volume, and (ii) increases in policy acquisition costs and commission costs.

***Selling Expenses.*** Our selling expenses increased by 29.6% from RMB60.1 million in 2010 to RMB77.8 million (US\$12.4 million) in 2011 primarily due to sales growth and an increase in expenses incurred in connection with the establishment of new outlets and payroll increase.

***General and Administrative Expenses.*** Our general and administrative expenses increased by 42.7% from RMB233.5 million in 2010 to RMB333.3 million (US\$53.0 million) in 2011. This increase was primarily a result of the following:

- an increase of 156.6% in share-based compensation expenses from RMB22.2 million for fiscal year 2010 to RMB57.0 million (US\$9.1 million) in fiscal year 2011, primarily associated with the grant of stock options in April of 2011 and the cancellation of certain options in November of 2011;
- an increase of 30.9% in amortization of intangible assets from RMB20.2 million for fiscal year 2010 to RMB26.5 million (US\$4.2 million) in fiscal year 2011, largely as a result of the acquisitions we made in 2011; and
- RMB10.0 million (US\$1.6 million) in one-off professional fees incurred in relation to the non-binding going-private proposal which we received on May 14, 2011 and was withdrawn on September 15, 2011.

***Impairment loss on goodwill and intangible assets.*** Impairment loss on intangible assets and goodwill was RMB1.1 billion (US\$168.0 million), which reflected the expected adverse impact of the overall economic uncertainties in China, growth slowdown within the Chinese insurance market and our strategic business transition on our earnings in the next two to three years.

***Income (Loss) from Operations.*** As a result of the foregoing factors, loss from operations was RMB748.8 million (US\$119.0 million) for fiscal year 2011, compared to income from operations of RMB394.5 million in fiscal year 2010.

***Investment Income.*** Our investment income for 2011 was nil, compared to RMB41.2 million in 2010, representing gains from re-measuring the 10% equity interest we formerly held in Hebei Fanlian, Ningbo Baolian, Shandong Mintai and the 5% equity interest we formerly held in Shenyang Fangda Insurance Agency Co., Ltd.

***Interest Income.*** Our interest income for 2011 was RMB52.0 million (US\$8.3 million), representing an increase of 94.4% from RMB26.8 million in 2010.

***Non-operating Income (Expense), Net.*** Our other income, net, increased by 6,300.6% from RMB0.4 million in 2010 to RMB22.4 million (US\$3.6 million) in 2011 which mainly included: (i) RMB12.5 million (US\$2.0 million) refunds from the selling shareholder of certain acquired subsidiaries as those acquired subsidiaries failed to achieve their performance targets; and (2) RMB8.0 million (US\$1.3 million) cash bonus granted to one of our affiliated subsidiaries by the Shenzhen Municipal Government during the third quarter of 2011.

***Income (Loss) from Continuing Operations before Income Taxes and Income of Affiliates and Discontinued Operations.*** As a result of the foregoing factors, our loss from continuing operations before income taxes and income of affiliates and discontinued operations was RMB674.3 million (US\$107.1 million) in 2011. In comparison, income from continuing operations before income tax and income of affiliates and discontinued operations was RMB462.9 million in 2010.

***Income Tax Expense.*** Our income tax expense in 2011 primarily consisted of current tax expenses of RMB100.5 million (US\$16.0 million) offset by a deferred tax income of RMB16.4 million (US\$2.6 million). In

comparison, our income tax expense in 2010 primarily consisted of current tax expense of RMB87.8 million and deferred tax expense of RMB1.3 million, representing a decrease of 5.7% from 2010 to 2011.

***Income (Loss) from Continuing Operations.*** As a result of foregoing factors, our loss from continuing operations was RMB744.1 million (US\$118.2 million) in 2011. In comparison, income from continuing operations was RMB386.7 million in 2010.

***Income (Loss) from Discontinued Operations.*** We recorded RMB127.6 million (US\$20.3 million) loss from discontinued operations, representing the disposal gain from the sale of Datong, and it was an increase 330.0% from RMB29.7 million in 2010.

***Net Loss Attributable to the Noncontrolling Interests.*** We recorded RMB317.2 million (US\$50.4 million) net loss attributable to noncontrolling interests in 2011, primarily due to impairment loss in goodwill and intangible assets incurred by certain affiliated insurance agencies in which we owned majority interests. In comparison, we recorded RMB6.0 million net loss attributable to noncontrolling interests in 2010.

***Net Income (Loss) Attributable to the Company's Shareholders.*** As a result of the foregoing, our net loss attributable to our shareholders was RMB299.4 million (US\$47.6 million) for fiscal year 2011, compared to net income attributable to our shareholders of RMB422.3 million in fiscal year 2010.

#### ***Year ended December 31, 2010 Compared to Year Ended December 31, 2009***

***Net Revenues.*** Our total net revenues increased by 12.0% from RMB1.1 billion in 2009 to RMB1.2 billion in 2010 primarily attributable to (i) enhanced sales marketing efforts with the number of sales agents increasing by 23.4% from 30,782 as of December 31, 2009 to 37,994 as of December 31, 2010 and the number of sales outlets increasing by 16.0% from 476 as of December 31, 2009 to 552 as of December 31, 2010; (ii) the increase in performance bonuses paid by life insurers as a result of growth in sales volume and more contracts entered into with life insurers at the corporate headquarter level; and (iii) the acquisitions of controlling interests in four affiliated traditional insurance intermediary companies in 2010.

#### ***Operating Costs and Expenses***

***Commissions and Fees.*** Commissions and fees we incurred slightly decreased by 1.6% from RMB550.0 million in 2009 to RMB 541.2 million in 2010 primarily due the implementation of a fee-based revenue scheme in eight of our affiliated insurance agencies in 2010 as compared to five affiliated insurance agencies in 2009.

***Selling Expenses.*** Our selling expenses increased by 44.9% from RMB41.4 million in 2009 to RMB60.1 million in 2010 primarily due to a growth in sales and an increase in expenses incurred in connection with the establishment of new outlets.

***General and Administrative Expenses.*** Our general and administrative expenses increased by 41.6% from RMB165.0 million in 2009 to RMB233.5 million in 2010. This increase was primarily a result of the following:

- an increase of 59.7% in depreciation of fixed assets from RMB12.9 million in 2009 to RMB20.6 million in 2010, largely as a result of operating the upgraded IT system in more affiliated entities in 2010;
- an increase of 142.1% in amortization of intangible assets from RMB8.3 million in 2009 to RMB20.2 million in 2010, largely as a result of the acquisitions we made in 2010; and
- an increase of 194.0% in share-based compensation expenses from RMB7.6 million in 2009 to RMB22.2 million in 2010, associated with the grant of options to various directors, officers and employees in February 2010.

***Impairment loss.*** We recognized a RMB4.6 million impairment loss in respect of intangible assets for the fourth quarter of 2010.

***Income from Operations.*** As a result of the foregoing factors, our income from operations increased by 14.3% from RMB345.2 million in 2009 to RMB394.5 million in 2010.

**Other Income, Net.** Our other income, net increased by 43.3% from RMB47.7 million in 2009 to RMB68.4 million in 2010, primarily as a result of a 118.2% increase in the recognition of investment income from RMB18.9 million in 2009 to RMB41.2 million in 2010, representing gains from re-measuring the 10% equity interest formerly held by us in Hebei Fanlian, Ningbo Baolian, Shandong Mintai and the 5% equity interest formerly held by us in Shenyang Fangda, partially offset by a 19.4% decrease in interest income from RMB33.2 million in 2009 to RMB26.8 million in 2010.

**Income from Continuing Operations before Income Taxes and Income of Affiliates and Discontinued Operations.** As a result of the foregoing factors, our income from continuing operations before income taxes and income of affiliates and discontinued operations increased by 17.8% from RMB392.9 million in 2009 to RMB462.9 million in 2010.

**Income Tax Expense.** Our income tax expense in 2010 primarily consisted of current tax expense of RMB87.8 million and deferred tax expense of RMB1.3 million. In comparison, our income tax expense in 2009 primarily consisted of current tax expense of RMB91.4 million and deferred tax expense of RMB5.9 million, representing a decrease of 8.4% from 2009 to 2010. The effective income tax rate applicable to us was 19.3% in 2010 compared to 24.8% in 2009. The decrease was primarily attributable to a tax holiday enjoyed by one of our subsidiaries.

**Net Loss Attributable to the Noncontrolling Interests.** We recorded RMB6.0 million net loss attributable to noncontrolling interests in 2010, primarily due to loss incurred by certain insurance agencies in which we owned majority interests. In comparison, we recorded RMB21.8 million net loss attributable to noncontrolling interests in 2009.

**Net Income Attributable to the Company's Shareholders.** As a result of the foregoing, our net income attributable to our shareholders increased by 40.4% from RMB300.8 million in 2009 to RMB422.3 million in 2010.



The following table sets forth our net revenues, operating costs and expenses and income from operations by reportable segments for the periods indicated. Operating costs and expenses allocated to each of the reportable segments includes intangible asset amortizations and impairments, and other costs and expenses directly incurred by the corresponding segment. The line item “Other” includes revenue and expenses not allocated to the reportable segments and headquarter related costs and expenses.

|   | Year Ended December 31, |                   |                  |                   |                    |                  |
|---|-------------------------|-------------------|------------------|-------------------|--------------------|------------------|
|   | 2009 to 2010            |                   | 2010 to 2011     |                   | 2011               |                  |
|   | 2009                    | Percentage Change | 2010             | Percentage Change | RMB                | US\$             |
|   | RMB                     | %                 | RMB              | %                 | RMB                | US\$             |
| (in thousands except percentages)             |                         |                   |                  |                   |                    |                  |
| <b>Net revenues:</b>                          |                         |                   |                  |                   |                    |                  |
| Property and casualty .....                   | 783,220                 | 4.9               | 821,259          | 25.7              | 1,032,594          | 164,063          |
| Life.....                                     | 177,713                 | 32.6              | 235,584          | 17.3              | 276,402            | 43,916           |
| Claims adjusting.....                         | 140,670                 | 25.9              | 177,094          | 14.1              | 202,003            | 32,095           |
| Other .....                                   | —                       | *                 | —                | *                 | 5,676              | 902              |
| <b>Total net revenues.....</b>                | <b>1,101,603</b>        | <b>12.0</b>       | <b>1,233,937</b> | <b>22.9</b>       | <b>1,516,675</b>   | <b>240,976</b>   |
| <b>Operating costs and expenses:</b>          |                         |                   |                  |                   |                    |                  |
| Property and casualty .....                   | (408,643)               | (4.7)             | (389,266)        | 317.8             | (1,626,472)        | (258,420)        |
| Life.....                                     | (158,804)               | 22.5              | (194,612)        | 26.2              | (245,571)          | (39,017)         |
| Claims adjusting.....                         | (121,753)               | 28.8              | (156,825)        | 55.0              | (243,072)          | (38,620)         |
| Other .....                                   | (67,174)                | 46.9              | (98,709)         | 52.3              | (150,333)          | (23,886)         |
| <b>Total operating costs and expenses....</b> | <b>(756,374)</b>        | <b>11.0</b>       | <b>(839,412)</b> | <b>169.9</b>      | <b>(2,265,448)</b> | <b>(359,943)</b> |
| <b>Income (Loss) from operations:</b>         |                         |                   |                  |                   |                    |                  |
| Property and casualty .....                   | 374,577                 | 15.3              | 431,993          | (237.5)           | (593,878)          | (94,357)         |
| Life.....                                     | 18,909                  | 116.7             | 40,972           | (24.8)            | 30,831             | 4,899            |
| Claims adjusting.....                         | 18,917                  | 7.1               | 20,269           | (302.6)           | (41,069)           | (6,525)          |
| Other .....                                   | (67,174)                | 46.9              | (98,709)         | 46.5              | (144,657)          | (22,984)         |
| <b>Total income (loss) from operations ..</b> | <b>345,229</b>          | <b>14.3</b>       | <b>394,525</b>   | <b>(289.8)</b>    | <b>(748,773)</b>   | <b>(118,967)</b> |

#### *Year ended December 31, 2011 Compared to Year Ended December 31, 2010*

##### *Net Revenues*

Net revenues from our property and casualty insurance segment increased by 25.7% from RMB821.3 million in 2010 to RMB1.0 billion (US\$164.1 million) in 2011. The increase primarily resulted from increased sales and rising property and casualty insurance commission rates in 2011.

Net revenues from our life insurance segment increased by 17.3% from RMB235.6 million in 2010 to RMB276.4 million (US\$43.9 million) in 2011. The increase was primarily attributable to growth in recurring commissions of long term life insurance products with a periodic premium payment schedule.

Net revenues from our claims adjusting segment increased by 14.1% from RMB177.1 million in 2010 to RMB202.0 million (US\$32.1 million) in 2011. The increase primarily resulted from (i) increased productivity of claims adjusters; and (ii) enhanced cooperation with the property and casualty segment which referred claims adjusting business to our claims adjusting firms.

Other revenue in 2011 mainly represents RMB5.0 million (US\$0.8 million) in IT services provided to a subsidiary of CFSG with the remaining RMB0.7 million coming from unrelated third parties.

##### *Operating Costs and Expenses*

Operating costs and expenses for our property and casualty insurance segment increased by 317.8% from RMB389.3 million in 2010 to RMB1.6 billion (US\$258.4 million) in 2011. The significant increase was primarily due to (i) increase in commissions and fees paid to our property and casualty insurance sales agents, which reflected higher labor costs and higher policy acquisition costs; (ii) the recognition of a RMB992.7 million (US\$157.7 million) impairment loss in respect of goodwill and intangible assets in the property and casualty insurance segment which reflected our forecast of slower growth in the segment's earnings in the next two to three years.

Operating costs and expenses for our life insurance segment increased by 26.2% from RMB194.6 million in 2010 to RMB245.6 million (US\$39.0 million) in 2011. The increase was primarily due to (i) the establishment of additional branches and sales outlets, and (ii) the recognition of RMB1.6 million (US\$0.3 million) impairment loss in respect of intangible assets in the life insurance segment which reflected our forecast of slower growth in certain life insurance entities.

Operating costs and expenses for our claims adjusting segment increased by 55.0% from RMB156.8 million in 2010 to RMB243.1 million (US\$38.6 million) in 2011. The increase was primarily due to (i) an increase in commissions and fees paid to claims adjustors and related services costs, which was in line with the increase in revenues; and (ii) the recognition of a RMB63.2 million (US\$10.0 million) impairment loss in respect of goodwill and intangible assets in the claims adjusting segment which reflected our forecast of slower growth in the segment's earnings in the next two to three years.

