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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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, 2016.

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

**FANHUA INC.**

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(Exact name of Registrant as specified in its charter)

N/A

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(Translation of Registrant's name into English)

Cayman Islands

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(Jurisdiction of incorporation or organization)

27/F, Pearl River Tower  
No. 15 West Zhujiang Road  
Guangzhou, Guangdong 510623  
People's Republic of China

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(Address of principal executive offices)

Peng Ge, Chief Financial Officer  
Tel: +86 20 83883033  
E-mail: gepeng@fanhuaholdings.com  
Fax: +86 20 83883181  
27/F, Pearl River Tower  
No. 15 West Zhujiang Road  
Guangzhou, Guangdong 510623  
People's Republic of China

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(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* American depositary shares, each representing 20 ordinary shares	The NASDAQ Stock Market LLC (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.

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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.

**1,165,072,926 ordinary shares, par value US\$0.001 per share as of December 31, 2016**

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, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>

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

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

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

U.S. GAAP <input checked="" type="checkbox"/>	International Financial Reporting Standards as issued by the International Accounting Standards Board <input type="checkbox"/>	Other <input type="checkbox"/>
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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 “Fanhua” refer to Fanhua Inc., formerly known as CNinsure Inc., its subsidiaries and our consolidated affiliated entities, if applicable;
  - “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;
  - “consolidated affiliated entities” refers to Shenzhen Xinbao Investment Management Co., Ltd., or Xinbao Investment and its subsidiaries which became our wholly-owned subsidiary in May 2016 and Shenzhen Dianliang Information Technology Co., Ltd., or Dianliang Information which became our wholly-owned subsidiary in January 2016;
  - 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.
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## 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 income data for the years ended December 31, 2014, 2015 and 2016 and the consolidated balance sheets data as of December 31, 2015 and 2016 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 income data for the years ended December 31, 2012 and 2013 and the selected consolidated balance sheets data as of December 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements, which are not included in this annual report.

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,					
	2012	2013	2014	2015	2016	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except shares, per share and per ADS data)					
Consolidated Statement of Income Data						
Net revenues:						
Agency	1,305,310	1,418,512	1,624,410	2,155,264	3,746,471	539,604
Brokerage	48,855	63,418	232,620	369,198	617,738	88,973
Claims adjusting	217,497	261,206	292,981	303,846	336,413	48,454
Other services	14,455	13,888	—	—	—	—
Total net revenues	1,586,117	1,757,024	2,150,011	2,828,308	4,700,622	677,031
Operating costs and expenses:						
Agency	(936,246)	(1,094,843)	(1,261,888)	(1,675,261)	(2,906,791)	(418,665)
Brokerage	(29,716)	(47,351)	(185,593)	(293,875)	(503,925)	(72,580)
Claims adjusting	(113,697)	(142,245)	(167,676)	(181,370)	(199,810)	(28,779)
Other services	(6,150)	(8,933)	—	—	—	—
Total operating costs	(1,085,809)	(1,293,372)	(1,615,157)	(2,150,506)	(3,610,526)	(520,024)
Selling expenses	(78,449)	(96,461)	(107,263)	(143,279)	(588,822)	(84,808)
General and administrative expenses <sup>(1)</sup>	(356,033)	(349,205)	(396,692)	(456,001)	(487,234)	(70,176)
Total operating costs and expenses	(1,520,291)	(1,739,038)	(2,119,112)	(2,749,786)	(4,686,582)	(675,008)
Income from operations	65,826	17,986	30,899	78,522	14,040	2,023
Other income, net:						
Investment income	—	8,886	44,240	65,624	115,275	16,603
Interest income	90,323	84,250	82,251	57,234	6,931	998
Finance cost	(2,439)	—	—	—	—	—
Others, net	6,742	(4,601)	2,330	13,042	11,452	1,649
Income before income taxes and income of affiliates	160,452	106,521	159,720	214,422	147,698	21,273
Income tax expense	(50,373)	(27,158)	(24,289)	(25,865)	(28,353)	(4,084)
Share of income of affiliates	14,658	20,621	30,649	26,924	48,293	6,955
Net income	124,737	99,984	166,080	215,481	167,638	24,144
Less: Net (loss) income attributable to the noncontrolling interests	(5,773)	4,341	4,320	5,395	10,591	1,526
Net income attributable to the Company's shareholders	130,510	95,643	161,760	210,086	157,047	22,618
Net income per share:						
Basic:	0.13	0.10	0.16	0.18	0.14	0.02
Diluted:	0.13	0.10	0.16	0.17	0.13	0.02
Net income per ADS:						
Basic	2.60	1.92	3.22	3.65	2.71	0.39
Diluted	2.60	1.91	3.19	3.49	2.60	0.37
Shares used in calculating net income per share:						
Basic	1,002,308,275	998,861,526	1,005,842,212	1,151,705,374	1,160,592,325	1,160,592,325
Diluted	1,005,301,969	1,000,570,018	1,012,591,387	1,203,323,521	1,208,821,796	1,208,821,796

(1) Including share-based compensation expenses of RMB66.9 million, RMB45.3 million, RMB23.6 million, RMB17.7 million and RMB4.9 million (US\$0.7 million) for the years ended December 31, 2012, 2013, 2014, 2015 and 2016, respectively.

**As of December 31,**

	2012	2013	2014	2015	2016	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	2,525,618	2,288,623	2,103,068	1,115,266	240,242	34,602
Total current assets	2,993,900	3,177,801	3,301,726	3,513,061	3,694,564	532,127
Total assets	3,400,789	3,560,730	3,748,486	4,014,428	4,238,568	610,480
Total current liabilities	318,539	339,425	335,440	488,448	747,119	107,608
Total liabilities	392,882	413,968	414,226	580,859	834,474	120,189
Noncontrolling interests	113,527	118,665	123,508	116,139	117,242	16,886
Total equity	3,007,907	3,146,762	3,334,260	3,433,569	3,404,094	490,291
Total liabilities and shareholders' equity	3,400,789	3,560,730	3,748,486	4,014,428	4,238,568	610,480

**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 RMB6.9430 to US\$1.00, the noon buying rate in effect as of December 30, 2016 in The City of New York for cable transfers of RMB, as set forth in H.10 weekly statistical release of the Federal Reserve Bank of New York. 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 14, 2017, the noon buying rate was RMB6.8835 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.

<b>Period</b>	<b>Noon Buying Rate (RMB per US\$1.00)</b>			
	<b>Period End</b>	<b>Average<sup>(1)</sup></b>	<b>Low</b>	<b>High</b>
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
October	6.7735	6.7303	6.7819	6.6685
November	6.8837	6.8402	6.9195	6.7534
December	6.9430	6.9198	6.9580	6.8771
2017				
January	6.8768	6.8907	6.9575	6.8360
February	6.8665	6.8694	6.8821	6.8517
March	6.8832	6.8940	6.9132	6.8687
April (through April 14)	6.8835	6.8899	6.8988	6.8832

Source: H.10 weekly statistical release of the Federal Reserve Bank of New York

(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 and when our contracts with insurance companies are suspended or changed, our business and operating results will be materially and 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 and service fees of our affiliated insurance agencies, brokerages and claims adjusting firms, 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 material terms, including the amount of commissions and fees we receive, which could reduce our revenues from that contract.

For the year ended December 31, 2016, our top five insurance company partners were PICC Property and Casualty Company Limited, or PICC P&C, Huaxia Life Insurance Co., Ltd., or Huaxia, China Pacific Property Insurance Co., Ltd., or CPIC, Ping An Property & Casualty Insurance Company of China, Ltd., or Ping An, Tian'an Life Insurance Co., Ltd., or Tian'an. Among these top five partners, each of PICC P&C, Huaxia and CPIC accounted for more than 10% of our total net revenues in 2016, with PICC P&C accounting for 26.5%, Huaxia for 11.0% and CPIC for 10.4%.

On March 1, 2017, our subsidiaries were notified verbally by PICC P&C's local branches that PICC P&C was temporary suspending its business cooperation with us on areas such as insurance agency, brokerage and claims adjustment because certain of PICC P&C's senior management members was being investigated by the government. We derived 26.5% of our total revenues from PICC P&C in 2016 and had approximately 16.8% of our account receivables from PICC P&C as of December 31, 2016. In respect of the suspension of business cooperation with PICC P&C, the management has assessed the recoverability of the amounts due from PICC P&C and concluded there is no impairment of the related accounts receivable at this stage.

However, if the business relationship with PICC P&C does not resume in 2017, our total revenue may decrease as compared to 2016. At this stage, we are unable to predict when and whether the business cooperation with PICC P&C might resume. Additionally, the government may request us and our management and/or employees to assist in the investigation against certain of PICC P&C's senior management members, which would distract the management's attention, might cause us to lose customers and other business partners and eventually have a material and adverse effect on our business prospectus and financial results. Any prolonged delay in future settlement of the account receivables from PICC P&C may cause uncertainty on the recoverability.

*If our investments in our mobile and online platforms are not successful, our business and results of operations may be materially and adversely affected.*

We have devoted significant efforts to developing and managing our mobile and online platforms. On January 1, 2012, we launched Baowang ([www.baowang.com](http://www.baowang.com)), an online insurance platform which allows customers to search for and purchase a wide range of insurance products, including travel insurance, accident insurance and homeowner insurance from various insurance carriers. In October 2012, we launched CNpad, the mobile workstation of our proprietary sales support system, which enables sales agents to help their clients compare price, policy benefits and services from different insurance carriers' policies, and to apply for and complete the purchase of the policy that best suits their clients' needs anywhere and anytime. In August 2014, we unveiled eHuzhu ([www.ehuzhu.com](http://www.ehuzhu.com)), an online non-profit mutual aid platform that provides low-cost risk-protection programs on a mutual aid basis among program members. In August 2014, we also rolled out Chetong.net ([www.chetong.net](http://www.chetong.net)), an online-to-offline public service platform for the insurance industry that integrates claims adjustment and auto service resources from around the country to provide claims services such as damage assessment and loss estimations. In 2015, we sold approximately 80% of the equity interests in the operating entity of Chetong.net to its management and employees. In the next few years, we intend to continue to devote significant resources to improving the technology and content of our existing online and mobile initiatives and launching marketing campaigns to increase consumer awareness of these online and mobile solutions or platforms. However, our efforts to develop our mobile and online platforms may not be successful or yield the benefits that we anticipate due to our limited experience in the online and mobile 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 campaigns to build brand recognition among consumers and our ability to attract and retain customers;
- the acceptance of third-party e-commerce platforms as an effective channel for underwriters to distribute their insurance products;
- the acceptance of CNpad as an effective tool for sales agents;
- 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, 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;
- further improvement in our information technology system designed to facilitate smoother online transactions; 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 July 27, 2015, the China Insurance Regulatory Commission, or CIRC, promulgated the Interim Measures for the Supervision of Internet Insurance Business, or Interim Measures, which immediately became effective and sets forth the qualifications and procedures for insurance intermediaries to operate internet insurance businesses in China. As advised by our PRC counsel, we have obtained the necessary approvals and licenses and our operations meet the qualification requirements of the Interim Measures. Since online insurance distribution has emerged only recently in China and is evolving rapidly, the CIRC may promulgate and implement new laws and regulations to govern this sector from time to time. We cannot assure you that our operations 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 and mobile 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.