#### *Income (loss) from Operations*

As a result of the foregoing factors, loss from operations for our property and casualty insurance segment recorded an operating loss of RMB593.9 million (US\$94.4 million) in 2011, compared to an operating income of RMB432.0 million in 2010. Income from operations for our life insurance segment decreased by 24.8% from RMB41.0 million in 2010 to RMB30.8 million (US\$4.9 million) in 2011. Loss from operations for our claims adjusting segment is RMB41.1 million (US\$6.5 million), compared to an operating income of RMB20.3 million in 2010.

### ***Year ended December 31, 2010 Compared to Year Ended December 31, 2009***

#### *Net Revenues*

Net revenues from our property and casualty insurance segment increased by 4.9% from RMB783.2 million in 2009 to RMB821.3 million in 2010. The increase primarily resulted from the acquisitions of controlling interests in six affiliated insurance agencies primarily engaged in the distribution of property and casualty insurance products in 2009 and 2010 and a significant increase in the number of property and casualty sales agents, partially offset by the decrease of auto insurance commission rate in the first half year of 2010. The commission rate had been raised to the same level as that of 2009 by the end of 2010.

Net revenues from our life insurance segment increased by 32.6% from RMB177.7 million in 2009 to RMB235.6 million in 2010. The increase was primarily attributable to (i) an increase in the number of life insurance sales agents and productivity; (ii) an increase in performance bonuses paid by life insurers as a result of growth in sales volume; and (iii) an increase in number of contracts entered into with life insurers at the corporate headquarter level, which enabled us to obtain more favorable terms by combining the sales volumes of all of our affiliated insurance intermediary companies located in different parts of the country.

Net revenues from our claims adjusting segment increased by 25.9% from RMB140.7 million in 2009 to RMB177.1 million in 2010. The increase primarily resulted from (i) increase in productivity of claims adjustors; and (ii) enhanced cooperation with the property and casualty segments which referred claims adjusting business to our claims adjusting firms.

#### *Operating Costs and Expenses*

Operating costs and expenses for our property and casualty insurance segment decreased by 4.7% from RMB408.6 million in 2009 to RMB389.3 million in 2010. The decrease was primarily due to the implementation of a fee-based revenue scheme in eight of our affiliated insurance agencies in 2010 as compared to five affiliated insurance agencies in 2009, partially offset by the increase in commissions and fees paid to our property and casualty insurance sales agents, which was in line with the growth of our sales.

Operating costs and expenses for our life insurance segment increased by 22.5% from RMB158.8 million in 2009 to RMB194.6 million in 2010. The increase was primarily due to (i) higher sales volume, particularly the increase in the sale of new insurance policies, for which we generally paid higher commissions and fees to our sales agents as compared with those of renewal insurance policies; and (ii) the establishment of additional branches and sales outlets.

Operating costs and expenses for our claims adjusting segment increased by 28.8% from RMB121.8 million in 2009 to RMB156.8 million in 2010. The increase was primarily due to (i) an increase in commissions and fees paid to claims adjusters and related services cost, which was in line with the increase in revenues; and (ii) an increase in salaries for back-office staff and office rental expenses.

### *Income from Operations*

As a result of the foregoing factors, income from operations for our property and casualty insurance segment increased by 15.3% from RMB374.6 million in 2009 to RMB432.0 million in 2010. Income from operations for our life insurance segment increased by 116.7% from RMB18.9 million in 2009 to RMB41.0 million in 2010. Income from operations for our claims adjusting segment increased by 7.1% from RMB18.9 million in 2009 to RMB20.3 million in 2010.

### **Inflation**

Inflation in China has impacted our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China changed by -0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, respectively. Our operating costs and expenses, such as sales agent and employee compensation and office operating expenses, increased significantly as a result of higher inflation in 2011. Additionally, because a substantial portion of our assets consists of cash and cash equivalents, high inflation significantly reduced the value and purchasing power of these assets. We are not able to hedge our exposures to higher inflation in China. If high inflation persists in China in the future, our operational results may continue to be significantly affected.

### **Foreign Currency**

The exchange rate between U.S. dollar and RMB has declined from an average of RMB8.2264 per U.S. dollar in July 2005 to RMB6.3482 per U.S. dollar in December 2011. The fluctuation of the exchange rate between the RMB and U.S. dollar and HK dollar resulted in foreign currency translation loss of RMB18.3 million (US\$2.9 million) in 2011, when we translated our financial assets from U.S. dollar and HK dollar into RMB. We have not hedged exposures to exchange fluctuations using any hedging instruments. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Fluctuation in the value of the RMB may have a material adverse effect on your investment.” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Risk.”

## **B. Liquidity and Capital Resources**

### **Cash Flows and Working Capital**

Our principal sources of liquidity have been cash generated from our operating activities and proceeds from sales of ordinary shares through private placements, our initial public offering and public follow-on offering. As of December 31, 2011, we had RMB2.2 billion (US\$353.1 million) in cash. Our cash consists of cash on hand and bank deposits with terms of 90 days or less. Our principal uses of cash have been to fund acquisitions, construction of a nationwide operating platform, working capital requirements, purchases of automobiles and office equipment, office renovation and rental deposit. Although we consolidate the results of our PRC affiliated entities, we do not have direct access to their cash and cash equivalents or future earnings. But we can direct the use of their cash through agreements that provide us with effective control of these entities. Moreover, we receive quarterly fees from some of these affiliated entities in exchange for certain consulting and other services provided by us. See “Item 4. Information on the Company—C. Organizational Structure.” We expect to require cash to fund our ongoing business needs, particularly the further expansion of our distribution and service network through acquisitions and establishment of new insurance intermediary companies and development of an e-commerce insurance platform.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or

other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. Financing may be unavailable in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

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

|  | Year Ended December 31, |           |           |          |
|--|-------------------------|-----------|-----------|----------|
|  | 2009                    | 2010      | 2011      |          |
|  | RMB                     | RMB       | RMB       | US\$     |
|  | (in thousands)          |           |           |          |
| Net cash generated from operating activities .....           | 259,599                 | 366,665   | 491,400   | 78,075   |
| Net cash used in investing activities.....                   | (256,243)               | (400,021) | (46,023)  | (7,312)  |
| Net cash (used in) from financing activities.....            | (57,166)                | 511,168   | (129,810) | (20,624) |
| Net (decrease) increase in cash and cash equivalents .....   | (53,810)                | 477,812   | 315,567   | 50,139   |
| Cash and cash equivalents at the beginning of the year ..... | 1,510,432               | 1,457,890 | 1,924,884 | 305,833  |
| Cash and cash equivalents at the end of the year .....       | 1,457,890               | 1,924,884 | 2,222,160 | 353,066  |

### *Operating Activities*

Net cash generated from operating activities amounted to RMB491.4 million (US\$78.1 million) for the year ended December 31, 2011, primarily attributable to (i) a net loss of RMB616.5 million (US\$98.0 million); (ii) a significant increase of RMB1.1 billion (US\$168.0 million) in impairment loss in respect of goodwill and intangible assets, RMB27.4 million (US\$4.3 million) of depreciation of fixed assets, RMB26.5 million (US\$4.2 million) of amortization of acquired intangible assets and RMB57.0 million (US\$9.1 million) of share-based compensation expenses, which were included in net loss but did not affect cash flow during the period; (iii) an increase of RMB33.7 million (US\$5.4 million) in accounts payable primarily as a result of increased revenue and expanded operation; and (iv) an increase of RMB65.1 million (US\$10.3 million) in other payables and accrued expenses; and (v) gain on disposal of subsidiaries of RMB127.6 million (US\$20.3 million), which was included in net loss but not related to operating activities.

Net cash generated from operating activities amounted to RMB366.7 million for the year ended December 31, 2010, primarily attributable to (i) a net income of RMB416.3 million; (ii) a significant increase of RMB78.9 million in depreciation of fixed assets, amortization and impairment of acquired intangible assets and share-based compensation expenses which were included in net income but did not have cash flow effect during the period; (iii) an investment income of RMB41.2 million, which was also included in net income but was not included in operating activity and did not have cash flow effect during the period; (iv) an increase of RMB13.8 million in accounts payable primarily as a result of increased revenue and expanded operation; and (iv) an increase of RMB61.8 million in accounts receivable, which negatively affected operating cash flow, primarily as a result of an increase in sales of insurance products.

Net cash generated from operating activities amounted to RMB259.6 million for the year ended December 31, 2009, primarily attributable to (i) a net income of RMB279.0 million; (ii) an increase of RMB18.8 million in depreciation of fixed assets, which was included in net income but did not have cash flow effect during the period; (iii) an investment income of RMB18.9 million, which was also included in net income but was not included in operating activity and did not have cash flow effect during the period; (iv) an increase of RMB13.1 million in accounts payable primarily as a result of increased revenue and expanded operation; and (iv) an increase of RMB85.6 million in accounts receivable, which negatively affected operating cash flow, primarily as a result of an increase in sales of insurance products.

### *Investing Activities*

Net cash used in investing activities for the year ended December 31, 2011 was RMB46.0 million (US\$7.3 million), primarily attributable to (i) net proceeds from the disposal of subsidiaries including Datong in the amount of RMB390.8 million (US\$62.1 million) during the year; (ii) a RMB331.9 million (US\$52.7 million) loan to Sincere Fame, in which we owned 20.6% equity interest, as at December 31, 2011; (iii) the payment of RMB50.0

million (US\$7.9 million) for the acquisition of Dongguan Zhongxin and Guangzhou Huajie and (iv) payment of RMB32.7 million (US\$5.2 million) for short-term investments during the year.

Net cash used in investing activities for the year ended December 31, 2010 was RMB400.0 million, primarily attributable to (i) payment of RMB307.8 million for acquisitions of controlling interest in four insurances agencies and one online insurance service company during the year; (ii) a final payment of RMB17.2 million for the acquisition of 20.6% equity interest in Sincere Fame which owns 100% equity interest of CFSG in 2009 and an additional investment of RMB39.5 million for a share subscription in Sincere Fame in 2010; and (iii) the purchases of property, plant and equipment totaling RMB24.4 million.

Net cash used in investing activities for the year ended December 31, 2009 was RMB256.2 million, primarily attributable to (i) payment of contingent considerations for companies acquired in 2008, which have achieved their operating targets, as well as payment of considerations for new acquisitions made in 2009, amounting to RMB330.7 million; (ii) a partial payment of RMB68.3 million for the acquisition of 20.6% equity interest in Sincere Fame which owns 100% equity interest in CFSG; and (iii) the purchases of property, plant and equipment totaling RMB47.8 million, partially offset by RMB180.0 million as repayment from noncontrolling shareholders in connection with the acquisition of Datong.

### ***Financing Activities***

Net cash used in financing activities was RMB129.8 million (US\$20.6 million) for the year ended December 31, 2011, primarily attributable to (i) a final payment of RMB100.0 million (US\$15.9 million) for the contingent consideration for the acquisition of a 55% equity interests in Datong in November 2008 as part of the disposal transactions; (ii) payment of RMB28.3 million (US\$4.5 million) for the acquisition of additional equity interests in three affiliated majority-owned subsidiaries; and a share repurchase amounting to RMB13.7 million (US\$2.2 million).

Net cash generated from financing activities was RMB511.2 million for the year ended December 31, 2010, primarily attributable to (i) proceeds of RMB743.8 million from the issuance of ordinary shares with respect to the follow-on offering on July 14, 2010, partially offset by (i) payment of contingent considerations amounting to RMB125.4 million for companies acquired in 2008, which have achieved their operating targets; (ii) a cash dividend of RMB81.0 million; and (iii) a share repurchase amounting to RMB37.3 million.

Net cash used in financing activities was RMB57.2 million for the year ended December 31, 2009, primarily attributable to (i) a cash dividend of RMB68.6 million; and (ii) a repayment to related parties amounting to RMB8.9 million, partially offset by capital injection and additional paid-in capital injection by noncontrolling shareholders totaling RMB20.3 million.

### ***Capital Expenditures***

We incurred capital expenditures of RMB47.8 million, RMB24.4 million and RMB20.9 million (US\$3.3 million) for the years ended December 31, 2009, 2010 and 2011, respectively. Our capital expenditures have been used primarily to construct our operating platform including our Core Business System and ERP-based financial and accounting system, construct our e-commerce insurance platform and to purchase automobiles and office equipment for newly established insurance intermediary companies. We estimate that our capital expenditures will increase in the following two or three years as we further expand our distribution and service network, improve our unified operating platform and construct our e-commerce insurance platform. We anticipate funding our future capital expenditures primarily with net cash flows from financing and operating activities.

### ***Holding Company Structure***

We are a holding company with no material operations of our own. We conduct our operations primarily through our wholly owned subsidiaries in China and our consolidated affiliated entities, Meidiya Investment, Yihe Investment, Xinbao Investment and their subsidiaries. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our wholly owned subsidiaries and consulting and service fees paid by the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment. If our wholly owned subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. Our wholly owned subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and consolidated affiliated entities in China is

required to set aside at least 10% of its after-tax profits as reported in the PRC statutory financial statements each year, if any, to fund a statutory reserve until such reserve reach 50% of its registered capital, and to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of its board. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation of the companies. Furthermore, the EIT Law that took effect on January 1, 2008 has eliminated the exemption of EIT on dividend derived by foreign investors from foreign-invested enterprises and imposes on foreign-invested enterprises an obligation to withhold tax on dividend distributed by such foreign-invested enterprises. Aggregate undistributed earnings of our subsidiaries in the PRC that are available for distribution to us are considered to be indefinitely reinvested and accordingly, no provision for the withholding tax has been made. As of December 31, 2011, our restricted net asset was RMB1.7 billion (US\$264.0 million). This amount is composed of the registered equity of our PRC subsidiaries and consolidated affiliated entities and the statutory reserves described above.

C. Research and Development, Patents and Licenses, etc.

None.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2010 to December 31, 2011 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

F. Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2011:

|   | Payment Due by Period |           |           |           |           |
|---|-----------------------|-----------|-----------|-----------|-----------|
|   | Total                 | Less than | 1-3 years | 3-5 years | More than |
|   |                       | 1 year    |           |           |           |
| (in thousands of RMB)                     |                       |           |           |           |           |
| Operating lease obligations .....         | 30,068                | 16,738    | 10,532    | 2,798     | —         |
| Purchase obligations <sup>(1)</sup> ..... | 168                   | 168       | —         | —         | —         |
| Total .....                               | 30,236                | 16,906    | 10,532    | 2,798     | —         |

(1) Represents payment commitment in connection with the construction of our Core Business System and ERP-based financial and accounting system.

Not included in the table above are ASC 740 (formerly Financial Interpretation 48) liabilities of RMB43.6 million (US\$6.9 million). As we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority, such liabilities are excluded from the contractual obligations table above.

Other than the contractual obligations and commercial commitments set forth above, we did not have any other material long-term debt obligations, operating lease obligations, purchase obligations or other material long-term liabilities as of December 31, 2011.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

| Directors and Executive Officers | Age | Position/Title          |
|----------------------------------|-----|-------------------------|
| Chunlin Wang .....               | 42  | Chief Executive Officer |
| Qiuping Lai .....                | 58  | President and Director  |
| Peng Ge.....                     | 41  | Chief Financial Officer |
| Yinan Hu.....                    | 46  | Chairman                |
| Shangzhi Wu.....                 | 61  | Director                |
| Yongwei Ma.....                  | 69  | Independent Director    |
| Stephen Markscheid.....          | 58  | Independent Director    |
| Allen Warren Lueth.....          | 43  | Independent Director    |
| Mengbo Yin .....                 | 56  | Independent Director    |

*Mr. Chunlin Wang* became our chief executive officer in October 2011. From April 2011 to October 2011, he was our chief operating officer. From January 2007 to October 2011, he was vice president and head of the property and casualty insurance unit of our company. From 2003 to January 2007, he served as assistant to our chairman. From 2002 to 2005, he served as the general manager of Guangdong Nanfeng, one of our first affiliated insurance intermediaries in the PRC. From 1998 to 2002, Mr. Wang served as a branch manager at Guangzhou Nanyun Car Rental Services Co., Ltd. and later Guangdong Nanfeng Automobile Association Co., Ltd., our predecessors. Mr. Wang received his bachelor's degree in law from Central-Southern University of Politics and Law in China.

*Mr. Qiuping Lai* is our co-founder and has been our president and director since 2004. Mr. Lai has served as chairman of the board of directors of Guangdong Nanfeng, one of our first affiliated insurance intermediaries in the PRC, since 2002. From 1998 to 2002, he served as the general manager of Guangdong Nanfeng Automobile Association Co., Ltd., one of our predecessor companies that he co-founded in 1998. From 1994 to 1998, he served as the general manager of Guangdong Nanfeng Enterprises Co., Ltd., a company he co-founded that engaged in import and export, manufacturing of wooden doors and construction. From 1990 to 1994, Mr. Lai was an instructor of philosophy and later an associate dean of the department of law at Guangdong Institute for Managers in Finance and Trade. Mr. Lai received his bachelor's degree in philosophy from Jiangxi University in China.

*Mr. Peng Ge* has been our chief financial officer since April 2008. From 2005 to April 2008, he served as the general manager of the finance and accounting department and vice president of our company. From August 2007 to September 2008, he was also a director of our company. From 1999 to 2005, Mr. Ge headed our Beijing operations. From 1994 to 1999, Mr. Ge was a financial manager at a subsidiary of China National Native Produce and Animal By-Products Import & Export Corporation. Mr. Ge received his bachelor's degree in international accounting and his MBA degree from the University of International Business and Economics in China.

*Mr. Yinan Hu* is our co-founder and has been chairman of our board of directors since our inception in 1998. From 1998 to October 2011, Mr. Hu served as our chief executive officer. From 1993 to 1998, Mr. Hu served as chairman of the board of directors of Guangdong Nanfeng Enterprises Co., Ltd., a company he co-founded that engaged in import and export, manufacturing of wooden doors and construction. From 1991 to 1995, Mr. Hu was an instructor of money and banking at Guangdong Institute for Managers in Finance and Trade. Mr. Hu received a bachelor's degree and a master's degree in economics from Southwestern University of Finance and Economics in China.

*Dr. Shangzhi Wu* has been our director since December 2005. He is the Chairman and Managing Partner of CDH China Holdings Management Company Limited, or CDH Investment, since its inception in 2002. CDH Investment is an international private equity fund manager with more than US\$7 billion of committed capital under management. Dr. Wu has also served as the chairman of Beijing Dinghui Venture Investment Advisory Company Limited since 2002. From 1995 to 2002, Dr. Wu worked for China International Capital Corporation Ltd., or CICC, serving as the head of the direct investment department beginning in 1996. Dr. Wu became a managing director in 1999 and served as a member of CICC's management committee between 2000 and 2002. From 1993 to 1995, he was a managing director at Beijing Copia Consulting Company, a business consulting firm. From 1991 to 1993, he was a senior investment officer at the International Finance Corporation. From 1984 to 1991, he worked for the World Bank as an operations officer and senior operations officer. Dr. Wu received his Ph.D. in mechanical engineering and a master's degree in management of technology from Massachusetts Institute of Technology.

*Mr. Yongwei Ma* has been our independent director since May 2008. Mr. Ma has been an independent director of China Life Insurance Company Limited since 2006 and an independent director of Mingyuan Medicare Development Company Limited, a healthcare company listed on the Hong Kong Stock Exchange, since October 2008. Since 2003, he has been a member of the Standing Committee of National Committee of the Chinese People's Political Consultative Conference. From 1998 to 2002, he was the chairman of China Insurance Regulatory Commission. From 1996 to 1998, he served as the chairman and president of the former China Insurance Group Company. From 1994 to 1996, he served as the chairman and president of the former People's Insurance Company of China. Mr. Ma is a researcher and graduated from the finance department of Liaoning Finance and Economics University.

*Mr. Stephen Markscheid* has been our independent director since August 2007. He is currently the chief executive officer of Synergiz BioScience, Inc., a genomics company based in Hong Kong. Prior to that, Mr. Markscheid was the chief executive officer of HuaMei Capital Company, Inc., a Sino-U.S. investment advisory firm from 2006 to 2007. From 1998 to 2006, Mr. Markscheid served as senior vice president for global risk for GE Healthcare Financial Services and director of business development of GE Capital. Prior to joining GE, Mr. Markscheid worked as case leader for the Boston Consulting Group throughout Asia from 1994 to 1997. Prior to that, Mr. Markscheid had been a commercial banker for ten years in London, Chicago, New York, Hong Kong and Beijing with Chase Manhattan Bank and First National Bank of Chicago. Mr. Markscheid received his bachelor's degree in East Asian studies from Princeton University, a master's degree in international affairs and economics from the School of Advanced International Studies at Johns Hopkins University, and an MBA degree from Columbia University.

*Mr. Allen Lueth* has been our independent director since August 2007. Since December 2010, he has been the vice president of finance of Cardinal Health China, one of the world's leading pharmaceutical distributors, which acquired Zuellig Pharma China in November 2010. Prior to that, he was the vice president of finance and strategy of Zuellig Pharma China, a private company focused on pharmaceutical distribution, and was its chief financial officer from 2005 to February 2009. Mr. Lueth worked for GE Capital from 1998 to 2004 in a variety of roles, including chief financial officer and chief executive officer for the Taiwan operations, and the representative for China. Earlier, he served with Coopers & Lybrand as an auditor. Mr. Lueth obtained his certificate as a certified public accountant in 1991 and a certified management accountant in 1994. Mr. Lueth received his bachelor of science in accounting degree from the University of Minnesota and an MBA degree from the J.L. Kellogg School of Management.

*Dr. Mengbo Yin* has been our independent director since September 2008. He is currently a PhD advisor at Southwestern University of Finance and Economics in China, where he also serves as head of the university's postgraduate department. Previously, he was the dean of the university's school of finance from 1996 to 2007. Professor Yin received his master's and PhD degrees in finance from Southwestern University of Finance and Economics in China.

## **Employment Agreements**

Each of our executive officers has entered into an employment agreement with us. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the employee, including but not limited to a conviction or plea of guilty to a felony, negligence or dishonesty to our detriment, failure to perform the agreed-to duties after a reasonable opportunity to cure the failure and failure to achieve the performance measures specified in the employment agreement. An executive officer may terminate his employment at any time with one-month prior written notice if there is a material reduction in his authority, duties and responsibilities or in his annual salary before the next annual salary review. Furthermore, we may terminate an executive officer's employment at any time without cause upon two-month advance written notice. In the event of a termination without cause by us, we will provide the executive officer a lump-sum severance payment in the amount of RMB500,000, unless otherwise specifically required by applicable law.

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use, except as required in the performance of his duties in connection with the employment, any confidential information, trade secrets and know-how of our company or the confidential information of any third-party, including our affiliated entities and our subsidiaries, received by us. In addition, each executive officer has agreed to be bound by non-competition restrictions set forth in his employment agreement. Specifically, each executive officer has agreed not to, while employed by us and for one year following the termination or expiration of the employment agreement, (i) approach our clients, customers or contacts or other



persons or entities introduced to the executive officer for the purpose of doing business with such person or entities, and will not interfere with the business relationship between us and such persons and/or entities; (ii) assume employment with or provide services as a director for any of our competitors, or engage, whether as principal, partner or otherwise, in any business which is in direct or indirect competition with our business; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us at the date of the executive officer's termination, or in the year preceding such termination.

## B. Compensation

In 2011, the aggregate cash compensation, including reimbursement of expenses, to our executive officers was approximately RMB3.7 million (US\$0.6 million), and the aggregate cash compensation to our non-executive directors was approximately RMB1.4 million (US\$0.2 million).

## **Share Incentives**

### ***2007 Share Incentive Plan***

In August 2007, our board of directors and shareholders adopted our 2007 share incentive plan, which is intended to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. We reserved 68,421,053 ordinary shares, equal to 10% of our then outstanding ordinary shares, for issuance under our 2007 share incentive plan. At the annual general meeting of shareholders held on December 18, 2008, our shareholders approved certain amendments to the 2007 share incentive plan to, among other things, increase the maximum number of ordinary shares reserved for issuance to 136,874,658, equal to 15% of the total number of ordinary shares outstanding immediately after the closing of our initial public offering.

In October 2007, our board of directors voted to grant options under our 2007 share incentive plan to certain of our directors and employees to purchase an aggregate of 42,000,000 ordinary shares of our company at an exercise price of US\$0.8 per ordinary share, equal to the offering price per ADS in our initial public offering (after the adjustment for the 20 ordinary shares to 1 ADS ratio). These options were scheduled to vest over a three-year period starting from March 31, 2009. Options to purchase an aggregate of 30,804,500 ordinary shares of our company were cancelled as a result of voluntary surrender by various option holders in December 2008 options to purchase 8,834,900 ordinary shares were forfeited due to the termination of employment of the relevant option holders and options to purchase 2,360,600 ordinary shares were repurchased for RMB0.4 per option in cash.

On November 21, 2008, our board of directors approved the grant of options to purchase an aggregate of 32,000,000 ordinary shares to various directors, officers and employees pursuant to the 2007 share incentive plan. The exercise price of these options is US\$0.278 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Market at the grant date (after adjusting for the 20 ordinary shares to 1 ADS ratio). The options are scheduled to vest over a four-year period starting from March 31, 2010, subject to the achievement of certain key performance indicators by the option holders and their continued employment with us. Options to purchase 661,600 ordinary shares were forfeited due to a cessation of the option holders' employment.

On March 9, 2009, our board of directors voted to grant options to purchase an aggregate of 10,000,000 ordinary shares to employees under the amended and restated 2007 share incentive plan. The exercise price of these options is US\$0.336 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Select Market at the grant date (after adjusting for the 20 ordinary shares to 1 ADS ratio). These options are scheduled to vest over a four-year period starting from March 31, 2010, subject to the achievement of certain key performance indicators by the option holders and their continued employment with us. Options to purchase 1,108,810 ordinary shares were forfeited due to a cessation of the option holders' employment.

On February 8, 2010, our board of directors approved the grant of options to purchase an aggregate of 48,000,000 ordinary shares to various directors, officers and employees pursuant to the amended and restated 2007 Share Incentive Plan. The exercise price of these options is US\$0.8395 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Select Market at the grant date (after adjusting for the 20 ordinary shares to 1 ADS ratio). These options were scheduled to vest over a four-year period starting from March 31, 2011, subject to the achievement of certain key performance indicators by the option holders and their continued employment with the Company. Options to purchase 20,328,116 ordinary shares were forfeited due to a cessation of the option holders' employment and failure to fulfill certain key performance indicators by certain option holders during 2011. Options to purchase an aggregate of 27,671,884 ordinary shares were cancelled in November 2011.

On April 28, 2011, our board of directors approved the grant of options to purchase an aggregate of 28,400,000 ordinary shares to certain directors, officers and employees pursuant to the amended and restated 2007 Share Incentive Plan. The exercise price of these options is US\$0.734 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Select Market at the grant date (after adjusting for the 20 ordinary shares to one ADS ratio). These options were scheduled to vest over a four-year period starting from March 31, 2012, subject to the achievement of certain key performance indicators by the option holders and their continued employment with us. Options to purchase 11,425,400 ordinary shares were forfeited due to a cessation of the option holders' employment and failure to fulfill certain key performance indicators by certain option holders during 2011. Options to purchase an aggregate of 16,974,600 ordinary shares were cancelled in November 2011.

On March 12, 2012, our board of directors approved the grant of options to purchase an aggregate of 96,645,000 ordinary shares to certain directors, officers, key employees and sales agents, pursuant to the amended and restated 2007 Share Incentive Plan, at an exercise price of US\$0.30 per ordinary share. These options are scheduled to vest over a five-year period starting from May 31, 2012, subject to the achievement of certain key performance indicators by all option holders and their continued employment with us. As of the effective date of the option grant, outstanding and exercised options have reached 136,874,658, which is the maximum number of ordinary shares reserved for issuance under the 2007 Share Incentive Plan.

The following paragraphs describe the principal terms of our amended and restated 2007 share incentive plan as currently in effect.

*Types of Awards.* The types of awards we may grant under our 2007 plan include the following:

- options to purchase our ordinary shares;
- restricted shares, which represent non-transferable ordinary shares, that may be subject to forfeiture, restrictions on transferability and other restrictions; and
- restricted share units, which represent the right to receive our ordinary shares at a specified date in the future, which may be subject to forfeiture.

Awards may be designated in the form of ADSs instead of ordinary shares. If we designate an award in the form of ADSs, the number of shares issuable under the 2007 share incentive plan will be adjusted to reflect the ratio of ADSs to ordinary shares.

*Eligibility.* We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant options that are intended to qualify as incentive share options, or ISOs, only to our employees and employees of our majority-owned subsidiaries.

*Plan Administration.* The compensation committee of our board of directors, or a committee designated by the compensation committee, will administer the 2007 plan. However, awards made to our independent directors must be approved by the entire board of directors. The compensation committee or the full board of directors, as appropriate, will determine the individuals who will receive grants, the types of awards to be granted and terms and conditions of each award grant, including any vesting or forfeiture restrictions.

*Award Agreement.* Awards granted under our 2007 plan will be evidenced by an award agreement that will set forth the terms, conditions and limitations for each award. In addition, in the case of options, the award agreement may also specify whether the option constitutes an ISO or a non-qualifying share option.

*Acceleration of Awards upon Corporate Transactions.* The outstanding awards will accelerate upon occurrence of a change-of-control corporate transaction where the successor entity does not assume our outstanding awards under the 2007 plan. In such event, each outstanding award will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and any forfeiture provisions will terminate immediately before the date of the change-of-control transaction. If the successor entity assumes our outstanding awards and later terminates the grantee's service without cause within 12 months of the change-of-control transaction, the outstanding awards will automatically become fully vested and exercisable.