In addition, our efforts to enhance our technological capabilities and establish a leading position in the online and mobile insurance distribution and online claims settlement markets require us to incur significant research and development and marketing expenses which may adversely impact our profitability in the near term.



***If we fail to attract and retain productive agents, especially entrepreneurial agents, and qualified claims adjusters, our business and operating results could be materially and adversely affected.***

A substantial portion of our sales of property and casualty insurance products and all of 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 adjustment 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.

***Because our industry is highly regulated, any material changes in the regulatory environment could change the competitive landscape of our industry or require us to change the way we do business. The administration, interpretation and enforcement of the laws and regulations currently applicable to us could change rapidly. If we fail to comply with applicable laws and regulations, we may be subject to civil and criminal penalties or lose the ability to conduct business with our clients, which could materially and adversely affect our business and results of operations.***

We operate in a highly regulated industry. The laws and regulations applicable to us are evolving and may change rapidly. We could be required to spend significant time and resources in complying with any material changes in the regulatory environment, which could change the competitive environment of our industry significantly and cause us to lose some or all of our competitive advantages. The attention of our management team could be diverted to these efforts to comply or cope with an evolving regulatory or competitive environment. For example, the PRC Insurance Law and related regulations were amended in 2002, 2009, 2014 and 2015. The 2015 amendments involved a number of significant changes to the regulatory regime, including eliminating the requirement for any insurance agent, broker or claims adjusting practitioners to obtain a qualification certificate issued by the CIRC. The elimination of the certificate requirement may result in an increase in competition for our business and in misconduct by sales or service persons, in particularly sales misrepresentation. In addition, the general increase in misconduct in the industry could potentially harm the reputation of the industry and have an adverse impact on our business.

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. The People's Bank of China and other government agencies may promulgate new rules governing online financial services. In July 2015, ten government agencies including the People's Bank of China, the Ministry of Finance and CIRC promulgated a guidance letter on how to promote the healthy growth of internet finance services, which set forth the principles of supervising based on the rule of law, appropriate level of regulation, proper categorization, cooperation among different government agencies and promoting innovation. Not only may the laws and regulations applicable to us change rapidly, but it is sometimes unclear how they apply to our business. For example, the laws and regulations applicable to our online and mobile platforms may be unclear. Errors created by our products or services may be determined or alleged to be in violation of the applicable laws and regulations. Any failure of our products or services to comply with these laws and regulations could result in substantial civil or criminal liability; could adversely affect demand for our services; could invalidate all or portions of some of our customer contracts; could require us to change or terminate some portions of our business; could require us to refund portions of our services fees; could cause us to be disqualified from serving customers; and could have a material and adverse effect on our business.

Although we have not had any material violations to date, we cannot assure you that our operations will always comply with the interpretation and enforcement of the laws and regulations implemented by the CIRC. Any determination by a provincial or national government agency that our activities or those of our vendors or customers violate any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, or could disqualify us from providing services to insurance companies or other customers; and, thus could have an adverse effect on our business.

***Our business could be negatively impacted if we are unable to adapt our services to regulatory changes in China.***

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, both the Provisions on the Supervision of Professional Insurance Agencies and the Provisions on the Supervision of Insurance Brokerages were amended in December 2015. Pursuant to these amendments, an insurance agency or brokerage firm is allowed to apply for a business permit from the CIRC and a business license from the local administration of industry and commerce, or AIC, simultaneously while previously an insurance agency or brokerage firm had to obtain a business permit issued by the CIRC before it could apply for a business license from and register with the relevant local AIC. Prior approval by the CIRC is no longer required for an insurance agency or brokerage firm to establish or divest a branch office or subsidiary. In addition, pursuant to the amendment to the Provisions on the Supervision of Insurance Claims Adjusting Firms, insurance claim adjusting firms are no longer required to have a minimum registered capital of RMB2 million. See "Item 4. Information on the Company — B. Business Overview — Regulation." These changes may accelerate the growth of professional insurance intermediaries in China and intensify competition among insurance agencies, insurance brokerage firms and claims adjusting firms. Our business operations and growth outlook could be materially and adversely affected if we cannot adapt our business to the regulatory and industry changes.

In July 2014, the CIRC promulgated the Consultation Paper of the Rules on Deepening the Pricing Reform of Commercial Auto Insurance Policies, allowing insurers to set their own premium rates for auto insurance policies based on a new pricing model. Under the new pricing model, the premium of an auto insurance policy will be determined based on pure risk premium, loadings and premium adjustment factors, and the pricing in both direct sales and through intermediary channels will be based on the same pricing model. In January 2015, the CIRC promulgated the Guidelines on Deepening the Pricing Reform of Commercial Auto Insurance Policies, granting insurers more flexibility in auto insurance premiums based on their own operational conditions. The deregulation reform of regulatory regime on auto insurance pricing was implemented in six provinces in China in June 2015, expanded to an additional 12 provinces in January 2016 and extended to nationwide in January 2016. The implementation of the pilot program may lead to a decline in premium rate and commission rate that we receive from insurance companies, which would adversely impact our business.

***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 31 insurance agencies, two insurance brokerages and three claims adjusting firms in 29 provinces as of March 31, 2017. 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 and insurance claims adjusting services. Since 2011, we have devoted significant efforts to developing our mobile and online platforms and expect they will be a critical driver to our future business growth.

We conduct our claims adjustment operations in China through our subsidiary Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd., or FHISLA. As part of our growth strategy, FHISLA filed an application in November 2015 with the National Equities Exchange and Quotations, or NEEQ, to list on the New Third Board, an emerging over-the-counter stock market for medium- and small-cap companies in China. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Business and Our Industry— Our proposed listing of the shares of FHCISLA on a stock exchange in China may not be successfully, and the listing may not provide its anticipated benefits and could negatively impact holders of our ADSs." We expect the listing of FHISLA to enhance its brand recognition, help attract top talent and allow it to raise capital more efficiently to fund its expansion, all of which are essential to the growth of our claims adjustment business. 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. We also cannot assure you that new product and platform offerings will be accepted by consumers or other industry participants or that we will be able to successfully integrate new products into our greater insurance service platform. 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 may be unsuccessful in identifying and acquiring suitable acquisition candidates, which could adversely affect our growth.***

From 2007 to 2011, we significantly expanded our operations through a number of acquisitions. We expect some portion of our future growth to come from acquisitions of companies that can complement our existing business, diversify our product offerings and improve our customers' experience. However, there is no assurance that we can successfully identify suitable acquisition candidates. 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. Our competitors 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.

***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 suitable target companies, 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, entry into unfamiliar markets, unanticipated problems or legal liabilities, 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 cannot 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.

***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. The disruption of business cooperation with PICC P&C may cause us to lose our competitive advantages in certain areas. If we are unable to compete effectively against those competitors, we may lose customers and our financial results may be negatively affected.

***Our proposed listing of the shares of FHISLA on a stock exchange in China may not be successful, and the listing may not provide its anticipated benefits and could negatively impact holders of our ADSs.***

In November 2015, FHISLA filed an application with the NEEQ to list on the New Third Board in China. However, the listings of all non-mainstream financial services companies had been suspended between January 2016 and December 2016. There is uncertainty as to when and whether the listing application of FHISLA will be approved. The disruption of business cooperation between PICC P&C and us may have a material adverse impact on FHISLA's listing application. The proposed listing may not be successful and we may incur substantial costs in connection with the proposed listing.

We conduct our claims adjustment operations in China through FHISLA, which in 2016 accounted for 7.2% of our total net revenues. We are currently the largest shareholder of FHISLA and own 44.7% of the equity interests in FHISLA. We expect to continue to exercise substantial control over FHISLA and to consolidate FHISLA's results into our financial statements, even after the proposed listing. However, we cannot assure you that we will be able to continue to consolidate the financial statements of FHISLA in the future. Accounting standards relating to consolidation, and their interpretation, have changed and may continue to change. If we are not able to continue to consolidate FHISLA according to applicable accounting standards in the future, we may not be able to receive the benefits from the listing.

Even if FHISLA is listed on NEEQ and remains our consolidated subsidiary after listing, the ownership interest of our ADS holders in the earnings of FHISLA's operations could be diluted, depending on the amount of capital raised and the manner in which that cash is raised, being debt or equity. Volatility in the trading price of our ADSs may increase due to volatility in CISLA's trading price on the NEEQ. Further, capital raised by issuing shares of FHISLA may not be sufficient to fund FHISLA's capital needs. FHISLA's operations as a company traded on NEEQ may require other resources.

***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, insurance brokerage and claims adjusting businesses 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.

***Quarterly and annual variations in our commission and fee revenue may unexpectedly impact 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.

***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 our wholly-owned or majority-owned insurance agencies, brokerages and claims adjusting firms located in 29 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, some of 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 or from their departure. Unsatisfactory performance by or loss of services of these founders and 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, or Mr. Wang, our chief executive officer, and Mr. Peng Ge, or, Mr. 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 in our industry is intense because of a number of factors including the limited pool of qualified candidates. 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 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.

On April 24, 2015, the PRC Insurance Law was amended and consequently on December 3, 2015, the CIRC amended the Provisions on the Supervision of Professional Insurance Agencies, the Provisions on the Supervision of Insurance Brokerages and the Provisions on the Supervision of Insurance Claims Adjusting Firms. These amendments have made a number of significant changes to the regulatory regime, including eliminating the requirement for an insurance agent, broker or claims adjusting practitioner to obtain a qualification certificate issued by the CIRC. The elimination of the certificate requirement may result in an increase in misconduct by sales or service persons, in particularly sales misrepresentation. We have internal policies and procedures to deter salesperson or employee misconduct. However, the measures and 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. In addition, the general increase in misconduct in the industry could potentially harm the reputation of the industry and have an adverse impact on our business.

***Our investments in certain financial products may not yield the benefits we anticipate or incur financial loss, which could adversely affect our cash position.***

In order to improve our return on capital, we may from time to time, upon board approval, invest certain portion of our cash in financial products, such as trust products, with terms of one to two years. These products may involve various risks, including default risks, interest risks, and other risks. We cannot guarantee these investments will yield the returns we anticipate and we could suffer financial loss resulting from the purchase of these financial products.