*Exercise Price and Term of Awards.* The exercise price per share subject to an option will be determined by the plan administrator and set forth in the award agreement which may be a fixed or variable price related to the fair market value of our ordinary shares; *provided, however*, that no options may be granted to an individual subject to taxation in the United States at less than the fair market value on the date of grant. To the extent not prohibited by applicable laws or any exchange rule, a downward adjustment of the exercise prices of any outstanding options may be made in the absolute discretion of the plan administrator and will be effective without the approval of our shareholders or the approval of the affected participants. If we grant an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The term of each award will be stated in the award agreement. The term of an award shall not exceed 10 years from the date of the grant, except that five years is maximum term of an ISO granted to an employee who holds more than 10% of the voting power of our share capital.

*Amendment and Termination.* Our board of directors may at any time amend, suspend or terminate the 2007 plan. Amendments to the 2007 plan are subject to shareholder approval to the extent required by law, or stock exchange rules or regulations. Additionally, shareholder approval will be specifically required to increase the number of shares available for issuance under the 2007 plan or to extend the term of an option beyond ten years. Unless terminated earlier, the 2007 plan will expire and no further awards may be granted after the tenth anniversary of the shareholder approval of the 2007 plan.

As of March 31, 2012, options to purchase 133,641,061 ordinary shares were outstanding. The following table summarizes, as of March 31, 2012, the outstanding options that we granted to our directors and executive officers and to other individuals as a group.

| Name                               | Options Outstanding    | Exercise Price (Per Ordinary Share) | Grant Date        | Expiration Date  |
|------------------------------------|------------------------|-------------------------------------|-------------------|------------------|
| Chunlin Wang.....                  | 4,000,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 2,050,000              | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Qiuping Lai .....                  | 4,000,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 3,400,000              | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Peng Ge.....                       | 4,000,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 3,350,000              | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Yinan Hu.....                      | 4,000,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 4,500,000              | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Yongwei Ma.....                    | 400,000                | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Mengbo Yin .....                   | 1,600,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 400,000                | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Stephen Markscheid.....            | 1,600,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 600,000                | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Allen Warren Lueth .....           | 1,600,000              | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 600,000                | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
| Other individuals as a group ..... | 75,845,000             | US\$0.3000                          | March 12, 2012    | March 12, 2022   |
|                                    | 7,598,550              | US\$0.3360                          | March 09, 2009    | March 31, 2015   |
|                                    | 13,444,880             | US\$0.2780                          | November 21, 2008 | March 31, 2015   |
|                                    | 652,631 <sup>(1)</sup> | RMB2.3214                           | February 03, 2007 | February 1, 2017 |

(1) Remaining unexercised options held by Mr. David Tang, our former Chief Financial Officer.

## C. Board Practices

### **Board of Directors**

Our board of directors consists of seven directors. Under our currently effective memorandum and articles of association, a director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. The directors may exercise all the powers of our company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of our company or of any third-party. The directors may receive such remuneration as our board of directors may determine from time to time. There is no age limit requirement for directors.

In compliance with Rule 5605 of the Nasdaq Listing Rules, a majority of our directors and all of the committee members of our board of directors are independent directors. During 2011, our board of directors met in person or passed resolutions by unanimous written consent ten times. In addition, our independent directors held executive sessions without the presence of executive directors and executives twice during 2011. We have no specific policy with respect to director attendance at our annual general meetings of shareholders.

### **Committees of the Board of Directors**

We have established three committees under the board of directors: the audit committee, the compensation committee and the corporate governance and nominating committee, and have adopted a charter for each of the committees. Each committee's members and functions are described below.

**Audit Committee.** Our audit committee consists of Allen Lueth (chairman), Stephen Markscheid and Mengbo Yin, all of whom satisfy the "independence" requirements of Rule 5605 of the Nasdaq Listing Rules and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management, the independent auditors and the internal auditor; and
- reporting regularly to the full board of directors.

In 2011, our audit committee held meetings or passed resolutions by unanimous written consent eight times.

**Compensation Committee.** Our compensation committee consists of Stephen Markscheid (chairman), Allen Lueth and Yongwei Ma, all of whom satisfy the "independence" requirements of Rule 5605 of the Nasdaq Listing Rules. Our compensation committee assists the board of directors in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and recommending to the board with respect to the total compensation package for our chief executive officer;
- approving and overseeing the total compensation package for our executives other than the chief executive officer;
- reviewing and making recommendations to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

In 2011, our compensation committee held meetings or passed resolutions by unanimous written consent five times.

***Corporate Governance and Nominating Committee.*** Our corporate governance and nominating committee consists of Mengbo Yin (chairman), Allen Lueth and Stephen Markscheid, all of whom satisfy the “independence” requirements of Rule 5605 of the Nasdaq Listing Rules. The corporate governance and nominating committee assists our board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, skills, experience and availability of service to us;
- identifying and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the corporate governance and nominating committee itself;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance, as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

In 2011, our corporate governance and nominating committee held meetings or passed resolutions by unanimous written consent three times.

### **Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty of loyalty to act honestly, in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association as amended and restated from time to time. In certain limited circumstances, it may be possible for our company to bring a derivative action on behalf of our company if a duty owed by the directors to our company is breached.

### **Terms of Directors and Executive Officers**

All directors hold office until their successors have been duly elected and qualified. Outside of certain specified circumstances, including a director becoming bankrupt or of unsound mind or being absent from board meetings without special leave of absence for six consecutive months, a director may only be removed by the shareholders. Officers are elected by and serve at the discretion of the board of directors. We do not have contracts in place with any of our directors providing for benefits upon termination of employment.

#### D. Employees

##### **Employees, Sales Agents and Training**

We had 3,408, 4,000 and 4,147 employees, which excluded the employees of Datong, as of December 31, 2009, 2010 and 2011, respectively. We consider our relations with our employees to be good. The following table sets forth the number of our employees by function as of December 31, 2011:

|   | <b>Number of<br/>Employees</b> | <b>% of Total</b> |
|---|--------------------------------|-------------------|
| Management and administrative staff ..... | 2,174                          | 52.4%             |
| Financial and accounting staff .....      | 388                            | 9.4%              |
| Sales and marketing staff .....           | 111                            | 2.7%              |
| Professional claims adjustors .....       | 1,474                          | 35.5%             |
| Total .....                               | <u>4,147</u>                   | <u>100.0%</u>     |

We had contractual relationships with 30,543, 37,849 and 46,026 sales agents, which excluded the sales agents of Datong, as of December 31, 2009, 2010 and 2011, respectively. The sales agents are not our employees and are only compensated by commissions. For the sale of each property and casualty insurance policy or life insurance policy with a single premium payment schedule, we pay the sales agent who has generated the sale a single commission based on a percentage of the commission and fee we receive from the insurance company for the sale of that policy. For the sale of each life insurance policy with a periodic premium payment schedule, we pay the sales agent who has generated the sale periodic commissions based on a percentage of the commissions and fees we receive from the insurance company for the sale and renewal of that policy, up to the first five years of the premium payment period, and retain all commissions and fees we continue to receive from insurance companies for the rest of the premium payment period.

Our life insurance sales agents are typically organized into sales teams with a multilevel hierarchy. A life insurance sales agent not only receives a commission for the insurance policies that he or she sells, but also a smaller commission for insurance policies sold by agents under his or her management.

Our sales agents, in-house sales representatives and claims adjustors are our most valuable asset and are instrumental in helping us build and maintain long-term relationships with our customers. Therefore, we place a strong emphasis on training of our sales force. We provide trainings to both new sales agents and existing sales agents, on a monthly or quarterly basis, with a different emphasis. For new sales agents, we offer orientation courses that are designed to familiarize them with the industry background, regulatory environment, corporate culture, insurance products, and sales skills. For the existing sales agents, we offer on-the-job training courses that aim to enhance their sales skills and knowledge of different insurance products.

#### E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares, as of March 31, 2012, by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.

As of March 31, 2012, there were 1,003,270,326 ordinary shares outstanding. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we include shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

|  | Ordinary Shares Beneficially Owned <sup>(1) (2)</sup> |      |
|--|---|------|
|  | Number  | %    |
| <b>Directors and Executive Officers:</b>                             |   |      |
| Chunlin Wang.....  | *   | *    |
| Qiuping Lai <sup>(3)</sup> .....                                     | 27,841,200  | 2.8  |
| Peng Ge <sup>(4)</sup> .....   | 10,119,340  | 1.0  |
| Yinan Hu <sup>(5)</sup> .....  | 186,798,110   | 18.6 |
| Shangzhi Wu <sup>(6)</sup> .....                                     | 165,963,980   | 16.5 |
| Yongwei Ma.....  | *   | *    |
| Stephen Markscheid.....  | *   | *    |
| Allen Warren Lueth .....   | *   | *    |
| Mengbo Yin .....   | *   | *    |
| All Directors and Executive Officers as a Group <sup>(7)</sup> ..... | 397,765,650   | 39.2 |
| <b>Principal Shareholders:</b>                                       |   |      |
| Sea Synergy Limited <sup>(8)</sup> .....                             | 183,198,110   | 18.3 |
| CDH Inservice Limited <sup>(6)</sup> .....                           | 165,963,980   | 16.5 |
| S. Donald Sussman <sup>(9)</sup> .....                               | 84,982,140  | 8.5  |
| Norges Bank (the Central Bank of Norway) <sup>(10)</sup> .....       | 78,300,000  | 7.8  |
| FMR LLC <sup>(11)</sup> .....  | 74,683,500  | 7.4  |
| Genesis Asset Managers, LLP <sup>(12)</sup> .....                    | 69,798,000  | 7.0  |

\* Less than 1% of our total outstanding ordinary shares.

† Except for Dr. Wu and Mr. Ma, the business address of our directors and executive officers is c/o 22/F, Yinhai Building, No. 299 Yanjiang Zhong Road, Guangzhou, Guangdong 510110, People's Republic of China.

- (1) The number of shares beneficially owned by each director and executive officer includes the shares beneficially owned by such person, the shares underlying all options held by such person that have vested or will vest within 60 days after March 31, 2012. The options were granted on November 21, 2008 under the 2007 share incentive plan.
- (2) Percentage of beneficial ownership of each director and executive officer is based on 1,003,270,326 ordinary shares outstanding as of March 31, 2012 and the number of ordinary shares underlying options held by such person that have vested or will vest within 60 days after March 31, 2012.
- (3) Includes 16,572,440 ordinary shares, 8,548,760 ordinary shares in the form of ADSs of our Company and 2,720,000 ordinary shares issuable upon exercise of options held by Mr. Lai who is the sole shareholder of High Rank Investments Limited, or High Rank Investments. High Rank Investments holds approximately 69.4% of the total outstanding shares of Kingsford Resources. Kingsford Resources holds 23,883,560 ordinary shares and 12,320,000 ordinary shares in the form of ADSs of our company. Mr. Lai disclaims beneficial ownership of all of our shares held by Kingsford Resources except to the extent of his pecuniary interest therein.
- (4) Mr. Ge holds approximately 67.3% of the total outstanding shares of Better Rise Investments which owns approximately 30.6% of Kingsford Resources. Therefore, Mr. Ge may be deemed to beneficially own, indirectly through Better Rise Investments and Kingsford Resources, approximately 4,907,800 ordinary shares and 2,531,540 ordinary shares in the form of ADSs of our company. 2,680,000 ordinary shares held by Mr. Ge are issuable upon exercise of options within 60 days after March 30, 2012. Mr. Ge disclaims beneficial ownership of all of our shares held by Kingsford Resources except to the extent of his pecuniary interest therein.
- (5) Includes 183,198,110 ordinary shares and 3,600,000 ordinary shares issuable upon exercise of options within 60 days after March 30, 2012 held by Mr. Hu. The 183,198,110 ordinary shares of our Company are directly held by Sea Synergy Limited, or Sea Synergy. Mr. Hu and his wife, Mrs. Hu, hold approximately 98.6% and 1.4% of the total outstanding shares, respectively, of Sea Synergy. Mr. Hu disclaims beneficial ownership of all of our shares held by Sea Synergy except to the extent of his pecuniary interest therein.
- (6) Includes 91,600,000 ordinary shares and 74,363,980 ordinary shares in the form of ADSs of our Company held by CDH Inservice, a British Virgin Islands company, as reported on Schedule 13D/A filed by CDH Inservice on November 22, 2011. All of the issued and outstanding shares of CDH Inservice are owned by CDH China Growth Capital Fund II, L.P., or CDH Fund II, a Cayman Islands exempted limited partnership. CDH Growth Capital Holdings, a Cayman Islands exempted limited liability company, is the general partner of CDH Fund II and has the power to direct CDH Fund II as to the voting and disposition of shares directly and indirectly held by CDH Fund II. Dr. Wu is director, managing partner and member of the investment committee of CDH Growth Capital Holdings. Dr. Wu disclaims beneficial ownership of all of our shares held by CDH Inservice except to the extent of his pecuniary interest therein. The business address of Dr. Wu is c/o CDH China Growth Capital Holdings Company Limited, One Temasek Avenue #18-02, Millenia Tower, Singapore 039192.

- (7) Includes ordinary shares beneficially owned by all of our directors and executive officers as a group and ordinary shares underlying all options held by such persons that have vested or will vest within 60 days after March 31, 2012.
- (8) The 183,198,110 ordinary shares of our Company are directly held by Sea Synergy. Mr. Hu and his wife, Mrs. Hu, hold approximately 98.6% and 1.4% of the total outstanding shares, respectively, of Sea Synergy. The registered address of Sea Synergy is P.O.Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (9) As reported on Schedule 13D/A filed by Cathay Capital Holdings II, L.P., or Cathay Capital, on February 27, 2012, the number includes 1) 1,400,000 ordinary shares in the form of ADS of our Company directly held by Mr. Sussman, 2) 20,382,920 ordinary shares in the form of ADS of our Company held by a grantor retained annuity trust, of which Mr. Sussman is a co-trustee, acquired through transfers of ordinary shares from Mr. Sussman to the grantor retained annuity trust, 3) 4,292,420 ordinary shares in the form of ADSs of our Company held by Caremi Partners Ltd., of which Mr. Sussman is the sole shareholder, 4) 31,352,540 ordinary shares in the form of ADS of our Company directly held collectively by Paloma International L.P., or PILP, Paloma Partners LLC, or Paloma Partners, and Paloma International Limited, or Paloma Limited. Mr. Sussman is Chairman and founder of Paloma Partners Management Company, or PPMC, and co-owns PPMC with certain of its senior employees. PILP is the master fund into which Paloma Limited and Paloma Partners invest substantially all of their capital. PPMC is the special member of Paloma Partners, provides advisory and non-advisory services to Paloma Limited and Paloma Partners based on a services agreement, and is a general partner of PILP and Sunrise., 5) 27,449,860 ordinary shares of in the form of ADS of our Company directly held by Cathay Capital. Mr. Sussman is the co-owner of Cathay Master GP, Ltd., the general partner of Cathay Capital. He is also the owner of New China Capital Management, LP, the investment manager for Cathay Capital, and 6) 104,400 ordinary shares in the form of ADS of our Company directly held by Cathay Investment Fund, Limited, or CIF. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 31, 2012. Mr. Sussman directly and/or indirectly owns 50% of New China Investment Management, Inc., the investment manager for CIF. The business address of Mr. Sussman is 6100 Red Hook Quarters, Suite C1-C6 St. Thomas, United Virgin Islands 00802-1348.
- (10) Represents 78,300,000 ordinary shares in the form of ADSs of our Company held by Norges Bank, as reported on Schedule 13F-HR/A filed by Norges Bank on March 21, 2012. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 31, 2012. The address of Norges Bank is Bankplassen 2, PO Box 1179 Sentrum, NO 0107 Oslo, Norway.
- (11) Represents 74,683,500 ordinary shares in the form of ADSs of our Company held by FMR LLC, as reported on Schedule 13G/A filed by FRM LLC on February 14, 2012. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 31, 2012. The address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts, USA.
- (12) Represents 69,798,000 ordinary shares in the form of ADSs of our Company held by Genesis Asset Managers as of December 31, 2011, as reported on Schedule 13G filed by Genesis Asset Managers on February 7, 2012. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 31, 2012. The address of Genesis Asset Managers is Heritage Hall, Le Marchant Street, St. Peter Port, Guernsey GY1 4HY, Channel Islands.

None of our existing shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. As of March 31, 2012, J.P. Morgan Chase Bank, N.A., or J.P. Morgan, the depositary for our ADS program, is our only record holder in the U.S., holding approximately 70.1% of our total outstanding ordinary shares. The number of beneficial owners of our ADSs in the United States is likely much larger than the number of record holders of our ordinary shares in the United States.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

Please refer to “Item 6. Directors, Senior Management and Employees — E. Share Ownership.”

### **B. Related Party Transactions**

#### **Amounts Due from Affiliates**

The Group agreed to grant a maximum loan of US\$50 million (equivalent to RMB315.0 million) to Sincere Fame pursuant to a facility letter entered in October 2011. This facility is valid for two years and can be renewed upon mutual agreement. As of December 31, 2011, amount due from an affiliate represented RMB351.8 million (US\$55.9 million) principal receivable and RMB1.3 (US\$0.2 million) interest receivable due from subsidiaries of Sincere Fame, of which RMB315.0 million was granted under the facility. This amount is unsecured, bears interest at 7.3% and is repayable within one year.

US\$2.0 million was advanced by subsidiaries of Sincere Fame to a shareholder of the Company. Such loan was granted at an interest rate of 0.02% per day, unsecured and fully settled subsequent to year ended December 31, 2011.

As of December 31, 2011, amount due from an affiliate represented RMB353.1 million (US\$56.1 million) receivable from Sincere Fame, including RMB351.8 million (US\$55.9 million) loan principle and RMB1.3 million (US\$0.2 million) interest.



## **Amounts Due from/to Noncontrolling Shareholders**

Amounts due from noncontrolling interests were unsecured, interest free and repayable on demand. As of December 31, 2011, the amounts were RMB12.5 million (US\$2.0 million), representing acquisition consideration refund receivables from the selling shareholder of certain acquired subsidiaries, which failed to meet their performance targets according to acquisition agreements.

Amounts due to noncontrolling interests as at December 31, 2011 was RMB20.3 million (US\$3.2 million), representing the consideration payable to selling shareholders for the acquisition of additional equity interest in previously acquired entities.

## **Contractual Arrangements with Meidiya Investment, Yihe Investment, Xinbao Investment, Their Shareholders and Their Subsidiaries**

PRC laws and regulations restrict foreign investment in and ownership of insurance agencies and brokerages. We conduct our operations in China principally through contractual arrangements among our PRC subsidiaries, three affiliated entities in China, Meidiya Investment, Yihe Investment and Xinbao Investment, the shareholders and the subsidiaries of Meidiya Investment, Yihe Investment and Xinbao Investment. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

## **Shareholders Agreement**

Upon completion of our restructuring in July 2007, we and our then existing shareholders entered into a new shareholders agreement, which replaced a shareholders agreement entered into in December 2005. Among other things, the shareholders agreement grants certain of our shareholders customary registration rights, including demand and piggyback registration rights and Form F-3 registration rights. Other than the provisions relating to registration rights, the new shareholders agreement terminated upon the completion of our initial public offering.

## **Employment Agreements**

See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Employment Agreements” for a description of the employment agreements we have entered into with our senior executive officers.

## **Share Options**

Please refer to “Item 6. Directors, Senior Management and Employees—B. Compensation.”

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See “Item 18. Financial Statements.”

## **Legal Proceedings**

On October 17, 2011, Pieter Van Dongen, individually and on behalf of an alleged class of similarly situated holders of our ADSs, filed a class action lawsuit in the United States District Court for the Southern District of New York against us and three of our then executive officers. The complaint alleges that we made a series of false or misleading statements or omissions regarding our business, prospects and operations. The complaint principally alleges that we improperly accounted for the compensation that we paid to our insurance agents, thereby understating our expenses and overstating our net income. We believe we have meritorious defenses to the claims alleged and intend to defend against the lawsuit vigorously. However, there can be no assurance that we will prevail in any such litigation and any adverse outcome of this case could have a material adverse effect on our business or results of operations.

Except as disclosed above, we are not currently a party to any material legal proceeding. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

## **Dividend Policy**

On April 23, 2010, our board of directors approved a cash dividend of US\$0.013 per ordinary share, equivalent to US\$0.26 per ADS, which amounted to a total payment of US\$11,862,469.85. The cash dividend was paid on or around June 10, 2010 to shareholders of record as of the close of business on May 20, 2010.

On May 21, 2009, our board of directors approved a cash dividend of US\$0.011 per ordinary share, equivalent to US\$0.22 per ADS, which amounted to a total payment of US\$10,037,475. The cash dividend was distributed on or around July 15, 2009 to shareholders of record as of the close of business on June 26, 2009.

Our board of directors has full discretion as to whether to distribute dividends. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Any dividend we declare will be distributed by the depositary bank to the holders of our ADSs. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China to fund our payment of dividends, if any, to our shareholders. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund certain statutory reserves. These reserves may not be distributed as cash dividends. Further, if our subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Furthermore, there are still uncertainties under the new PRC EIT law and the related regulations regarding whether the dividends we receive from our PRC subsidiaries or dividends paid to our shareholders will be subject to PRC withholding tax. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our global income or the dividends we receive from our PRC subsidiaries may be subject to PRC tax under the EIT Law, which could have a material adverse effect on our results of operations.” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the EIT Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation.”

## **B. Significant Changes**

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **Item 9. The Offer and Listing**

### **A. Offer and Listing Details**

The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Select Market since January 2, 2009 (and Nasdaq Global Market from October 31, 2007 to January 1, 2009) for the periods indicated.

|                                    | Sales Price |       |
|------------------------------------|-------------|-------|
|                                    | High        | Low   |
|                                    | US\$        | US\$  |
| <b>Annual High and Low</b>         |             |       |
| 2007 (from October 31) .....       | 28.74       | 12.00 |
| 2008.....                          | 16.63       | 5.44  |
| 2009.....                          | 24.74       | 6.26  |
| 2010.....                          | 28.62       | 15.33 |
| 2011.....                          | 20.88       | 5.28  |
| <b>Quarterly Highs and Lows</b>    |             |       |
| First Quarter of 2010 .....        | 27.46       | 16.49 |
| Second Quarter of 2010.....        | 28.62       | 20.25 |
| Third Quarter of 2010.....         | 27.67       | 20.13 |
| Fourth Quarter of 2010 .....       | 26.74       | 15.33 |
| First Quarter of 2011 .....        | 20.88       | 11.42 |
| Second Quarter of 2011 .....       | 17.69       | 12.40 |
| Third Quarter of 2011.....         | 15.77       | 5.81  |
| Fourth Quarter of 2011 .....       | 8.52        | 5.28  |
| First Quarter of 2012 .....        | 9.02        | 5.90  |
| <b>Monthly Highs and Lows</b>      |             |       |
| October 2011.....                  | 8.50        | 5.89  |
| November 2011.....                 | 8.52        | 5.28  |
| December 2011 .....                | 7.20        | 6.13  |
| January 2012.....                  | 9.02        | 6.62  |
| February 2012.....                 | 8.97        | 7.21  |
| March 2012.....                    | 7.45        | 5.90  |
| April 2012 (through April 20)..... | 6.37        | 5.40  |

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing 20 ordinary shares, have been listed on the Nasdaq Global Select Market since January 2, 2009 under the symbol “CISG.” From October 31, 2007 until January 1, 2009, our ADSs were listed on the Nasdaq Global Market.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

**Item 10. Additional Information**

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our amended and restated memorandum and articles of association, including certain amendments adopted by our shareholders at the annual general meeting of shareholders held on December 18, 2008, as well as the Companies Law (2011 Revision) insofar as they relate to the material terms of our ordinary shares.

**Registered Office and Objects**

The registered office of our company is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2011 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.

**Board of Directors**

See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Board of Directors.”

**Ordinary Shares**

**General.** Our authorized share capital consists of 10,000,000,000 shares, with a par value of US\$0.001 each. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

**Dividend Rights.** The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

**Voting Rights.** On a show of hands, each shareholder present in person or by proxy (or, for a corporation or other non-natural person, present by its duly authorized representative or proxy) at general meeting shall have one vote and on a poll, shall have one vote for each share registered in his name in the register of members of the Company. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of the meeting or by any one or more shareholders together holding at least ten percent of our paid up voting share capital, present in person or by proxy.

A quorum required for a meeting of shareholders consists of shareholders holding in aggregate not less than one-third of our issued voting share capital present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. We may, but are not obliged, to hold an annual general meeting of shareholders. General meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate not less than one-third of our voting share capital. Advance notice of at least 14 days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast in a general meeting. A special resolution is required for important matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including consolidating and dividing all or any of our share capital into shares of larger amount than our existing shares, and canceling any shares which have not been taken or agreed

to be taken.

**Transfer of Shares.** Subject to the restrictions of our articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

**Liquidation.** On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares may be distributed among the holders of the ordinary shares as determined by the liquidator, subject to sanction of an ordinary resolution of our company.

**Calls on Shares and Forfeiture of Shares.** Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

**Redemption and Repurchase of Shares.** Subject to the provisions of the Companies Law and our articles of association, we may issue shares on terms that they are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as we may determine before the issue of such shares. We also may purchase our own shares, provided that our shareholders have approved the manner of purchase by ordinary resolution or the manner of purchase is in accordance with that specified in our articles of association. The manner of purchase specified in our articles of association, which cover purchases of shares listed on an internationally recognized stock exchange and shares not so listed, is in accordance with Section 37(2) of the Companies Law or any modification or reenactment thereof for the time being in force.

**Variations of Rights of Shares.** All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

**Inspection of Books and Records.** Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we make our annual reports, which contain our audited financial statements, available to our shareholders. See “Item 10. Additional Information—H. Documents on Display.”

#### C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

#### D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Exchange.”

#### E. Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

### **Cayman Islands Taxation**

According to Maples and Calder, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. No Cayman Islands stamp duty will be payable unless an instrument is executed in, or brought within the jurisdiction of the Cayman Islands, or produced before a court of the Cayman Islands. The

Cayman Islands is not party to any double tax treaties that are applicable to any payment made to or by our Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

## **PRC Taxation**

Under the former PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, any dividends payable by foreign-invested enterprises to non-PRC investors were exempt from any PRC withholding tax. In addition, any interest or dividends payable, or distributions made, by us to holders or beneficial owners of our ADSs or ordinary shares would not have been subject to any PRC tax, provided that such holders or beneficial owners, including individuals and enterprises, were not deemed to be PRC residents under the PRC tax law and had not become subject to PRC tax.

Under the EIT Law, which took effect as of January 1, 2008, enterprises established under the laws of non-PRC jurisdictions but whose “de facto management body” is located in China are considered “resident enterprises” for PRC tax purposes. Under the implementation regulations issued by the State Council relating to the new law, “de facto management bodies” are defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management are currently based in China, and may remain in China in the future. If we were treated as a “resident enterprise” for PRC tax purposes, we would be subject to PRC income tax on our worldwide income at a uniform tax rate of 25%, but dividends received by us from our PRC subsidiaries may be exempt from the income tax.

Under the new law and its implementation regulations, dividends paid to a non-PRC investor are generally subject to a 10% PRC withholding tax, if such dividends are derived from sources within China and the non-PRC investor is considered to be a non-resident enterprise without any establishment or place of business within China or if the dividends paid have no connection with the non-PRC investor’s establishment or place of business within China, unless such tax is eliminated or reduced under an applicable tax treaty. Similarly, any gain realized on the transfer of ADSs or shares by such investor is also subject to a 10% PRC withholding tax if such gain is regarded as income derived from sources within China, unless such tax is eliminated or reduced under an applicable tax treaty. Pursuant to the Double Taxation Arrangement, which became effective on January 1, 2007, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary Inscom HK Limited, in which we indirectly hold a 65.1% equity interest, may be subject to a withholding tax at a rate of 5%.

If we were considered a PRC “resident enterprise,” it is possible that the dividends we pay with respect to our ADSs or ordinary shares, or the gain you may realize from the transfer of our ADSs or ordinary shares, would be treated as income derived from sources within China and be subject to the 10% PRC withholding tax.

## **United States Federal Income Taxation**

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) under current law of an investment in our ADSs or ordinary shares. This discussion applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets (generally, property held for investment) and have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- tax-exempt entities;

- persons liable for alternative minimum tax;
- U.S. expatriates;
- regulated investment companies or real estate investment trusts;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee stock options or otherwise as compensation;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock; or
- partnerships or other pass-through entities, or persons holding ADSs or ordinary shares through such entities.

In addition, the discussion below does not describe any tax consequences arising out of the recently enacted Medicare tax on certain “net investment income.”

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ADSs OR ORDINARY SHARES.**

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of our ADSs or ordinary shares and you are, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (i) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions; or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) that holds our ADSs or ordinary shares, your tax treatment will generally depend on your status and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms. If you hold our ADSs, you should be treated as the beneficial owner of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that U.S. holders of ADSs may be claiming foreign tax credits in situations where an intermediary in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS has taken actions inconsistent with the ownership of the underlying security by the person claiming the credit. Such actions (for example, a pre-release of an ADS by a depositary) may also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. holders of ADSs, including individual U.S. holders (discussed below). Accordingly, the availability of foreign tax credits or the reduced tax rate for dividends received by certain non-corporate U.S. Holders, including individual U.S. Holders, could be affected by actions taken by the U.S. Treasury or the depositary.