***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, or the SEC, 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.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2016. 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 his or her 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.***

In order to better serve our customers' needs for diversified and comprehensive financial services, we have expanded into complementary business areas, such as consumer finance and wealth management, to leverage our existing sales network, customer resources and operating platform. For example, in October 2009, we acquired 20.6% equity interest in Sincere Fame International Limited, or Sincere Fame, which owns 100% of the equity interests in China Financial Services Group Limited, or CFSG, a consumer financial services provider. In November 2010, we formed a joint venture, named Fanhua Puyi Investment Management Co., Ltd., or Puyi Investment, (which we later renamed as Fanhua Puyi Fund Sales Co. Ltd., or Puyi Fund Sales, after obtaining the license to distribute mutual funds in March 2013) in which we beneficially own 15.4% of the equity interests. Puyi Fund Sales is a financing platform for mutual funds and trust companies. If we decide to offer wealth management products in the future, our efforts to do so may not be successful and may subject us to risks associated with operating in the consumer financial services 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. Any failure to successfully identify, execute and integrate acquisitions, investments, joint ventures and alliances as part of any attempted 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.

***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, the amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the fair value of purchase price and any controlling interest over the net identifiable tangible assets acquired. As of December 31, 2016, goodwill represented RMB122.1 million (US\$17.6 million), or 3.7% of our total shareholders' equity, and other net intangible assets represented RMB59.5 million (US\$8.6 million), or 1.8% of our total shareholders' equity. Our management performs impairment assessment annually and we did not recognize any impairment loss between 2012 and 2016. Under current accounting standards, if we determine that goodwill or intangible assets are 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.

***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 our main offices in Guangzhou, is critical to our business and 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.***

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. 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. In February 2013, H7N9 Avian influenza was first discovered in Shanghai, China and quickly widened its geographical spread in China. 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) and Zika Virus, 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 structure for operating part of our China business does not comply with applicable PRC laws and regulations, we could be subject to severe penalties.***

Historically, PRC laws and regulations have restricted foreign investment in and ownership of insurance intermediary companies. As a result, we conducted our insurance intermediary business through contractual arrangements among our PRC subsidiaries, consolidated affiliated entities including Xinbao Investment and Dianliang Information and their individual shareholders between December 2005 and May 2016.



In recent years, some rules and regulations governing the insurance intermediary sector in China have begun to encourage foreign investment. 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. On March 13, 2015, the National Development and Reform Commission and Ministry of Commerce jointly issued the Catalogue for the Guidance of Foreign Investment Industries (Revision 2015), or the CGFII 2015 Revision, pursuant to which insurance brokerage firms are removed from the list of industries subject to foreign investment restriction.

We operated online insurance distribution business through Baoxian.com which was subject to foreign investment restriction. On June 19, 2015, the Ministry of Industry and Information Technology published a Notice on Removing the Foreign Ownership Restriction in Online Data Processing and Transaction Processing Business (Operating E-commerce), or the No. 196 Notice. Foreign ownership in online data processing and transaction process business is allowed to increase to 100% as long as the foreign-invested entities obtain necessary licenses to conduct the business. However, there remains uncertainty with regards to the implementation of the No. 196 Notice and the administrative procedures with regards to the application of the data processing and transaction process business licenses.

Following the changes in applicable foreign investment regulations, we commenced a restructuring of our company in October 2011 and subsequently terminated all the contractual arrangements among our PRC subsidiaries and consolidated entities such as Xinbao Investment and Dianliang Information, which became our wholly-owned subsidiaries in 2016. As a result, we obtained direct controlling equity ownership in all of our insurance intermediary companies and our online platforms in 2016. See “Item 4. Information on the Company — C. Organizational Structure.”

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

Any of these or similar actions could cause disruptions to our business, as well as reduce our revenues, profitability and cash flows.

In January 2015, the Ministry of Commerce, or the MOC, published a draft of the proposed Foreign Investment Law, which expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise, or an FIE. The draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOC, treated as a PRC domestic investor provided that the entity is “controlled” by PRC entities and/or citizens. In this connection, “control” is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders’ meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “negative list,” to be separately issued by the State Council later, if the FIE is engaged in the industry listed in the negative list. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance by the MOC, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

There is uncertainty regarding the draft Foreign Investment Law, including, the content of its final form and the timing of its adoption and implementation. It is uncertain whether the internet industry or online operation will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as MOC market entry clearance, to be completed by companies, we face uncertainties as to whether such clearance can be timely obtained, or at all.

***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 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 in order to provide additional funding to our PRC subsidiaries, we may make loans to our PRC subsidiaries, 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), namely, Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (previously known as CNinsure Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd.), or Zhonglian Enterprise, Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (previously known as CNinsure Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.), or Xinlian Information, and Bao Si Kang Information Technology (Shenzhen) Co., Ltd., or Bao 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\$38.7 million) in foreign debts as of March 31, 2017. 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 Bao Si Kang Information), 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.

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 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.

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 State 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 through our directly-held PRC subsidiaries in the PRC, which may adversely affect our ability to expand our business.

However, on March 30, 2015, SAFE promulgated Circular 19, a notice on reforming the administrative approach regarding the settlement of the foreign exchange capitals of foreign-invested enterprises, which became effective on June 1, 2015. The new notice states that foreign-invested enterprises shall be allowed to settle their foreign exchange capitals on a discretionary basis. The discretionary settlement by a foreign-invested enterprise of its foreign exchange capital shall mean that the foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. The SAFE may adjust the foregoing percentage as appropriate according to balance of payments situations. As a result, Circular 19 will relax the limitation of our ability to provide additional funding to our PRC subsidiaries through our directly-held PRC subsidiaries in the PRC.

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

#### ***Adverse economic, political and legal developments in China could have a material adverse effect on 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. Economic growth in China has been slowing in the past few years and dropped to 6.7% for 2016, one of the slowest in the past 25 years, according to data released by the PRC government in January 2017. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. However, these measures may not be successful in transforming the Chinese economy or spurring growth. 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 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 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. However, 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 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, 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 subsidiaries expired on January 1, 2008. According to the EIT Law and related regulations, the preferential tax rates enjoyed by some of our PRC subsidiaries 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.

We have been advised by our PRC counsel, Global Law Office, that pursuant to the EIT Law and the Implementation Rules, 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 wholly-owned subsidiary InsCom HK Limited 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, Global Law Office, 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 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, 2016, the total retained earnings of our PRC subsidiaries available for dividend distributions were RMB2.1 billion (US\$296.4 million). Furthermore, if our subsidiaries 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. Any limitation on the ability of our subsidiaries 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.***

On October 21, 2005, the SAFE issued a 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 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. On July 4, 2014, the SAFE issued the Notice on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies, or SAFE Circular 37, simultaneously repealing SAFE Circular 75. SAFE Circular 37 also requires PRC residents to register with relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment before making contribution to a special purpose company, or SPC, with legitimate holdings of domestic or overseas assets or interests. 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 37 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 37 or other related rules. The failure of these beneficial owners to timely amend their SAFE registrations pursuant to SAFE Circular 37 or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 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, or the PBOC, 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 PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again, though there have been periods when the U.S. dollar has appreciated against the Renminbi as well. In April 2012, the trading band was widened to 1%, and in March 2014 it was further widened to 2%, which allows the Renminbi to fluctuate against the U.S. dollar by up to 2% above or below the central parity rate published by the PBOC. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. It is difficult to predict how market forces or PRC or United States government policy may impact the exchange rate between the RMB and the U.S. dollar in the 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 on dividends and other fees paid to us by our subsidiaries 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 M&A Rule could also make it more difficult for us to pursue growth through acquisitions.***

The M&A Rule 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 subsidiaries that used to be our PRC consolidated affiliated entities. In the future, we may grow our business in part by directly acquiring complementary businesses. 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. On December 28, 2012, the Standing Committee of the National People's Congress of China promulgated the Decision on Revising the Labor Contract Law, which became effective on July 1, 2013. The Labor Contract Law and its implementing rules together with the aforesaid revising decision impose and will 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 together with the aforesaid revising decision 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, 2017, our executive officers, directors and principal shareholders beneficially owned approximately 45.8% 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 depositary are closed, or at any time if we or the depositary 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 subsidiaries 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 amended and restated and by the Companies Law (2016 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 duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from 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 duties 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 controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

***The audit report included in this annual report has been prepared by auditors whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.***

Deloitte Touche Tohmatsu, our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the 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.

Many of our auditor's other clients have substantial operations within mainland China, and the PCAOB has been unable to complete inspections of the work of our auditor within mainland China without the approval of the Chinese authorities. Thus, our auditor and its audit work are not currently inspected fully by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside mainland China have identified deficiencies in those firms' audit procedures and quality control procedures, which can be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in mainland China prevents the PCAOB from regularly evaluating our auditor's audit procedures and quality control procedures as they relate to their work in mainland China. As a result, investors may be deprived of the benefits of such regular inspections.

The inability of the PCAOB to conduct full inspections of auditors in mainland China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors who primarily work in jurisdictions where the PCAOB has full inspection access. Investors may lose confidence in our reported financial information and the quality of our financial statements.

***If additional remedial measures are imposed on the "big four" PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.***

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

In late 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act of 1934, as amended. Such a determination could ultimately lead to the delisting of our ordinary shares from the Nasdaq Global Select Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

***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, subject to applicable laws. 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, 2016, which generally will subject United States Holders of our ADSs or ordinary shares to special and adverse tax rules.***

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 United States federal income tax purposes for our taxable year ended December 31, 2016. In addition, it is likely that one or more of our subsidiaries were also PFICs for such year. A non-United States 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. Unless the market price of our ADSs increases or we reduce the amount of cash, short term investments and other passive assets we hold sufficiently from current levels, we are likely to remain a PFIC for future taxable years. Because we believe we were a PFIC for the taxable year ended December 31, 2016, United States Holders (as defined in “Item 10. Additional Information — E. Taxation — United States Federal Income Taxation”) of our ADSs or ordinary shares generally will be subject to special and adverse tax rules 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**

#### **History of Our Corporate Structure**

Our founders, Mr. Yinan Hu, or Mr. Hu and Mr. Qiuping Lai, or Mr. 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 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.

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.

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. In January 2015, CDH Growth Capital Holdings agreed to sell all of its equity interests in our company to certain members of our management.

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.

In October 2012, we obtained license approval from the CIRC to establish an insurance sales service group company and renamed Shenzhen Nanfeng Investment, our wholly-owned subsidiary in the PRC, as “Fanhua Insurance Sales Service Group Company Limited”, or Fanhua Group Company, to serve as the holding company of our PRC operating entities.

In November 2015, Fanhua's subsidiary, FHISLA filed an application with the NEEQ to be listed on the New Third Board, an emerging over-the-counter stock market for medium- and small-cap companies in China. As of March 31, 2017, the listing application is still pending for approval.