#### ***Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares***

Subject to the passive foreign investment company rules discussed below, the gross amount of any distributions we make to you with respect to our ADSs or ordinary shares (including the amount of any taxes withheld therefrom) will generally be included in your gross income as dividend income on the date of actual or constructive receipt by the depositary, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), such excess amount will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and then, to the extent such excess amount exceeds your tax basis, as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend even if that distribution would otherwise be reported as a non-taxable return of capital or as capital gain under the rules described above. Any dividends we pay will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, for taxable years beginning before January 1, 2013, dividends generally will be “qualified dividend income” that is taxed at the lower applicable capital gains rate, provided certain conditions are satisfied, including (1) our ADSs or ordinary shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a passive foreign investment company nor treated as such with respect to you for our taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period and other requirements are met. Based on U.S. Treasury guidance, we expect the ADSs will be considered readily tradable on an established securities market in the United States for purposes of clause (1) above so long as they remain listed on the Nasdaq Global Select Market. If we are deemed to be a “resident enterprise” under PRC tax law (see “Item 10. Additional Information—E. Taxation—PRC Taxation”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for any dividends paid with respect to the ADSs or ordinary shares and any possible change in law relating to the availability of such lower rate for dividends paid by us.

Dividends we pay generally will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will generally be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, any dividends distributed by us with respect to our ADSs or ordinary shares will be “passive category income” or, in the case of certain U.S. Holders, “general category income.” In addition, if PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares (see “Item 10. Additional Information—E. Taxation—PRC Taxation”), subject to certain conditions and limitations, such PRC withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances, as well as the effects of any change in applicable law after the date of this annual report.

### ***Taxation of Disposition of the ADSs or Ordinary Shares***

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized (in U.S. dollars) for the ADS or ordinary share and your tax basis (in U.S. dollars) in the ADS or ordinary share. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss you recognize on a disposition of our ADSs or ordinary shares will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are deemed to be a “resident enterprise” under PRC tax law and PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares (see “Item 10. Additional Information—E. Taxation—PRC Taxation”), a U.S. Holder that is eligible for the benefits of the treaty may elect to treat such gain as PRC source income. You should consult your tax advisors regarding the proper treatment of gain or loss in your particular circumstances.

### ***Passive Foreign Investment Company***



Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we believe we were a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2011. A non-U.S. corporation will be a PFIC for any taxable year if either:

- at least 75% of its gross income for such year is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”).

For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. In applying this rule, however, it is not clear whether the contractual arrangements between us and our affiliated entities will be treated as ownership of stock.

We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. The composition of our income and assets will be affected by how, and how quickly, we use the cash we generate from our operations and raise in any offering. Because the value of our assets for purposes of the asset test will generally be determined by reference to the market price of our ADSs or ordinary shares, fluctuations in the market price of the ADSs or ordinary shares may cause us to become a PFIC. If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, we will generally continue to be treated as a PFIC with respect to you for all succeeding years during which you hold the ADSs or ordinary shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the rules described in the following two paragraphs. After the deemed sale election, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC. **You are strongly urged to consult your tax advisors as to the possibility and consequences of making a deemed sale election if we cease to be a PFIC and such election becomes available to you.**

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” you receive and any gain you recognize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or recognized gain will be allocated ratably over your holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) from a sale or other disposition of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you will be deemed to own shares in such lower-tier PFICs directly or indirectly owned by us in the proportion that the value of the ADSs or ordinary shares you own bears to the value of all of our ADSs and ordinary shares, and you may be subject to the rules described in the preceding two paragraphs with respect to the shares of such lower-tier PFICs that you would be deemed to own. It is likely that one or more of our subsidiaries were PFICs for the taxable year ended December 31, 2011. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of “marketable stock” (as defined below) of a PFIC may make a mark-to-market election for such stock to elect out of the PFIC rules described above regarding excess distributions and recognized gains. If you make a mark-to-market election for our ADSs or ordinary shares, you will include in income for each year that we are a PFIC an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares you hold as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as any gain from the actual sale or other disposition of the ADSs or ordinary shares, will be treated as ordinary income. Ordinary loss treatment will apply to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss from the actual sale or other disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, any distributions we make would generally be subject to the tax rules discussed above under “—Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares,” except the lower capital gains rate applicable to qualified dividend income would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in greater than *de minimis* quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our ADSs are listed on the Nasdaq Global Select Market, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs continue to be listed on the Nasdaq Global Select Market and are regularly traded, and you are a holder of ADSs, we expect the mark-to-market election would be available to you if we become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules described above regarding excess distributions and recognized gains with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

Alternatively, a U.S. Holder of stock of a PFIC may make a “qualified electing fund” election with respect to such corporation to elect out of the PFIC rules described above regarding excess distributions and recognized gains. A U.S. Holder that makes a valid qualified electing fund election with respect to a PFIC will generally include in income for a taxable year such holder’s *pro rata* share of the corporation’s income for the taxable year. However, the qualified electing fund election is available only if the PFIC provides such U.S. Holder with certain tax information as required under applicable U.S. Treasury regulations. We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

Unless otherwise provided by the U.S. Treasury, each U.S. shareholder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. If we are a PFIC (as we believe we were for 2011), you should consult your tax advisors regarding any reporting requirements that may apply to you.

**YOU ARE STRONGLY URGED TO CONSULT YOUR TAX ADVISORS REGARDING THE IMPACT OF OUR BEING A PFIC FOR 2011 ON YOUR INVESTMENT IN OUR ADSs AND ORDINARY SHARES AS WELL AS THE APPLICATION OF THE PFIC RULES AND THE ELECTIONS DISCUSSED ABOVE.**

#### ***Information Reporting and Backup Withholding***

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or other disposition of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding, unless the conditions of an applicable exception are satisfied. Backup withholding will not apply to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification on Internal Revenue Service Form W-9 or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. Certain individuals holding the ADSs or ordinary shares other than in an account at certain financial institutions may be subject to additional information reporting requirements.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the

backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

For taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals to report information relating to an interest in our ADSs or ordinary shares, subject to certain exceptions (including an exception for ADSs or ordinary shares held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of the ADSs or ordinary shares.

U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC a registration statement on Form F-1 (File No. 333-146605) and a prospectus under the Securities Act with respect to the ordinary shares represented by the ADSs. We also filed with the SEC a related registration statement on Form F-6 (File Number 333-146765) with respect to the ADSs.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. All documents filed by us with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We intend to furnish J.P. Morgan, the depository of our ADSs, with all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

In accordance with Rule 5250(d) of the Nasdaq Listing Rules, we will post this annual report on Form 20-F on our website at <http://www.corpasia.net/us/CISG/irwebsite/index.php?mod=filings>. In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

For a list of our subsidiaries as of March 31, 2012, see Exhibit 8.1 to this annual report.

## **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

### **Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest income generated by bank deposits and short-term, highly-liquid investments with original maturities of 90 days or less. Interest-earning instruments carry a degree of interest rate risk, and our future interest income may be lower than expected. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. We have not used any derivative financial instruments to manage our interest risk exposure. As of December 31, 2011, we had no short-term or long-term bank borrowings. If we borrow money in future periods, we may be exposed to additional interest rate risk.

### **Foreign Exchange Risk**

Substantially all of our revenues and expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars resulting from a private placement completed in December 2005 and proceeds from our initial public offering and a follow-on offering completed in July 2010. We have not hedged exposures denominated in foreign currencies using any derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the current policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately more than 24% appreciation of the RMB against the U.S. dollar over the following six years. To the extent that we need to convert our U.S. dollar or other currencies-denominated assets into RMB for our operations, appreciation of the RMB against the U.S. dollar or other currencies would have an adverse effect on the RMB amount we receive from the conversion. We had U.S. dollar-denominated financial assets amounting to US\$18.1 million and HK dollar-denominated financial assets amounting to HK\$162.3 million as of December 31, 2011. A 10% appreciation of the RMB against the U.S. dollar and HK dollar would have resulted in a decrease of RMB24.6 million (US\$3.9 million) in the value of our U.S. dollar-denominated and HK dollar-denominated financial assets. Conversely, if we decide to convert our RMB denominated cash amounts into U.S. dollars amounts or other currencies amounts for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar or other currencies against the RMB would have a negative effect on the U.S. dollar or other currencies amount available to us.

## **Item 12. Description of Securities Other than Equity Securities**

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other Securities**

Not applicable.

### **D. American Depositary Shares**

#### **D.3 Fees Payable by ADS Holders**

We have appointed J.P. Morgan as our depository. A copy of our Form of Deposit Agreement with J.P. Morgan was filed with the SEC as an exhibit to our Form F-6 registration statement initially filed on October 17,

2007, or the Deposit Agreement. Pursuant to the Deposit Agreement, holders of our ADSs may have to pay to J.P. Morgan, either directly or indirectly, fees or charges up to the amounts set forth in the table below.

| Category  | Depository Actions   | Associated Fees   |
|---|--|---|
| (a) Depositing or substituting the underlying shares                            | Each person to whom ADRs are issued against deposits of shares, including deposits and issuances in respect of: <ul style="list-style-type: none"> <li>• Share distributions, stock split, rights, merger</li> <li>• Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the Deposited Securities</li> </ul>  | US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered   |
| (b) Receiving or distributing dividends   | Distribution of dividends  | US\$0.02 or less per ADS  |
| (c) Selling or exercising rights  | Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities   | US\$5.00 for each 100 ADSs (or portion thereof)   |
| (d) Withdrawing an underlying security  | Acceptance of ADRs surrendered for withdrawal of deposited securities  | US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered   |
| (e) Transferring, splitting or grouping receipts                                | Transfers, combining or grouping of depository receipts  | US\$1.50 per ADS  |
| (f) General depository services, particularly those charged on an annual basis. | <ul style="list-style-type: none"> <li>• Other services performed by the depository in administering the ADRs</li> <li>• Provide information about the depository's right, if any, to collect fees and charges by offsetting them against dividends received and deposited securities</li> </ul>   | US\$0.02 per ADS (or portion thereof) not more than once each calendar year and payable at the sole discretion of the depository by billing Holders or by deducting such charge from one or more cash dividends or other cash distributions |
| (g) Expenses of the depository  | <ul style="list-style-type: none"> <li>Expenses incurred on behalf of Holders in connection with</li> <li>• Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment</li> <li>• The depository's or its custodian's compliance with applicable law, rule or regulation</li> <li>• Stock transfer or other taxes and other governmental charges</li> <li>• Cable, telex, facsimile transmission/delivery</li> <li>• Expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency)</li> <li>• Any other charge payable by depository or its agents</li> </ul> | Expenses payable at the sole discretion of the depository by billing Holders or by deducting charges from one or more cash dividends or other cash distributions  |

#### **D.4. Payment from the Depository**

##### ***Direct Payments***

J.P. Morgan, as depository, has agreed to reimburse certain reasonable company expenses related to our ADR program and incurred by us in connection with the program. For the years ended December 31, 2010 and 2011, the depository reimbursed US\$0.9 million and US\$0.5 million, respectively. For the year 2011, the depository reimbursement has been deducted US\$0.2 million withholding income tax. The amounts the depository reimbursed are not perforce related to the fees collected by the depository from ADR holders. The table below sets forth the types of expenses that J.P. Morgan has agreed to reimburse and the amounts reimbursed for the year ended December 31, 2010 and 2011.

|   | <b>For the Year Ended December 31,</b> |              |
|---|--|--------------|
|   | <b>2010</b>                            | <b>2011</b>  |
|   | <b>(in thousands of US\$)</b>          |              |
| Investor relations <sup>(1)</sup> .....   | 243.7                                  | 163.2        |
| Directors and officers liability insurance .....  | 96.9                                   | 62.5         |
| Legal fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements ..... | 172.5                                  | 181.6        |
| Broker reimbursements <sup>(2)</sup> .....  | —                                      | —            |
| Listing fees .....  | 42.5                                   | 26.3         |
| Advertising and public relations .....  | —                                      | —            |
| Consulting services fee in connection with SOX Compliance .....   | 330.0                                  | —            |
| Others.....   | 42.7                                   | 32.9         |
|   | <b>928.3</b>                           | <b>466.5</b> |

(1) Includes expenses in relation with roadshows, press release distribution, maintenance of investor relations website and printing.

(2) Broker reimbursements are fees payable to proxy agents and other service providers for the distribution of proxy materials to beneficial ADR holders.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

#### **A. – D. Material Modifications to the Rights of Security Holders**

None.

#### **E. Use of Proceeds**

Our registration statement on Form F-1 (File No. 333-146605) for our initial public offering was declared effective by the SEC on October 30, 2007. On November 5, 2007, we completed our initial public offering after all of the registered securities were sold. Morgan Stanley was the managing underwriter for the offering.

We received net proceeds of approximately US\$163.7 million from our initial public offering. From October 30, 2007, the effective date of our registration statement on Form F-1 for the offering, to December 31, 2011, we used our net proceeds as follows:

- approximately US\$3.0 million to fund establishment of new insurance intermediary companies;
- approximately US\$151.1 million to fund acquisitions; and
- approximately US\$9.6 million to construct our operating platform.

On July 14, 2010, we completed a follow-on public offering of 4,600,000 ADSs, each representing 20 ordinary shares. The ordinary shares underlying the ADSs offered and sold were registered pursuant to our automatic shelf registration statement on Form F-3 (File No. 333-168009) filed with the SEC on July 7, 2010. Morgan Stanley and BofA Merrill Lynch acted as joint bookrunners of this offering. We received net proceeds of approximately US\$109.7 million. As of December 31, 2011, we used the net proceeds as follows:

- approximately US\$1.8 million to fund development of an e-commerce insurance platform;
- approximately US\$28.4 million to fund acquisitions, including Datong;

- approximately US\$0.8 million to fund development of wealth management business.

None of the net proceeds from our initial public offering and the follow-on offering were paid directly or indirectly to directors or officers of our company or their associates, persons owning 10% or more of our equity securities or our affiliates.

## **Item 15. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of December 31, 2011, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

### **Attestation Report of the Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of CNinsure Inc.:

We have audited the internal control over financial reporting of CNinsure Inc. its subsidiaries and variable interest entities (collectively, the "Group") as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding

the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011 of the Group, and our report dated April 24, 2012 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/Deloitte Touche Tohmatsu  
Deloitte Touche Tohmatsu  
Hong Kong  
April 24, 2012

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of 17 CFR 240.13a-15 that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Allen Lueth, an independent director (under the standards set forth in Rule 5605 of the Nasdaq Listing Rules and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

### **Item 16B. Code of Ethics**

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees. We have posted a copy of our code of business conduct and ethics on our investor relations website at <http://www.corpasia.net/us/CISG/irwebsite/index.php?mod=engovern>.

### **Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu, our independent registered public accounting firm, for the periods indicated.



|   | For the Year Ended December 31, |       |
|---|---------------------------------|-------|
|   | 2010                            | 2011  |
|   | (in thousands of US\$)          |       |
| Audit fees <sup>(1)</sup> .....         | 1,962                           | 1,431 |
| Audit-related fees <sup>(2)</sup> ..... | 100                             | —     |
| Tax fees <sup>(3)</sup> .....           | 48                              | —     |

- (1) “Audit fees” meant the aggregate fees billed in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements and review of quarterly financial statements included in our reports on Form 6-K, services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.
- (2) “Audit-related fees” meant the aggregate fees billed in each of the fiscal years listed for assurance and related services by our independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.” The fee billed in 2010 comprised US\$100,000 for review of F-3 registration statement for the follow-on offering.
- (3) “Tax fees” meant the aggregate fees billed in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning. The fees billed in 2010 represented tax consultant fees for transfer pricing.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

#### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

#### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In November and December 2008, our board of directors and shareholders respectively approved a share repurchase plan, pursuant to which we were authorized to repurchase up to US\$20 million of our ordinary shares represented by ADSs by the end of 2009. No equity securities of our company were purchased by or on behalf of our company or any “affiliated purchaser” (as such term is defined in Rule 10b-18 under the Exchange Act) of our company in the year ended December 31, 2009.

In December 3, 2010, our board of directors approved another share repurchase plan, pursuant to which we were authorized to repurchase up to US\$100 million of our ordinary shares represented by ADSs by June 30, 2011. As of June 30, 2011, we had repurchased 486,370 ADSs, equivalent to 9,727,400 ordinary shares, for an aggregate price of approximately US\$7.7 million on the open market.

As of December, 2011, the management of CNinsure had repurchased 50,000 ADS for an aggregate price of approximately US\$0.3 million on the open market.

#### **Item 16F. Change in Registrant’s Certifying Accountant**

Not applicable.

#### **Item 16G. Corporate Governance**

NASDAQ Stock Market Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer’s fiscal year-end. However, NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters. Maples and Calder, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2009 and 2010. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders’ approvals.

Other than the annual meeting practice described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under NASDAQ Stock Market Rules.

### **PART III**

#### **Item 17. Financial Statements**

We have elected to provide financial statements pursuant to Item 18.

#### **Item 18. Financial Statements**

The consolidated financial statements of CNinsure Inc. and its subsidiaries are included at the end of this annual report.

#### **Item 19. Exhibits**

| <b>Exhibit Number</b> | <b>Description of Document</b>   |
|-----------------------|--|
| 1.1                   | Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 1.2                   | Amendments to the Articles of Association adopted by the shareholders of the Registrant on December 18, 2008 (incorporated by reference to Exhibit 99.2 of our report on Form 6-K furnished to the Commission on December 22, 2008)  |
| 2.1                   | Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 2.2                   | Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 2.3                   | Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 4.1                   | 2007 Share Incentive Plan (as amended and restated effective December 18, 2008) (incorporated by reference to Exhibit 99.3 of our report on Form 6-K furnished to the Commission on December 22, 2008)   |
| 4.2                   | Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.3 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 4.3                   | Form of Director Agreement with Independent Directors of the Registrant (incorporated by reference to Exhibit 10.4 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)   |
| 4.4                   | Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 4.4 of our annual report on Form 20-F filed with the Commission on May 15, 2009)  |
| 4.5                   | English translation of Form of Loan Agreement between Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (previously known as Yiqiman Enterprise Management Consulting (Shenzhen) Co., Ltd.) and each shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) (incorporated by reference to Exhibit 10.6 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007) |

| <b>Exhibit Number</b> | <b>Description of Document</b>   |
|-----------------------|--|
| 4.6                   | English translation of Form of Equity Pledge Agreement among Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd., each shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) and Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) (incorporated by reference to Exhibit 10.7 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)                           |
| 4.7                   | English translation of Form of Irrevocable Power of Attorney issued by each shareholder of Guangdong Meidiya Investment Co., Ltd. and Sichuan Yihe Investment Co., Ltd. (incorporated by reference to Exhibit 10.8 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)   |
| 4.8                   | English translation of Form of Exclusive Purchase Option Agreement among Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd., each shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.), and Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) (incorporated by reference to Exhibit 10.9 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)              |
| 4.9                   | English translation of Form of Employment Agreement between an acquired company and its founder (incorporated by reference to Exhibit 10.13 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 4.10                  | English translation of Form of Credit and Liability Transfer Agreement among a former shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.), Mr. Peng Ge and Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.13 of our annual report on Form 20-F filed with the Commission on May 15, 2009)  |
| 4.11                  | Supplemental Subscription and Share Purchase and Shareholders Agreement relating to Inscom Holdings Limited dated April 27, 2011 among InsCom HK Limited, InsCom Group Limited, InsCom Holdings Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited, CISG Holdings Ltd. and Subscription and Shares Purchase and Shareholders Agreement dated July 29, 2010 among the same parties (incorporated by reference to Exhibit 4.18 of our annual report on Form 20-F filed with the Commission on May 4, 2011) |
| 4.12                  | Deed of Adherence relating to InsCom Holdings Limited dated October 29, 2010 among InsCom Holdings Limited, InsCom Group Limited, InsCom HK Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited, CISG Holdings Ltd., Wang Strategic Capital Partners (II) Limited, Harbor Pacific Capital Partners I, LP (incorporated by reference to Exhibit 4.19 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.13                  | Subscription and Share Purchase Agreement relating to InsCom Holdings Limited dated October 29, 2010 among InsCom Holding Limited, InsCom Group Limited, InsCom HK Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited, Wang Strategic Capital Partners (II) Limited, Harbour Pacific Capital Partners I, LP (incorporated by reference to Exhibit 4.20 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.14                  | Put Option Agreement dated October 29, 2010 among Hu Yinan, Apollo & Muse Holding Limited, Wang Strategic Capital Partners (II) Limited and Harbor Pacific Capital Partners I, LP (incorporated by reference to Exhibit 4.21 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.15                  | English translation of Loan Agreement dated December 3, 2010 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd. and Chunlin Wang (incorporated by reference to Exhibit 4.22 of our annual report on Form 20-F filed with the Commission on May 4, 2011)  |
| 4.16                  | English translation of Equity Pledge Contract dated December 3, 2010 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Chunlin Wang and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.23 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.17                  | English translation of Exclusive Purchase Option Contract dated December 3, 2010 among Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Chunlin Wang and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.24 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 4.18                  | English translation of Power of Attorney dated December 3, 2010 of Chunlin Wang (incorporated by reference to Exhibit 4.25 of our annual report on Form 20-F filed with the Commission on May 4, 2011)  |
| 4.19                  | English translation of Loan Agreement dated December 3, 2010 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd. and Yuan Tian (incorporated by reference to Exhibit 4.26 of our annual report on Form 20-F filed with the Commission on May 4, 2011)  |
| 4.20                  | English translation of Equity Pledge Contract dated December 3, 2010 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Yuan Tian and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.27 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.21                  | English translation of Exclusive Purchase Option Contract dated December 3, 2010 among Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Yuan Tian and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.28 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.22                  | English translation of Power of Attorney dated December 3, 2010 of Yuan Tian (incorporated by reference to Exhibit 4.29 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.23                  | Share Subscription Agreement dated December 24, 2010 among Datong International Holdings Limited, Winner Sight Global Limited, CISG Holdings Ltd., Keping Lin, Expert Central Limited and Mancini Holdings Limited (incorporated by reference to Exhibit 4.30 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.24                  | Share Purchase Agreement dated March 24, 2011 among Winner Sight Global Limited, CNinsure Inc., CISG Holdings Ltd., Guangdong Meidiya Investment Co., Ltd., Keping Lin, Expert Central Limited, Mancini Holdings Limited, Datong International Holdings Limited, Datong Group Limited, Beijing Dahua Rongjin Information Technology Limited, Beijing Fanhua Datong Investment Management Co., Ltd. and Datong Insurance Sales and Services Co., Ltd. (incorporated by reference to Exhibit 4.31 of our annual report on Form 20-F filed with the Commission on May 4, 2011) |
| 4.25                  | English translation of Share Transfer Agreement dated March 24, 2011 between Guangdong Meidiya Investment Co., Ltd. and Beijing Min Si Lian Hua Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.32 of our annual report on Form 20-F filed with the Commission on May 4, 2011)  |
| 4.26                  | English translation of Supplemental Agreement (to the Share Transfer Agreement dated March 24, 2011) dated March 24, 2011 between Guangdong Meidiya Investment Co., Ltd. and Beijing Min Si Lian Hua Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.33 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.27                  | English translation of Settlement Agreement (Shareholders Agreement) dated March 24, 2011 among Guangdong Meidiya Investment Co., Ltd., Mr. Keping Lin and Beijing Fanhua Datong Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.34 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 4.28                  | English translation of Form of Consulting and Service Agreement made with Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.35 of our annual report on Form 20-F filed with the Commission on May 4, 2011)  |
| 4.29                  | English translation of Form of Consulting and Service Agreement made with Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.36 of our annual report on Form 20-F filed with the Commission on May 4, 2011)  |
| 4.30                  | English translation of Form of IT Platform Service Agreement made with Litian Zhuoyue Software (Beijing) Co., Ltd. (incorporated by reference to Exhibit 4.37 of our annual report on Form 20-F filed with the Commission on May 4, 2011)   |
| 8.1*                  | Subsidiaries and Consolidated Affiliated Entities of the Registrant   |

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 11.1                  | Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)  |
| 12.1*                 | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 12.2*                 | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 13.1**                | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 13.2**                | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 15.1*                 | Consent of Maples and Calder  |
| 15.2*                 | Consent of Commerce & Finance Law Offices   |
| 15.3*                 | Consent of Deloitte Touche Tohmatsu   |
| 101***                | Financial information from Registrant for the year ended December 31, 2011 formatted in eXtensible Business Reporting Language (XBRL):<br><br>(i) Consolidated Balance Sheets as of December 31, 2010 and 2011; (ii) Consolidated Statements of Operations for the Years Ended December 31, 2009, 2010 and 2011; (iii) Consolidated Statements of Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2009, 2010 and 2011; (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2010 and 2011; (v) Notes to Consolidated Financial Statements; and (vi) Schedule 1—Condensed Financial Statements of CNinsure Inc. |

\* Filed with this Annual Report on Form 20-F.

\*\* Furnished with this Annual Report on Form 20-F.

\*\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

The amounts in the financial statements, “Notes to the Consolidated Financial Statements” and “Schedule 1—Condensed Financial Statements” of the Interactive Data Files are in thousands, except for shares and per share data.

## **SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CNINSURE INC.

By: /s/ Chunlin Wang

Name: Chunlin Wang

Title: Chief Executive Officer

Date: April 24, 2012

**EXHIBIT 8.1**

**List of Subsidiaries and Affiliated Entities**  
**(As of March 31, 2012)**

| <b>Subsidiaries or Affiliated Entities</b>   | <b>Percentage<br/>Attributable to<br/>Our Company</b> | <b>Place of<br/>Incorporation</b> |
|--|---|-----------------------------------|
| 1. CISG Holdings Ltd.  | 100%  | BVI                               |
| 2. CNinsure Holdings Ltd.  | 100%  | BVI & Hong Kong                   |
| 3. Minkfair Insurance Management Limited   | 100%  | Hong Kong                         |
| 4. Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (formerly known as Haidileji Enterprise Image Planning (Shenzhen) Co., Ltd.).           | 100%  | PRC                               |
| 5. Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (formerly known as Yiqiman Enterprise Management Consulting (Shenzhen) Co., Ltd.) | 100%  | PRC                               |
| 6. Shenzhen Fanhua Nanfeng Investment Holding Co., Ltd. (formerly known as Shenzhen Fanhua Nanfeng Enterprise Management Consulting Co., Ltd.)             | 100%  | PRC                               |
| 7. Guangzhou Zhongqi Enterprise Management Consulting Co., Ltd.  | 100%  | PRC                               |
| 8. Beijing Ruisike Management Consulting Co., Ltd.   | 100%  | PRC                               |
| 9. Beijing Fanlian Investment Co., Ltd.  | 100%  | PRC                               |
| 10. Litian Zhuoyue Software (Beijing) Co., Ltd.  | 100%  | PRC                               |
| 11. Shenzhen Bangbang Auto Services Co., Ltd.  | 100%  | PRC                               |
| 12. InsCom Holdings Limited  | 65.1%   | BVI                               |
| 13. InsCom Group Limited <sup>(1)</sup>  | 65.1%   | BVI                               |
| 14. InsCom HK Limited <sup>(1)</sup>   | 65.1%   | Hong Kong                         |
| 15. Ying Si Kang Information Technology (Shenzhen) Co., Ltd. <sup>(1)</sup>  | 65.1%   | PRC                               |
| 16. Sincere Fame International Limited   | 20.6%   | BVI                               |