On December 6, 2016, our shareholders approved the change of our company name from CNinsure Inc. to Fanhua Inc. Our ticker symbol was changed to “FANH” subsequently.

In April 2017, we issued and sold 66,000,000 ordinary shares to Fosun Industrial Holdings Limited for a total purchase price of US\$29,162,100. Fosun holds 5.34% of the equity interests in the Company post-closing and its purchased shares are subject to a one-year lock-up. In connection with this investment, Fosun and Fanhua agreed to establish a long term strategic partnership to pursue strategic collaboration in areas such as insurance, healthcare, investment and financial services.

## **History of Our Business Operation**

We began our insurance intermediary business in 1999 by distributing automobile insurance products and automobile loans on an ancillary basis and expanded our product offerings to other property and casualty insurance products in 2002. We commenced life insurance distribution by acquiring three life insurance agencies in 2006 and began to offer claims adjusting services by acquiring four claims adjusting firms in 2008. In June 2010, we established an insurance brokerage business unit to expand our product offerings from retail to commercial lines.

We have grown both organically and through acquisitions. Since 2002, we expanded our operations nationwide by establishing 21 insurance agencies and two insurance brokerage firms and acquiring majority interests in 21 insurance agencies (excluding Datong and its subsidiaries) and five claims adjusting firms.

In recent years, we have devoted significant efforts to developing and managing our mobile and online platforms. In 2010, we acquired a majority equity interest in InsCom Holdings Limited, or InsCom Holdings, to build an e-commerce insurance platform. In April 2014, we established Dianliang Information, as the holding company for eHuzhu (www.ehuzhu.com), an online mutual aid platform that we launched in July 2014. In June 2014, we established Shenzhen Chetong Network Technology Co., Ltd., or Chetong Network, as the holding company for Chetong.net, an internet-based insurance claims service platform, which we launched in August 2014. In July 2015, we transferred 19.9% and 80.1% of the equity interests in Chetong Network to FHISLA and the management and employees of Chetong Network, respectively.

In order to better serve our customers' needs for diversified and comprehensive financial services, we have made investments in complementary business areas, such as consumer finance and wealth management, to leverage our existing sales network, customer resources and operating platform. In October 2009, we acquired 20.6% equity interest in Sincere Fame International Limited, or Sincere Fame, which owns 100% of the equity interests in China Financial Services Group Limited, or CFSG, a consumer financial services provider. In November 2010, we formed a joint venture, named Fanhua Puyi Investment Management Co., Ltd., or Puyi Investment, (which we later renamed as Fanhua Puyi Fund Sales Co. Ltd., or Puyi Fund Sales, after obtaining the license to distribute mutual funds in March 2013) in which we beneficially own 15.4% of the equity interests. In November 2016, Puyi Fund Sales issued and sold new shares to its and the Company's management and key employees. As a result, our equity interests in Puyi Fund Sales were diluted from 19.5% we previously owned to 15.4%.

Our principal executive offices are located at 27/F, Pearl River Tower, No. 15 West Zhujiang Road, Guangzhou, Guangdong 510623, People's Republic of China. Our telephone number at this address is +86-20-8388-6888. 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 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.

## **Capital Expenditure**

Our capital expenditures have been used primarily to construct, upgrade and maintain our online platforms. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources."

## **B. Business Overview**

We are a leading independent online-to-offline financial services provider in China. Through our online platforms and offline sales and service network, we distribute to individual and institutional 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 distribute insurance products to customers primarily through our sales agents and brokers, and provide claims adjustment services through our claims adjusters. With 280,916 sales agents, 1,165 brokers, 1,241 claims adjusters and 959 sales and service outlets as of March 31, 2017, our distribution and service network reaches 29 out of 34 provinces in China, including some of the most economically developed regions and affluent cities.

Technological developments and the growth of mobile internet access have significantly changed the way we operate our business. For instance, we develop and implement Internet-enabled mobile applications for our sales agents, through which they can access a broad range of auto insurance and life insurance products from multiple insurance companies, and compare prices and purchase insurance products on their mobile devices for their clients.

We also operate several online platforms, which we define as websites and Internet-enabled applications that aggregate insurance product offerings from various insurance companies:

- *Baowang* (www.baoxian.com), an online insurance platform that allows customers to directly compare and shop for hundreds of accident, health, travel and homeowner insurance products from dozens of insurance companies online. As of March 31, 2017, Baowang has over 862,497 registered members.
- *eHuzhu* (www.ehuzhu.com), an online non-profit mutual aid platform that provides low-cost alternative risk-protection programs on a mutual aid basis among program members. eHuzhu currently offers two programs that cover mutual aid for cancer for three different age groups and accidental death. When a member signs up for a program offered by eHuzhu, he or she agrees to provide financial aid to and is entitled to receive financial aid from other program members in case of any claims covered under such program. The amount of financial aid that each member can claim for is up to RMB300,000, with the maximum contribution from each member limited to RMB3 for each valid claim. As of March 31, 2017, eHuzhu has attracted over 1,585,537 registered members.

We are compensated for our insurance agency, insurance brokerage and claims adjusting 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.

As of March 31, 2017, we had one e-commerce insurance platform and one online mutual aid platform, and 36 insurance intermediary companies in the PRC, of which 31 were insurance agencies including four with national operating licenses, two were insurance brokerages and three were insurance claims adjusting firms. We also own (i) 20.6% of the equity interests in Sincere Fame International Limited, a financial service company which is primarily engaged in the origination and management of small loans made to individuals, loan repackaging, asset management-related services to financial institutions and mortgage agency services to individuals, (ii) 15.4% of the equity interests in Fanhua Puyi Fund Sales Co., Ltd., a wealth management service company, and (iii) 8.9% of the equity interests in Shenzhen Chetong Network Co., Ltd., an online insurance claims services provider.

The professional insurance intermediary sector in China is highly fragmented. We believe this offers substantial opportunities for further growth and consolidation. The proliferation of internet access also presents us with huge opportunities to directly reach out to a much broader customer base. We intend to take advantage of these opportunities to increase our market share by aggressively developing and promoting our online platforms, expanding our offline distribution and service network and broadening our product portfolio.

### **Segment Information**

Our business is divided into three major reporting operating segments: (1) insurance agency, (2) insurance brokerage and (3) claims adjusting. The insurance agency segment provides a broad range of property and casualty and life insurance products to individual customers. The insurance brokerage segment primarily provides commercial lines of property and casualty insurance, group life insurance programs and risk management consulting services to businesses and reinsurance brokerage services to insurance companies. The claims adjusting segment primarily provides claims adjusting services to self-insured entities or insurance companies that choose to outsource some or all of their claims adjustment functions.

#### ***Insurance Agency Segment***

Our insurance agency segment accounted for 75.6%, 76.2% and 79.7% of our net revenues in 2014, 2015 and 2016, respectively. Revenue from this segment is derived from two broad categories of insurance products: (i) property and casualty insurance products, and (ii) life insurance products, both primarily focused on meeting the insurance needs of individuals.

### *Property and Casualty Insurance Products*

Our main property and casualty insurance product is automobile insurance. In addition, we also offer individual accident insurance, travel insurance, disability income insurance, commercial property insurance, construction insurance products and other property and casualty products. The property and casualty insurance products we distribute to individual customers 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.
- *Travel Insurance.* The travel insurance products we distribute are short-term insurance providing guaranteed benefit in the event of death or disability and covering travel-related emergencies and losses, either within one's own country, or internationally. These products typically require only a single premium payment for each coverage period.
- *Disability Income Insurance.* The disability income insurance products we distribute generally have a term of one year and provide supplementary income before the insured can get back to their regular employment or for a specified period in the event of illness or disability. These products typically require only a single premium payment for each coverage period. Because most of the disability income insurance products we distribute are underwritten by property and casualty insurance companies, we classify them as property and casualty insurance products.
- *Homeowner Insurance.* The homeowner insurance products we distribute primarily cover the damage to the insured house, furniture and household electrical appliance caused by a number of standard risks such as fire, flood and explosion.

The property and casualty insurance products we distributed in 2016 were primarily underwritten by PICC P&C, CPIC, Ping An, Taiping and China United Property and Casualty Insurance Company Limited., or CIC.

In respect of the suspension of business cooperation with PICC P&C, the management has assessed the recoverability of the amounts due from PICC P&C and concluded there is no impairment of the related accounts receivable at this stage.

### *Life Insurance Products*

We expect the sale of life insurance products to continue to be an important source of our revenue in the next several years. 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:

- *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 and medical insurance, which provides conditional reimbursement for medical expenses during the coverage period. In return, the insured makes periodic payment of premiums over a pre-determined period.

- *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 interest is paid upon the death of the insured.
- *Individual Term Life Insurance.* The individual term life insurance products we distribute provide insurance coverage 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 insurance coverage for the insured for a specified time period and 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.
- *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.
- *Participating Insurance.* The participating insurance products we distribute not only provide insurance coverage but also pay dividends generated from the profits of the insurance company providing the policy. The dividends are typically paid out on an annual basis over the life of the policy. In return, the insured makes periodic payment of premiums over a pre-determined period, generally ranging from five to 25 years.

The life insurance products we distributed in 2016 were primarily underwritten by Huaxia, Tian'an, Taikang Life Insurance Co., Ltd., AVIVA-COFCO Life Insurance Co., Ltd. and Aegon-THTF Life Insurance Co., Ltd.

#### *Value-added Services*

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 these services related to insurances products are recorded as net revenues from insurance agency business.



### ***Insurance Brokerage Segment***

Our insurance brokerage segment accounted for 10.8%, 13.1% and 13.1% of our net revenues in 2014, 2015 and 2016, respectively. Our insurance brokerage segment primarily markets and sells commercial lines of property insurance products, group life insurance products, liability insurance products and credit insurance products to corporate clients. This segment also offers risk management services to enterprises in various industries and reinsurance brokerage services to insurance companies. The insurance products that our insurance brokerage segment provides can be broadly classified into the categories set forth below.

- *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.
- *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, employer's liability, public liability and professional 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 and Erection Insurance.* The construction and erection insurance products we distribute cover property damages and personal injury losses caused by natural disasters and accidents in connection with construction and erection projects in China and abroad.
- *Credit Insurance.* The credit insurance products we distribute are primarily trade credit insurance, which protects the account receivables of business entities from loss due to credit risk, and consumer credit insurance, which enables the borrower to ensure the repayment of a personal consumption loan in the event of the borrower's death, illness or disability, unemployment or other circumstances that may prevent him or her from earning income to service the debt.
- *Extended Warranty Insurance.* The extended warranty insurance products we distribute provide coverage for expenses associated with any repair or replacement of the sold items, such as an electrical appliance or auto vehicle, after the manufacturer's warranty has expired.
- *Bank Account Crime Insurance.* The bank account crime insurance products we distribute provide for the recovery of funds stolen from bank accounts.

As an insurance broker, we primarily place insurance programs for corporate clients with PICC P&C, China Life Property and Casualty Insurance Limited, or China Life P&C, CPIC, Ping An and CIC in 2016.

### ***Claims Adjusting Segment***

Total net revenues derived from our claims adjusting segment accounted for 13.6%, 10.7% and 7.2% of our total net revenue in 2014, 2015 and 2016, respectively. 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 primarily provided claims adjusting services to Ping An, CPIC, PICC P&C, China Life P&C and Taiping P&C in 2016.

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.

## Seasonality

See “Item 5. Operating and Financial Review and Prospects — A. Operating Results — Factors Affecting Our Results of Operations — Seasonality.”

## Distribution and Service Network and Marketing

We have an offline distribution and service network that, as of March 31, 2017, consisted of 31 insurance agencies, two insurance brokerages and three claims adjusting firms, with 959 sales and service outlets, 280,196 registered independent sales agents, 1,165 brokers and 1,241 in-house claims adjusters. Our distribution and service network covers 29 provinces and reaches some of the most economically developed regions and wealthiest cities in China, such as Beijing, Shanghai, Guangzhou and Shenzhen.

The following table sets forth additional information concerning our distribution and service network as of March 31, 2017, broken down by provinces:

Province	Number of Sales and Service Outlets	Number of Sales Agents	Number of In-house Adjustors	Number of in-house and non-affiliated Brokers
Shandong	111	63,778	55	-
Guangdong	209	42,462	248	46
Hebei	86	37,079	22	18
Sichuan	91	26,632	45	-
Shaanxi	9	16,131	56	-
Hunan	61	12,357	21	203
Liaoning	58	10,220	57	-
Jiangsu	40	9,899	93	10
Zhejiang	49	9,792	76	-
Fujian	36	9,376	11	23
Hubei	33	7,619	63	-
Beijing	28	7,011	131	865
Chongqing	16	6,415	28	-
Guangxi	21	6,120	49	-
Henan	33	3,735	3	-
Anhui	15	3,705	7	-
Inner Mongolia	4	3,305	12	-
Tianjin	9	3,105	22	-
Yunnan	4	1,602	27	-
Jiangxi	17	562	25	-
Shanghai	15	11	99	-
Hainan	2	-	13	-
Gansu	1	-	6	-
Shanxi	3	-	6	-
Xinjiang	1	-	5	-
Guizhou	1	-	14	-
Jilin	2	-	29	-
Heilongjiang	2	-	12	-
Qinghai	2	-	6	-
Total	959	280,196	1,241	1,165

We market and sell personal lines of property and casualty insurance products and life insurance products to customers through both registered independent sales agents, who are not our employees, and our in-house sales representatives. We also market and sell accidental, health, travel and homeowner insurance products directly to customers through our online platform Baowang (www.baoxian.com). We market and sell insurance claims adjusting services primarily to insurance companies through our in-house professional claims adjusters and to non-affiliated service representatives through Chetong.net, an online service platform, by bidding for claims adjusting business contracts. We provide insurance brokerage services to customers through both our in-house brokers and non-affiliated independent brokers.

### **Customers**

We sell property and casualty insurance products including automobile insurance, individual accident insurance and homeowner insurance products as well as life insurance products including individual health insurance, individual whole life insurance and individual term life insurance primarily to individual customers. We sell commercial property insurance, cargo insurance, hull insurance, liability insurance and construction and erection 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, 2016, no single individual customer of insurance products accounted for more than 1% of our net revenues. Our customers for the claims adjusting services are primarily insurance companies.

As of December 31, 2016, we had accumulated approximately 7.8 million individual customers and 1.7 million institutional customers. 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.

### **Insurance Company Partners**

As of March 31, 2017, we had established business relationships with 92 insurance companies 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. However, termination or suspension of a business relationship between us and the headquarters of an insurance company may significantly impact the business relationships at the local level. For example, on March 1, 2017, we were notified verbally by PICC P&C's local branches that PICC P&C was temporary suspending its business cooperation with Fanhua on areas such as insurance agency, brokerage and claims adjustment because certain of PICC P&C's senior management members was being investigated by the government. As a result, all the business relationship between our subsidiaries and PICC P&C's local branches were suspended. 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 China. As of March 31, 2017, we had outstanding contracts with 21 life insurance companies and 57 property and casualty insurance companies at the corporate headquarters level for the distribution of insurance products and outsourcing of claims adjusting services.

## 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 highly fragmented, accounting for only 7.0% of the total insurance premiums generated in China in 2015, according to the latest Chinese Insurance Intermediary Market Report. Several insurance intermediary companies have received private equity or venture capital funding in recent years and are actively pursuing expansion. We believe that we can compete effectively with these insurance intermediary companies because we have a longer operating history, we have a strong and stable team of managers and sales professionals equipped with CNpad (our proprietary sales support workstation), we offer diversified products to our sales agents and clients, we have built a unified operating platform and we were the first to adopt mobile technology to distribute insurance products among professional insurance intermediaries in China. 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. In addition, in recent years several major insurance companies have increasingly used telemarketing and the internet to distribute auto insurance. 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 that we can compete effectively with these business entities because our independent online insurance platform 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. We believe that we can compete effectively with these business entities because we can leverage our leading position in the distribution of individual insurance products and provision of property-related claims services, including our strong relationship with insurance companies, existing abundant customer resources and large distribution network, to rapidly develop our brokerage business.

We compete primarily with the other major claims adjusting firms in China, particularly Min Tai'an Insurance Surveyors & Loss Adjusters Co., Ltd., or Min Tai'an. We believe that we can compete effectively with Min Tai'an 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. As of March 31, 2017, we had 33 registered trademarks in China, including our corporate logo. Our main website is [www.fanhuaholdings.com](http://www.fanhuaholdings.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 PBOC, 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 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 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.

#### *2014 Amendments to the Insurance Law*

The 2002 Insurance Law was amended again in 2014 and the amended insurance law, which we refer to as the 2014 Insurance Law, became effective on August 31, 2014. The major amendments of the 2014 Insurance Law include:

- Relaxing restrictions on actuaries. The 2014 Insurance Law no longer requires Insurance companies shall employ actuaries recognized by the insurance regulatory authority under the State Council. However, an insurance company shall also engage professionals, and establish an actuarial reporting system and a compliance reporting system as before.

#### *2015 Amendments to the Insurance Law*

The 2014 Insurance Law was amended again in 2015 and the amended insurance law, which we refer to as the 2015 Insurance Law, became effective on April 24, 2015. The major amendments of the 2015 Insurance Law include:

- Eliminating the requirement for an insurance agent or broker to obtain a qualification certificate issued by the CIRC before providing any insurance agency or brokerage services.
- Relaxing the requirement for the establishment or other significant corporate events of an insurance agency or brokerage firm. For example, an insurance agency or brokerage firm is allowed to apply for a business permit from the CIRC and a business license from the local AIC simultaneously under the 2015 Insurance Law, while an insurance agency or brokerage firm had to apply for and receive a business permit issued by the CIRC before it could apply for a business license from and register with the relevant local AIC under the 2014 Insurance Law. Prior approval by the CIRC is no longer required for the divestiture or mergers of insurance agencies or brokerage firms, the change of their organizational form, or the establishment or winding-up of a branch by an insurance agency or brokerage firm.

#### *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 insurance companies or intermediaries for improper behaviors or misconducts.

### *Regulation of Insurance Agencies*

The principal regulation governing insurance agencies in China is the Provisions on the Supervision of Professional Insurance Agencies, or the POSPIA, promulgated by the CIRC on September 18, 2009 and effective on October 1, 2009, which has been amended by (i) the Decision on Revising the POSPIA issued by the CIRC and effective on April 27, 2013, and (ii) the second amendment to the POSPIA issued by the CIRC and effective on October 19, 2015. According to the POSPIA, 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. According to the CIRC’s Decision on Revising the Regulatory Provisions on Professional Insurance Agencies, or the Insurance Agency Decision, promulgated on April 27, 2013, unless otherwise stipulated by the CIRC, the minimum registered capital for establishing a new insurance agency is RMB50 million instead of RMB2 million for a regional insurance agency and RMB10 million for a nationwide insurance agency as previously required. An additional increase of registered capital is no longer required to establish a branch or sales office. Pursuant to the Notice of the CIRC on Further Clarifying Certain Issues Relating to the Access to the Professional Insurance Intermediary Market, a professional insurance agency that was established prior to the promulgation of the Insurance Agency Decision and has a registered capital of no more than RMB50 million may apply to establish branches only in the province in which it is registered. A professional insurance agency company that was established prior to the promulgation of the Insurance Agency Decision, has a registered capital of not more than RMB50 million and has already established branches in provinces other than its place of registration may apply to establish additional branches in those provinces. 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. An insurance agency 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; (iv) change of major shareholders; (v) change of registered capital; (vi) major changes to equity structure; (vii) amendment to the articles of association; (viii) divestment of a branch; (ix) establishment of a branch; (x) spin-off of or merger with an insurance agency or (xi) changes of organizational form. According to the Measures on the Supervision and Administration of Insurance Brokers and Insurance Claims Adjustors issued by the CIRC in January 2013, personnel of an insurance agency and its branches engaging in the sales of insurance products or relevant loss survey and claim settlement shall comply with the conditions prescribed by the CIRC. The senior managers of an insurance agency or its branches must meet specific qualification requirements set forth in the revised Regulatory Provisions on 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, or the POSIB, promulgated by the CIRC on September 18, 2009 and effective on October 1, 2009, which has been amended by (i) the Decision on Revising the POSIB issued by the CIRC and effective on April 27, 2013, and (ii) the amendment to the POSIB issued by the CIRC and effective on October 19, 2015. According to the POSIB, 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. According to the Decision on Revising the Regulatory Provisions on the Supervision of Insurance Brokerages, or the Insurance Brokerage Decision, promulgated on April 27, 2013, unless otherwise stipulated by the CIRC, the minimum registered capital for establishing a new insurance brokerage is RMB50 million instead of RMB10 million as previously required. An additional increase of registered capital is no longer required for establishing a branch or sales office. Pursuant to the Notice of the CIRC on Further Clarifying Certain Issues Relating to the Access for Professional Insurance Intermediary Companies Market, a professional insurance brokerage company that was established prior to the promulgation of the Insurance Brokerage Decision and has a registered capital of no more than RMB50 million may apply to establish branches only in the province in which it is registered. A professional insurance brokerage company that was established prior to the promulgation of the Insurance Brokerage Decision, has a registered capital of not more than RMB50 million and has already established branches in provinces other than its place of registration may apply to establish additional branches in those provinces. Insurance brokerage companies that provide internet insurance services must have a registered capital of not less than RMB50 million, unless they were already engaged in internet insurance services prior to the promulgation of the Insurance Brokerages Decision.