  

| <b>Consolidated Affiliated Entities or<br/>Subsidiaries</b> | <b>Percentage Attributable to</b>        |   |  | <b>Place of<br/>Incorporation</b> |
|---|--|---|--|-----------------------------------|
|   | <b>Yihe<br/>Investment<sup>(2)</sup></b> | <b>Meidiya<br/>Investment<sup>(3)</sup></b> | <b>Xinbao<br/>Investment<sup>(4)</sup></b> |                                   |
| 1. Sichuan Yihe Investment Co., Ltd.                        | —  | —   | —  | PRC                               |
| 2. Guangdong Meidiya Investment Co., Ltd.                   | —  | —   | —  | PRC                               |
| 3. Shenzhen Xinbao Investment                               | —  | —   | —  | PRC                               |

|                                       |   |     |     |      |     |
|---------------------------------------|---|-----|-----|------|-----|
| Management Co., Ltd.                  |   |     |     |      |     |
| 4.                                    | Fujian Fanhua Investment Co., Ltd.  | 45% | 55% | —    | PRC |
| 5.                                    | Shijiazhuang Fanhua Anxin Investment Co., Ltd.  | 95% | —   | —    | PRC |
| 6.                                    | Guangdong Fanhua Fangzhong Investment Management Co., Ltd. (formerly known as Guangdong Fangzhong Insurance Surveyors & Loss Adjustors Co., Ltd.)   | —   | 51% | —    | PRC |
| 7.                                    | Shenzhen Fanhua Software Co., Ltd. <sup>(5)</sup>   | —   | 51% | —    | PRC |
| 8.                                    | Shenzhen InsCom E-commerce Co., Ltd. <sup>(6)</sup>   | —   | —   | 100% | PRC |
| <b><u>Claims Adjusting Firms</u></b>  |   |     |     |      |     |
| 9.                                    | Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd. (formerly known as Shenzhen Khubon Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(7)</sup>                                     | —   | 51% | —    | PRC |
| 10.                                   | Shanghai Fanhua Teamhead Insurance Loss & Adjustors Co., Ltd. (formerly known as Shanghai Teamhead Insurance Loss & Adjustors Co., Ltd.) <sup>(5)</sup>                                     | —   | 51% | —    | PRC |
| 11.                                   | Shenzhen Fanhua Property and Casualty Insurance Surveyors & Loss Adjustors Co., Ltd. (formerly known as Shenzhen Hongzhengda Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(5)</sup> | —   | 51% | —    | PRC |
| <b><u>Life Insurance Agencies</u></b> |   |     |     |      |     |
| 12.                                   | Fanhua Lianxing Insurance Sales Co., Ltd.   | 40% | 60% | —    | PRC |
| 13.                                   | Fujian Fanhua Xinheng Insurance Agency Co., Ltd. (formerly known as Fujian Xinheng Insurance Agency Co., Ltd.)  | 45% | 55% | —    | PRC |
| 14.                                   | Shanghai Fanhua Guosheng Insurance Agency Co., Ltd.   | —   | 55% | —    | PRC |
| 15.                                   | Jiangxi Fanhua Insurance Agency Co., Ltd.   | —   | 70% | —    | PRC |
| 16.                                   | Shandong Fanhua Xintai Insurance Agency Co., Ltd.   | 90% | —   | —    | PRC |
| 17.                                   | Hubei Fanhua Insurance sales Co., Ltd. (formerly known as Hubei Fanhua East Century Insurance Agency Co., Ltd.) <sup>(8)</sup>  | 24% | 36% | —    | PRC |



|   |       |       |   |     |
|---|-------|-------|---|-----|
| 18. Zhejiang Fanhua Tongchuang Insurance Agency Co., Ltd. <sup>(8)</sup>  | 24%   | 36%   | — | PRC |
| 19. Liaoning Fanhua Gena Insurance Agency Co., Ltd. <sup>(8)</sup>  | 24%   | 36%   | — | PRC |
| 20. Jiangsu Fanhua Lianchuang Insurance Agency Co., Ltd. <sup>(9)</sup>   | 28%   | 42%   | — | PRC |
| 21. Sichuan Fanhua Xintai Insurance Agency Co., Ltd. (formerly known as Sichuan Xintai Insurance Agency Co., Ltd.) <sup>(9)</sup>   | 28%   | 42%   | — | PRC |
| 22. Hunan Fanhua Insurance Agency Co., Ltd. <sup>(10)</sup>   | 22%   | 33%   | — | PRC |
| 23. Fuzhou Fanhua Lianxin Insurance Agency Co., Ltd. <sup>(11)</sup>  | 20.4% | 30.6% | — | PRC |
| 24. Hebei Fanhua Anxin Insurance Agency Co., Ltd. (formerly known as Hebei Anxin Insurance Agency Co., Ltd.) <sup>(12)</sup>        | 95%   | —     | — | PRC |
| 25. Nanping Fanhua Jinying Insurance Agency Co., Ltd. <sup>(13)</sup>   | 23%   | 28%   | — | PRC |
| 26. Jinan Fanhua Rongtai Insurance Agency Co., Ltd. (formerly known as Jinan Fanrong Insurance Agency Co., Ltd.) <sup>(14)</sup>    | 90%   | —     | — | PRC |
| 27. Chengdu Fanhua Dezhong Insurance Agency Co., Ltd. (formerly known as Suining Fanhua Insurance Agency Co., Ltd.) <sup>(15)</sup> | 15.4% | 23.1% | — | PRC |
| 28. Shenyang Fanhua Rongcheng Insurance Agency Co., Ltd. <sup>(16)</sup>  | 13.2% | 19.8% | — | PRC |

**P&C Insurance Agencies and Brokerage Firms**

|  |     |     |   |     |
|--|-----|-----|---|-----|
| 29. Beijing Fanhua Insurance Agency Co., Ltd.  | 40% | 60% | — | PRC |
| 30. Beijing Fanhua Fumin Insurance Agency Co., Ltd. (formerly known as Beijing Fumin Insurance Agency Co., Ltd.)   | 40% | 60% | — | PRC |
| 31. Guangzhou Fanhua Insurance Agency Co., Ltd. (formerly known as Guangzhou Xiangxing Insurance Agency Co., Ltd.) | 40% | 60% | — | PRC |
| 32. Guangzhou Fanhua Yian Insurance Agency Co., Ltd. (formerly known as Guangzhou Yian Insurance Agency Co., Ltd.) | 40% | 60% | — | PRC |
| 33. Fanhua Bocheng Insurance Brokerage Co., Ltd (formerly known as Sichuan Fanhua                                  | 40% | 60% | — | PRC |

|     |  |       |      |      |     |
|-----|--|-------|------|------|-----|
|     | Bocheng Insurance Brokerage Co., Ltd.)   |       |      |      |     |
| 34. | Beijing Fanlian Insurance Agency Co., Ltd.   | 70%   | 30%  | —    | PRC |
| 35. | Guangdong Fanhua Nanfeng Insurance Agency Co., Ltd. (formerly known as Guangdong Nanfeng Insurance Agency Co., Ltd.)               | 80%   | 20%  | —    | PRC |
| 36. | Guangdong Fanhua Kafusi Insurance Brokerage Co., Ltd. (formerly Known as Guangdong Kafusi Insurance Brokerage Co., Ltd.)           | 85%   | 15%  | —    | PRC |
| 37. | Dongguan Nanfeng Jiayu Insurance Agency Co., Ltd.  | 55%   | 45%  | —    | PRC |
| 38. | Foshan Tuohua Insurance Agency Co., Ltd.   | 20%   | 80%  | —    | PRC |
| 39. | Sichuan Fanhua Insurance Agency Co., Ltd.  | 75%   | 25%  | —    | PRC |
| 40. | Guangzhou Huajie Insurance Agency Co., Ltd.  | —     | 100% | —    | PRC |
| 41. | Dongguan Zhongxin Insurance Agency Co., Ltd.   | —     | 100% | —    | PRC |
| 42. | Jiangmen Fanhua Zhicheng Insurance Agency Co., Ltd.  | —     | 70%  | —    | PRC |
| 43. | Guangzhou Desheng Insurance Brokerage Co., Ltd.  | —     | 51%  | —    | PRC |
| 44. | Hebei Fanlian Insurance Agency Co., Ltd.   | —     | 51%  | —    | PRC |
| 45. | Shandong Fanhua Mintai Insurance Agency Co., Ltd.  | —     | 51%  | —    | PRC |
| 46. | Shenyang Fangda Insurance Agency Co., Ltd.   | —     | 51%  | —    | PRC |
| 47. | Shenzhen Fanhua Nanfeng Insurance Agency Co., Ltd. (formerly known as Shenzhen Nanfeng Insurance Agency Co., Ltd.) <sup>(17)</sup> | 80%   | 20%  | —    | PRC |
| 48. | Hebei Lianda Insurance Agency Co., Ltd. <sup>(18)</sup>  | 66.5% | —    | —    | PRC |
| 49. | Fanhua Shiji Insurance Sales Co., Ltd.   | —     | —    | 100% | PRC |
| 50. | Fujian Fanhua Guoxin Insurance Agency Co., Ltd. (formerly known as Fuzhou Guoxin Insurance Agency Co., Ltd.)                       | —     | —    | 70%  | PRC |
| 51. | Tianjin Fanhua Xianghe Insurance   | —     | —    | 70%  | PRC |

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Agency Co., Ltd.  |     |     |     |     |
| 52. Changsha Lianyi Insurance Agency Co., Ltd.  | —   | —   | 70% | PRC |
| 53. Hangzhou Fanhua Zhixin Insurance Agency Co., Ltd.   | —   | —   | 51% | PRC |
| 54. Ningbo Baolian Insurance Agency Co., Ltd.   | —   | —   | 51% | PRC |
| 55. Henan Fanhua Anlian Insurance Agency Co., Ltd. (formerly known as Zhengzhou Fanhua Anlian Insurance Agency Co., Ltd.) | —   | —   | 51% | PRC |
| <b><u>Wealth Management Services Provider</u></b>   |     |     |     |     |
| 56. Puyi Asset Management Co., Ltd. <sup>(19)</sup>   | 22% | 33% | —   | PRC |

- 
- (1) 100% of the equity interests in each of these companies are held directly or indirectly by InsCom Holdings Limited.
  - (2) We beneficially own 100% equity interests in this company, of which 20% of the equity interests are held directly by Shenzhen Fanhua Nanfeng Investment Holding Co., Ltd. and the remaining 80% by two individual shareholders.
  - (3) We beneficially own 100% equity interests in this company, of which 90% of the equity interests are held directly by Shenzhen Fanhua Nanfeng Investment Holding Co., Ltd. and the remaining 10% by two individual shareholders.
  - (4) 100% of the equity interests in this Company are beneficially held by Inscom Holdings Limited in which we indirectly own 65.1% of the equity interests.
  - (5) 100% of the equity interests in each of these companies are held directly by Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd. which is 51% owned by Guangdong Meidiya Investment Co., Ltd.
  - (6) 100% of the equity interests in this company are held directly by Fanhua Shiji Insurance Sales Co., Ltd. which is 100% owned by Shenzhen Xinbao Investment Management Co., Ltd.
  - (7) 100% of the equity interests in this company are held by Guangdong Fanhua Fangzhong Investment Management Co., Ltd., which is 51% owned by Guangdong Meidiya Investment Co., Ltd.
  - (8) 60% of the equity interests in each of these companies are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
  - (9) 70% of the equity interests in each of these companies are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
  - (10) 55% of the equity interests in this company are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
  - (11) 51% of the equity interests in this company are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
  - (12) 100% of the equity interests in this company are held directly by Shijiazhuang Fanhua Anxin Investment Co., Ltd. which is 95% owned by Sichuan Yihe Investment Co., Ltd.
  - (13) 51% of the equity interests in this company are held directly by Fujian Fanhua Xinheng Insurance Agency Co., Ltd.
  - (14) 100% of the equity interests in this company are directly by Shandong Fanhua Xintai Insurance Agency Co., Ltd. which is 90% owned by Sichuan Yihe Investment Co., Ltd.
  - (15) 55% of the equity interests in this company are held directly by Sichuan Fanhua Xintai Insurance Agency Co., Ltd. which is 70% owned by Fanhua Lianxing Insurance Sales Co., Ltd.
  - (16) 55% of the equity interests in this company are directly by Liaoning Fanhua Gena Insurance Agency Co., Ltd. which is 60% owned by Fanhua Lianxing Insurance Sales Co., Ltd.
  - (17) 100% of the equity interests in this company are held directly by Guangdong Fanhua Nanfeng Insurance Agency Co., Ltd.
  - (18) 70% of the equity interests in this company are held directly by Shijiazhuang Fanhua Anxin Investment Co., Ltd. which is 95% owned by Sichuan Yihe Investment Co., Ltd.
  - (19) We beneficially own 57% of the equity interests of this company. Fifty-five percent of our interest in this company is held through our wholly-owned subsidiary Fanhua Lianxing Insurance Sales Co., Ltd. and two percent of our interest in this company is held through Fanhua Puyi Investment Management Co., Ltd. of which we hold a 19.5% equity interest.

**Certification by the Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Chunlin Wang, certify that:

1. I have reviewed this annual report on Form 20-F of CNinsure Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 24, 2012

By: /s/ Chunlin Wang  
Name: Chunlin Wang  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peng Ge, certify that:

1. I have reviewed this annual report on Form 20-F of CNinsure Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 24, 2012

By: /s/ Peng Ge  
Name: Peng Ge  
Title: Chief Financial Officer

**EXHIBIT 13.1****Certification by the Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of CNinsure Inc. (the “Company”) on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Chunlin Wang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 24, 2012

By: /s/ Chunlin Wang  
Name: Chunlin Wang  
Title: Chief Executive Officer

**EXHIBIT 13.2****Certification by the Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of CNinsure Inc. (the “Company”) on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peng Ge, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 24, 2012

By:     /s/ Peng Ge      
Name: Peng Ge  
Title: Chief Financial Officer



[Letterhead of Maples and Calder]

**Our ref** CGW\628018\5249785v1  
**Direct tel** +852 3690 7477  
**Email** carrie.wong@maplesandcalder.com

CNinsure Inc.  
22/F, Yin Hai Building  
No. 299 Yanjiang Zhong Road  
Guangzhou, Guangdong 510110  
People's Republic of China

April 24, 2012

Dear Sirs

**Re: CNinsure Inc. (the "Company")**

We consent to the reference to our firm under the headings "Cayman Islands Taxation" and "Corporate Governance" in the Company's Annual Report on Form 20-F for the year ended December 31, 2011, which will be filed with the Securities and Exchange Commission in the month of April 2012.

Yours faithfully

/s/ Maples and Calder

Maples and Calder

**通 商 律 師 事 務 所**  
**Commerce & Finance Law Offices**

6F NCI Tower, A12 Jianguomenwai Avenue,  
Chaoyang District, Beijing, PRC; Postcode: 100022  
Tel: (8610) 65693399 Fax: (8610) 65693838, 65693836, 65693837, 65693839  
E-mail Add: [beijing@tongshang.com](mailto:beijing@tongshang.com) Website: [www.tongshang.com.cn](http://www.tongshang.com.cn)

April 24, 2012

To: CNinsure Inc.

22/F, Yinhai Building  
No. 299 Yanjiang Zhong Road  
Guangzhou, Guangdong 510110  
People's Republic of China

Dear Sirs,

We hereby consent to the reference to our firm under the headings "Risk Factors", "Regulation" and "Organizational Structure" in CNinsure Inc.'s Annual Report on Form 20-F for the year ended December 31, 2011, which will be filed with the Securities and Exchange Commission in April 2012.

Yours faithfully,

/s/ Commerce & Finance Law Offices

Commerce & Finance Law Offices

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements No. 333-156486 and No. 333-151271 on Form S-8 and in Registration Statement No. 333-162895 on Form F-3 of our reports dated April 24, 2012, relating to the consolidated financial statements and financial statement schedule of CNinsure Inc., its subsidiaries and variable interest entities (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the translation of Renminbi amounts into U.S. dollar amounts for the convenience of the readers) and the effectiveness of CNinsure Inc., its subsidiaries and variable interest entities internal control over financial reporting, appearing in the Annual Report on Form 20-F of CNinsure Inc., its subsidiaries and variable interest entities for the year ended December 31, 2011.

/s/ Deloitte Touche Tohmatsu  
**Deloitte Touche Tohmatsu**  
Hong Kong  
April 24, 2012



**CNINSURE  
INC.**

NASDAQ: CISG