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. 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. 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 regulations governing insurance adjusting firms are the Provisions on the Supervision of Insurance Claims Adjusting Firms, or the POSICAF, issued by the CIRC on September 18, 2009 and effective on October 1, 2009, which has been amended by (i) the Decision on Revising the POSICAF issued by the CIRC on September 29, 2013 and effective on December 1, 2013, and (ii) the amendment to POSICAF issued by the CIRC and effective on October 19, 2015, or the 2015 Amendment. According to the POSICAF, 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.

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” and must avoid duplicating names of existing insurance claims adjusting firms. 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 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; (ix) divestment of a branch; (ix) establishment of a branch; (x) division of or merger with an insurance agency or (xi) change of organizational form. 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. The senior managers of an insurance adjusting firm must meet specific qualification requirements set forth in the Provisions on the Supervision of Insurance Claims 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 Measures on the Supervision and Administration of Insurance Salespersons issued by the CIRC on January 6, 2013 and effective on July 1, 2013, which replaced the Provisions on the Administration of Insurance Salespersons promulgated on April 6, 2006 and effective on July 1, 2006. Under this regulation, the term “insurance salesperson” refers to an individual who sells insurance products for an insurance company, including those who are engaged by insurance companies or by insurance agencies. The person must have a college degree or above to be qualified for the examination. A person must be registered with the CIRC’s Insurance Intermediaries Regulatory Information System and obtain a “Practice Certificate of Insurance Salespersons” issued by the insurance company or insurance agency to which he or she belongs in order to conduct insurance sales activities.

Pursuant to the 2015 Insurance Law and the amended POSPIA, a sales person is no longer required to pass the qualification examination organized by the CIRC or insurance industry committees to obtain a Qualification Certificate.

#### *Regulation of Insurance Brokers and Insurance Adjustors*

The principal regulation governing insurance brokerage practitioners and insurance adjustment practitioners is the Measures on the Supervision and Administration of Insurance Brokers and Insurance Claims Adjustors issued by the CIRC on January 6, 2013 and effective on July 1, 2013. The person must have a college degree or above to be qualified for the examination. A person also must be registered with the CIRC’s Insurance Intermediary Supervision Information System and obtain a “Practice Certificate of Insurance Brokers” or “Practice Certificate of Claims Adjustors” issued by the insurance brokerage firm or insurance claims adjusting company to which he or she belongs in order to conduct insurance brokerage or claims adjustment activities. An insurance broker is not allowed to conduct insurance brokerage activities on behalf of himself or herself.

Pursuant to the 2015 Insurance Law and the amended POSIB and POSICAF, an insurance brokerage practitioners or insurance claims adjustment practitioners is no longer required to pass the qualification examination organized by the CIRC or insurance industry committees to obtain a “Qualification Certificate of Insurance Brokers” or a “Qualification Certificate of Claims Adjusters.”

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

The principal regulation governing insurance intermediary groups is the Provisional Measures for Supervision and Administration of the Insurance Intermediary Service Group Companies (for Trial Implementation) issued by the CIRC on September 22, 2011 with immediate effect. According to the regulation, the term “insurance intermediary service group company” 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 World Trade Organization, or 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 Internet Insurance*

The principal regulation governing the operation of internet insurance business is the Interim Measures for the Supervision of the Internet Insurance Business, or Interim Measures, promulgated by the CIRC on July 27, 2015 and effective on October 1, 2015. Under the Interim Measures, the term of “internet insurance business” refers to the business of concluding insurance contracts and providing insurance services by insurance institutions through self-operated internet platforms, third-party internet platforms or other methods using the internet and mobile communication and other technologies. Insurance institutions include insurance companies and professional insurance intermediary companies that are established and registered in accordance with applicable laws and regulations and with the approval of the CIRC. Professional insurance intermediaries refer to professional insurance agencies, insurance brokerage firms and insurance claims adjusting firms that can operate in the areas not limited to the provinces where they are registered. Third party internet platforms refer to internet platforms other than those self-operated by insurance institutions which provide auxiliary services related to internet technology support to insurance institutions for their internet insurance business activities. Any third party internet platform that intends to directly engage in the internet insurance business such as underwriting of insurance policies, settlement of claims, cancellation of insurance policies, handling customers’ complaints and providing other customer services shall apply and obtain relevant qualifications from the CIRC before engaging in internet insurance business.

Both self-operated internet platforms and third party internet platforms, through which insurance institutions conduct internet insurance business, shall meet certain requirements such as obtaining ICP licenses or making ICP filing and maintaining sound internet operation system and information security system.

Insurance institutions shall carefully evaluate their own risk management and control capacity and customer service capacity, and rationally determine and choose insurance products and the scope of sales activities suitable for internet operations. The Interim Measures permit insurance companies to sell certain type of products online in regions outside their registered business areas, which include: (i) personal accident insurance, term life insurance and general whole life insurance; (ii) individual homeowner insurance, liability insurance, credit insurance and guarantee insurance; (iii) property insurance business for which the whole service process services from sales and underwriting of insurance policies to the settlement of claims can be performed independently and completely through the internet; and (iv) other insurance products specified by the CIRC.

The Interim Measures also specifies requirements on disclosure of information regarding insurance products sold on the internet and provides guidelines for the operations of the insurance institutions that engage in internet insurance business.

## ***Regulations on Online Financial Services***

On July 18, 2015, ten PRC regulatory agencies, including the PBOC, the CIRC and the CBRC, jointly issued the Guidelines on Promoting the Healthy Development of Internet Finance, or the Guidelines. The Guidelines encourage insurance companies to leverage Internet technology to transform and upgrade traditional financial services. The Guidelines also support financial institutions to build innovative international platforms that could conduct internet insurance business.

The Guidelines set out the basic principles for promoting the development and the administration of the online insurance sector. The respective regulatory agencies will adopt new rules and regulations to implement and enforce the principles set out in the Guidelines. As the implementing rules and regulations of the Guidelines have not been published, there is uncertainty as to how the requirements in the Guidelines will be interpreted and implemented.

## ***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 pursuant to the Decision on Revising the Foreign Currency Administration Rules promulgated by the State Council on January 14, 1997 and the Foreign Currency Administration Rules promulgated by the State Council on August 5, 2008; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange.

Under the Foreign Currency Administration 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 of the Settlement, Sale and Payment of Foreign Exchange, 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 Circular 37, issued on July 4, 2014, prior to making contribution to a SPC with legitimate holdings of domestic or overseas assets or interests, a PRC resident (including PRC institutions and resident individuals) shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. A PRC resident who makes contribution with legitimate holdings of domestic assets or interests shall apply for registration to the Foreign Exchange Bureau at its place of registration or the Foreign Exchange Bureau at the locus of the assets or interests of the relevant PRC enterprise. A PRC resident who makes contribution with legitimate holdings of overseas assets or interests shall apply for registration to the Foreign Exchange Bureau at its place of registration or household register. Where a registered overseas SPC experiences changes of its PRC resident individual shareholder, its name, operating period or other basic information, or experiences changes of material matters, such as the increase or reduction of contribution by the PRC resident individual, the transfer or replacement of equity, or merger or division, the PRC resident shall promptly change the foreign exchange registration of overseas investment with the Foreign Exchange Bureau concerned. Under SAFE Circular 37, 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 PBOC 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 Operating Rules for Administration of Foreign Exchange in Domestic Individuals' Participation in Employee Stock Ownership Plans and Stock Option plans of Companies Listed Abroad, or the Operating Rules, or the Operating Rules. Stock Option Rule. On February 15, 2012, SAFE promulgated the No. 7 Notice, which supersedes 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 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 the No. 7 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 pursuant to the Decision of the Standing Committee of the National People's Congress on Revising the Wholly Foreign-Owned Enterprise Law promulgated on October 31, 2000; and
- Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended pursuant to the Decision of the State Council on Amending the Rules for the Implementation of the Law on Foreign-Owned Enterprises promulgated by the State Council on April 12, 2001 and the Decision of the State Council on Revising the "Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law which took effect as of the promulgation date of March 1, 2014.

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 Provisions on Foreign Investors' Merger with and Acquisition of Domestic Enterprises, or the Order No. 10 (2006) which became effective on September 8, 2006. The Order No. 10 (2006) 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 then PRC counsel at the time, 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 the 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 based 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 which could have a material adverse effect on our result of operations.”

Under the New Income Tax law, enterprises are classified as either resident or non-resident. A resident enterprise refers to one that is incorporated under the PRC law or under the law of a jurisdiction outside the PRC with its "de facto management organization" located within the PRC. Non-resident enterprise refers to one that is incorporated under the law of a jurisdiction outside the PRC with its "de facto management organization" located also outside the PRC, but which has either set up institutions or establishments in the PRC or has income originating from the PRC without setting up any institution or establishment in the PRC. Under the New Enterprise Income Tax, Implementation Regulation, or the New EIT Implementation Regulations, "de facto management organization" is defined as the organization of an enterprise through which substantial and comprehensive management and control over the business, operations, personnel, accounting and properties of the enterprise are exercised. Under the New Income Tax Law and the New EIT Implementation Regulation, a resident enterprise’s global net income will be subject to a 25% EIT rate. On April 22, 2009, the State Administration of Taxation, or the SAT, issued SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. In addition, the SAT issued a bulletin on July 27, 2011 providing more guidance on the implementation of Circular 82 and clarifies matters such as resident status determination. Due to the present uncertainties resulting from the limited PRC tax guidance on this issue and 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 and VAT*

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. According to the Announcement on the VAT Reform Pilot Program of the Transportation and Selected Modern Service Sectors issued by the State Tax Bureau in July 2012, the transportation and some selected modern service sectors, including research and development and technical services, information technology services, cultural creative services, logistics support services, tangible personal property leasing services, and assurance and consulting service sectors, should pay value-added tax instead of business tax based on a predetermined timetable (hereinafter referred to as the “VAT Reform”), effective September 1, 2012 for entities in Beijing and November 1, 2012 for entities in Guangdong. The VAT Reform expanded nation-wide from August 1, 2013.

In March 2016, during the fourth session of the 12th National People’s Congress, it was announced that the VAT reform will be fully rolled out and extended to all industries including construction, real estate, financial services and lifestyle services. Subsequently, the SAT and Ministry of Finance jointly issued a Notice on Preparing for the Full Implementation of the VAT Reform (Cai Shui [2016] No. 36). Accordingly, we started to pay value-added tax instead of business tax from May 1, 2016.

### *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 wholly-owned subsidiary InsCom HK Limited 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**

### **Corporate Structure**

Historically, PRC laws and regulations restricted foreign investment in and ownership of insurance intermediary companies and internet companies. Accordingly, from December 2005 to May 2016, we conducted all or part of our business in China through contractual arrangements among our PRC subsidiaries, then-existing consolidated affiliated entities and their shareholders. We relied on contractual arrangements to control and receive economic benefits from our then-existing consolidated affiliated entities, which became our wholly-owned subsidiaries in 2016.



The contractual arrangements included loan agreements, equity pledge agreements, powers of attorney, exclusive purchase option agreements, technology service agreements and IT platform service agreements which enabled us to:

- exercise effective control over our then-existing consolidated affiliated entities;
- have an exclusive option to purchase all or part of the equity interests in our then-existing consolidated affiliated entities when and to the extent permitted by PRC law; and
- receive a substantial portion of the economic benefits from our then-existing consolidated affiliated entities in consideration for the services provided by our subsidiaries in China.

In October 2011, we commenced a restructuring of our company. Through a series of equity transfers, we had obtained direct controlling equity ownership in all of our insurance intermediary companies and our online operations by May 2016. The contractual arrangements were terminated between January 2015 and May 2016.

We currently conduct our business in China primarily through our wholly-owned subsidiary Fanhua Insurance Sales Service Group Company Limited, or Fanhua Group Company, and its subsidiaries. As of March 31, 2017, we, through Fanhua Group Company, have a controlling equity ownership in 31 insurance agencies, 3 insurance claims adjusting firms, 2 insurance brokerage companies and one e-commerce company. We also own 20.6% equity interest of one consumer financial service company, 15.4% equity interest of one wealth management company and 8.9% equity interest of one online claim adjusting service company.

Fanhua Group Company and its direct and indirect subsidiaries hold the licenses and permits necessary to conduct our insurance intermediary business and internet insurance distribution business in China.

## **Recent Principal Changes in Corporate Structure**

### **Changes in Relation to Inscom Holdings**

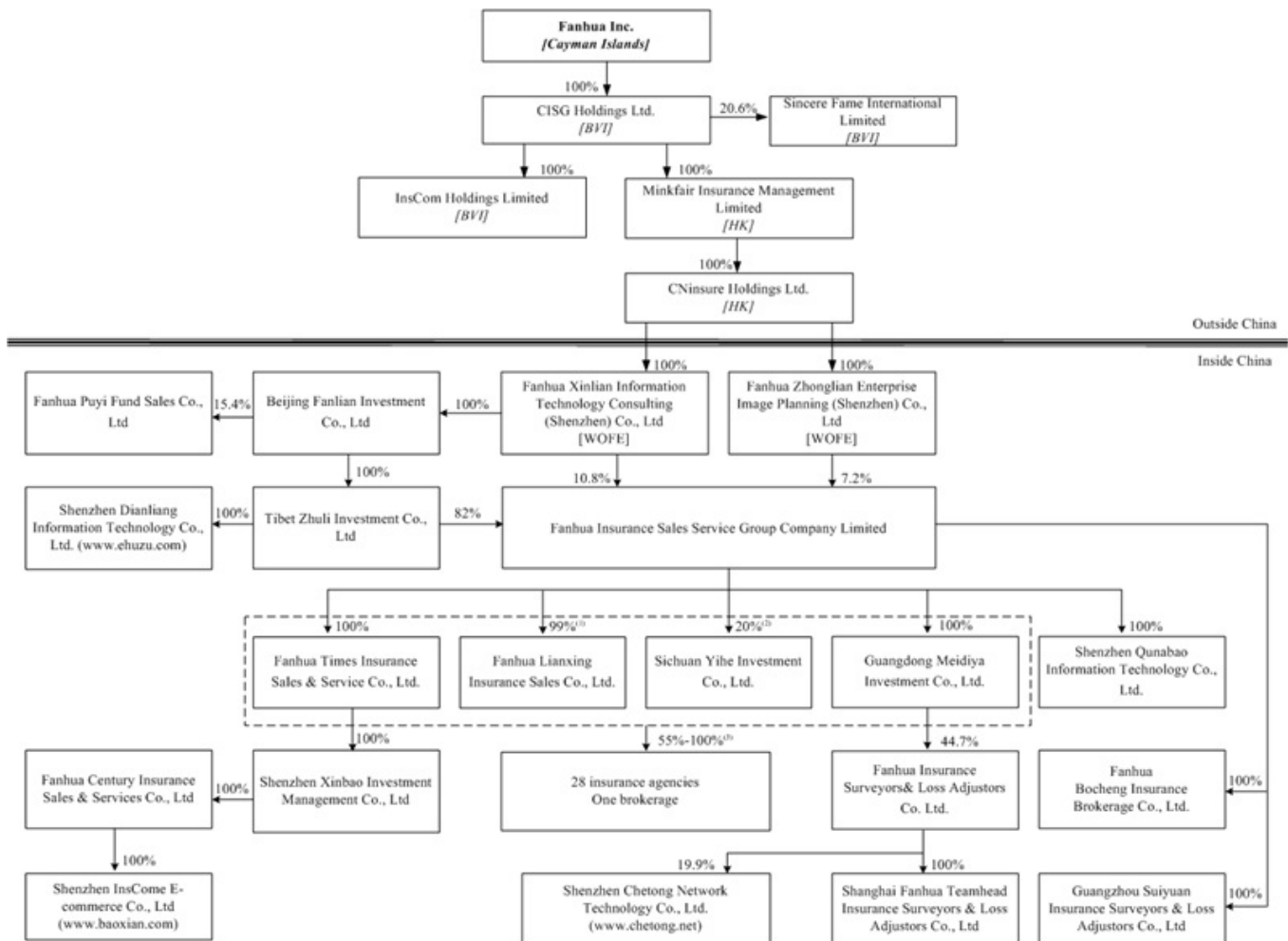
On May 9, 2016, CISG Holdings, our wholly-owned subsidiary entered into a share purchase agreement with the minority shareholders of Inscom Holdings, the holding company of our e-commerce platform, to acquire the remaining 34.9% of the equity interests in Inscom Holdings and the outstanding share options of Inscom Holdings for a total consideration of approximately RMB198.8 million which consists of (i) RMB179.3 million in cash after netting off with the receivable of RMB1.8 million in relation with the exercise of the Inscom share options and (ii) 7,416,000 ordinary shares of Fanhua, equivalent to 370,800 ADSs. Upon completion of the acquisition, CISG Holdings's equity interests in Inscom Holdings increased from 65.1% to 100%.

On May 23, 2016, Mr. Chunlin Wang and Mr. Yuan Tian, two individual shareholders of Shenzhen Xinbao Investment Management Co., Ltd., or Xinbao Investment, transferred their respective equity interests in Xinbao Investment to Fanhua Times Insurance Sales & Services Co., Ltd., our wholly-owned subsidiaries. As a result, Xinbao Investment, which used to be our consolidated affiliated entities, became our wholly-owned subsidiary. In January 2015, Mr. Lai and Mr. Ge, transferred their respective equity interests in Meidiya Investment to Fanhua Group Company. Subsequently in December 2015, Mr. Lai transferred his equity interests in Yihe Investment to Zhonglian Enterprise and Mr. Ge transferred his equity interests in Yihe Investment to Xinlian Information. In January 2016, Mr. Rannuo Hu, the individual shareholder of Dianliang Information, transferred 100% of the equity interests of Dianliang Information to Tibet Zhuli Investment Co., Ltd., our wholly-owned subsidiary. As a result, Meidiya Investment, Yihe Investment and Dianliang Information become our wholly-owned subsidiaries and we have obtained direct equity ownership in all of our insurance intermediary businesses and an online mutual aid platform in the PRC.

### **Changes in Relation to Branch Conversion**

As part of our corporate restructuring plan to transfer business operations of certain subsidiaries into branches, we had completed transferring the business operations conducted by five of our wholly-owned insurance agencies by December 31, 2016 to branches of Fanhua Times Insurance Sales & Services Co., Ltd., or Fanhua Times, and Fanhua Lianxing Insurance Sales Co., Ltd. Subsequent to these transfers, in 2016, we canceled the business licenses of two of these insurance agencies and disposed of three of these insurance agencies for a total cash consideration of RMB30.7 million (US\$4.4 million).

The following diagram illustrates our corporate structure, including our principal subsidiaries, as of March 31, 2017:



→ Equity Interests

(1) The remaining 1% is owned by Xinlian Information.

(2) The remaining 80% is owned collectively by Xinlian Information and Zhonglian Enterprises.

(3) Direct ownership in the range of 55-100% attributable to Fanhua Times, Fanhua Lianxing, Sichuan Yihe Investment Co., Ltd. and/ or Meidiya Investment.

The diagram above omits the names of subsidiaries that are immaterial individually and in the aggregate. For a complete list of our subsidiaries as of March 31, 2017, see Exhibit 8.1 to this annual report.

Our contractual arrangements with Xinbao Investment, our then-consolidated affiliated entity, and with its shareholders provided us with effective control over, and the option to purchase the equity interests in, Xinbao Investment and transfer economic benefits from Xinbao Investment to us. The contractual arrangements with Xinbao Investment were terminated in May 2016. We had previously entered into similar contractual agreements with Meidiya Investment, Yihe Investment and Dianlian Information, which were terminated in January 2015, December 2015 and January 2016, respectively.

As of March 31, 2017, we have obtained direct controlling equity ownership in all of our insurance intermediary companies and our online operations and terminated all of the contractual arrangements. In the opinion of Global Law Office, our PRC legal counsel, the ownership structures of our consolidated affiliated entities and our subsidiaries in China have complied with all existing PRC laws and regulations since 2012 and the business operations of our PRC 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 uncertainties regarding the interpretation and application of 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 structure for operating our online operations does not comply with PRC government restrictions on foreign investment in the internet industry, we could be subject to severe penalties including being prohibited from continuing operations. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Corporate Structure — If the PRC government finds that the structure for operating part of our China business does 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.” 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 leased approximately 2,461.0 square meters of office space as of December 31, 2016. Our subsidiaries and consolidated affiliated entities leased approximately 57,510.8 square meters of office space as of December 31, 2016. In 2016, our total rental expenses were RMB40.4 million (US\$5.8 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.

##### **A. Operating Results**

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

As an insurance intermediary in China, our financial condition and results of operations are affected by a variety of factors, including:

- business relationship with important insurance company partners;
- 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.

#### ***Business Relationship with Important Insurance Company Partners***

We derive significant revenue from our important insurance company partners. Among the top five of our insurance company partners, each of PICC P&C, CPIC, Ping An and Huaxia accounted for more than 10% of our total net revenues in 2015 or 2016, with PICC P&C accounting for 23.9%, CPIC for 11.2% and Ping An for 10.0% in 2015 and PICC P&C accounting for 26.5%, Huaxia for 11.0% and CPIC for 10.4% in 2016. As a result, any significant changes to our business relationship with the important insurance company partners could have a material impact on our revenue and profits. In March 2017, we were notified by PICC P&C's local branches that PICC P&C was temporarily suspending its business cooperation with us on areas such as insurance agency, brokerage and claims adjustment because certain of PICC P&C's senior management members was being investigated by the government. We expect the suspension of business relationship with PICC P&C to result in a decline in our total revenues in 2017.

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

The Chinese insurance industry has grown substantially in the past decade. Between 2006 and 2016, total insurance premiums increased from RMB564.1 billion to RMB3.1 trillion, representing a compound annual growth rate, or CAGR, of 18.6%, according to the 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.

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 whether the rapid growth trend will continue. Any 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. A deregulation reform in auto insurance pricing regulatory regime was implemented in six provinces in 2015 and has been extended to an additional 12 provinces starting from January 1, 2016 and nationwide starting from July 1, 2016. As a result, auto insurance premium rates declined slightly in 2016. The deepening of the auto insurance pricing deregulation may result in further decline in auto insurance premium rates. While such decline may have a negative impact on the commissions and fees we earned on a per policy sold basis, it also may have 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 staffs 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. Historically, we have expanded our distribution and service network in part through selective acquisitions of high-quality independent insurance intermediary companies. Since 2002, we, through our consolidated affiliated entities in the PRC, acquired controlling interests in 21 insurance agencies (excluding Datong and its subsidiaries), five 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. In recent years, market opportunities for independent insurance intermediaries have expanded rapidly due to the growth of the internet and we have launched several online platforms to embrace these opportunities. In order to strengthen the core competitiveness of our online platforms, we intend to seek acquisitions of businesses including leading wealth management companies engaged in internet finance, or companies that have innovative business models or leading technologies in internet finance. 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 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 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, primarily to individual customers. We further broadened our service offering to cover insurance claims adjusting services in 2008. We started to offer insurance brokerage services for commercial line insurance to corporate clients and reinsurance brokerage services in 2010.

Our business is divided into three reporting operating segments: (1) insurance agency, (2) insurance brokerage, and (3) claims adjusting.

#### ***Insurance Agency Segment***

Our largest segment by revenue, the insurance agency segment, provides a broad range of property and casualty and life insurance products to individual customers.

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, and gross margin of life insurance business was higher than that of our property and casualty insurance business, we expect a positive impact on our revenue and gross margin if our distribution of life insurance products increases in the future.

#### ***Insurance Brokerage Segment***

For insurance brokerage services in connection with commercial line insurance, insurance companies typically pay us brokerage fees as a percentage of the insurance premiums. We pay our in-house insurance brokers salary or non-affiliated brokers who we assist in the negotiation or placement of insurance programs with underwriters a share of the commissions we receive from insurance companies. Gross margin of this line of business was similar to that of our retail line of property and casualty insurance business. As the result of the suspension of business relationship with PICC P&C, we expect the revenues from our insurance brokerage business as a percentage of our total net revenues to decrease in 2017.

### *Claims Adjusting Segment*

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. In some cases, our fees are charged based on the number of claims adjusters involved in providing the services. 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 claims adjusting business has become and likely will continue to be an important source of our net revenues. The gross margin and operating margin attributable to the claims adjusting business were higher than those for both property and casualty insurance products and life insurance products. We expect that revenues from our claims adjusting business as a percentage of our total net revenues to remain stable over the next few years.

### *Share-based Compensation Expenses*

Our historical results of operations have been materially affected by the share-based compensation expenses incurred. In 2014, 2015 and 2016, we incurred share-based compensation expenses of RMB23.6 million, RMB17.7 million and RMB4.9 million (US\$0.7 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.” All of the share-based compensation expenses related to the options granted under the 2007 Share Incentive Plan have been amortized as of December 31, 2016.

### *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**

Our business is divided into three reporting operating segments: (1) insurance agency, (2) insurance brokerage, and (3) claims adjusting. The insurance agency segment provides a broad range of property and casualty and life insurance products to individual customers.

### *Net Revenues*

Our revenues are net of PRC business tax. In 2014, 2015 and 2016, we generated net revenues of RMB2.2 billion, RMB2.8 billion and RMB4.7 billion (US\$677.0 million), respectively. We derive net revenues from the following sources:

- *Insurance agency segment:* commissions paid by insurance companies for the distribution of (i) property and casualty products, and (ii) life insurance products, primarily to individual customers, which accounted for 75.6%, 76.2% and 79.7% of our net revenues for 2014, 2015 and 2016, respectively;
- *Insurance brokerage segment:* commissions and advisory fees for (i) insurance and reinsurance brokerage services primarily paid by the insurance companies, and (ii) risk management consulting services primarily paid by the insureds, which accounted for 10.8%, 13.1% and 13.1% of our net revenues for 2014, 2015 and 2016, respectively;
- *Claims adjusting segment:* commissions and fees primarily paid by the insurance companies and, to a lesser degree, by the insureds for the provision of claims adjusting services, which accounted for 13.6%, 10.7% and 7.2% of our net revenues for 2014, 2015 and 2016, respectively;

The following table sets forth our total net revenues earned from each of our reporting segments both in absolute amounts and as percentages of total net revenues, for the periods indicated:

	Year Ended December 31,					
	2014		2015		2016	
	RMB	%	RMB	%	RMB	US\$
	(in thousands except percentages)					
Insurance agency segment	1,624,410	75.6	2,155,264	76.2	3,746,471	539,604
Insurance brokerage segment	232,620	10.8	369,198	13.1	617,738	88,973
Claims adjusting segment	292,981	13.6	303,846	10.7	336,413	48,454
<b>Total net revenues</b>	<b>2,150,011</b>	<b>100.0</b>	<b>2,828,308</b>	<b>100.0</b>	<b>4,700,622</b>	<b>677,031</b>

Net revenues from the insurance agency segment, in particular, automobile insurance products, have been our primary source of revenue since our inception. Net revenues from the insurance agency segment increased from 2014 to 2016. As 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. However, as a result of the deepening of automobile insurance pricing reform, the disruption of business relationship with PICC P&C and intensified price competition among insurance companies, we expect net revenues from property and casualty insurance agency business to decrease as a percentage of our total revenues in the next few years. At the same time, we expect life insurance business to grow rapidly and bring in significant revenue that will represent a higher percentage of our total net revenues in the next several years. We believe this growth will be driven by a number of factors including stronger demand for traditional life insurance products as a result of the aging population and the sophistication of Chinese consumers who are increasingly interested in purchasing life insurance.

We established an insurance brokerage business unit to expand into the business of offering commercial lines of property and casualty insurance in 2010. Net revenues from the insurance brokerage segment increased from 2014 to 2016 in both absolute amounts and as a percentage of our total net revenues, primarily reflecting the strong growth of our insurance brokerage business during the period. As a result of the suspension of business relationship with PICC P&C, we expect that net revenues from the insurance brokerage segment will decrease as a percentage of our total net revenues in 2017.

We began providing claims adjusting services in 2008. Net revenues from our claims adjusting segment increased from 2014 to 2016 in absolute amounts, primarily reflecting the stable growth of our claims adjusting business during the period. We expect that net revenues from claims adjusting services will remain stable 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 achieve 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, or in some cases, on a per head 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.



## Operating Costs and Expenses

Our operating costs and expenses consist of costs incurred in connection with the distribution of insurance products and the 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,					
	2014		2015		2016	
	RMB	%	RMB	%	RMB	US\$
	(in thousands except percentages)					
<b>Total net revenues</b>	<b>2,150,011</b>	<b>100.0</b>	<b>2,828,308</b>	<b>100.0</b>	<b>4,700,622</b>	<b>677,031</b>
Operating costs	(1,615,157)	(75.1)	(2,150,506)	(76.0)	(3,610,526)	(520,024)
Selling expenses	(107,263)	(5.0)	(143,279)	(5.1)	(588,822)	(84,808)
General and administrative expenses	(396,692)	(18.5)	(456,001)	(16.1)	(487,234)	(70,176)
<b>Total operating costs and expenses</b>	<b>(2,119,112)</b>	<b>(98.6)</b>	<b>(2,749,786)</b>	<b>(97.2)</b>	<b>(4,686,582)</b>	<b>(675,008)</b>

### Operating Costs

We incur costs primarily in connection with the distributions of insurance products and provisions of insurance brokerage and claims adjusting services. The costs that we incurred increased in absolute amounts each year from 2014 to 2016, primarily as a result of an increase in net revenues and an increase in the size of our sales force and the number of claims adjusters. We rely mainly on individual sales agents and a small number of in-house sales representatives, and to a much lesser degree, on our online insurance platform for the distributions of insurance products. For insurance and reinsurance brokerage services, we mainly rely on our in-house brokers and non-affiliated brokers. For claims adjusting services, we rely entirely on our in-house claims adjusters. Costs incurred as a percentage of net revenues increased from 2014 to 2016 primarily due to a significant rise in policy acquisition costs and commission costs as a result of increasing labor cost pressure and greater market competition. We anticipate that our costs will continue to increase in absolute amounts as we further grow our business.

### Selling Expenses

Our selling expenses primarily consist of:

- salaries and employment benefits for employees who work in back office below the provincial management level;
- office rental, telecommunications 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 and promote our online platforms.

### 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;
- research and development expenses in relation to our mobile and online programs;
- professional fees paid for valuation, market research, legal and auditing services;

- bad debt expenses for doubtful receivables;
- 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, pay higher labor costs and incur additional costs in connection with the expansion of our business, and our efforts to develop our e-commerce platform.

*Share-based compensation expenses.* Share-based compensation expenses constituted one of the components of our general and administrative expenses in 2014, 2015 and 2016. We incurred share-based compensation with respect to certain managerial and administrative staff and a small number of sales agents in 2014, 2015 and 2016. 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,					
	2014		2015		2016	
	RMB	%	RMB	%	RMB	US\$ %
	(in thousands except percentages)					
Share-based compensation expenses	23,598	5.9	17,653	3.9	4,937	711 1.0
Others	373,094	94.1	438,348	96.1	482,297	69,465 99.0
<b>General and administrative expenses</b>	<b>396,692</b>	<b>100.0</b>	<b>456,001</b>	<b>100.0</b>	<b>487,234</b>	<b>70,176 100.0</b>

Our share-based compensation expenses in 2014, 2015 and 2016 were primarily attributable to the options granted in March 2012.

For more information about our share-based compensation expenses, please see Note 19 to our audited consolidated financial statements included in this annual report.

## Taxation

We and each of our subsidiaries 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, 2015, 2016 and 2017. Payment of dividends is not subject to withholding tax in Hong Kong.

## ***PRC***

### ***EIT***

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%,.

Pursuant to a Notice of Preferential Policies of EIT, jointly issued by the PRC Ministry of Finance and the SAT 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. Our wholly-owned subsidiary, Litian Zhuoyue, Shenzhen Fanhua Software Technology Co., Ltd. (also known as Shenzhen Fanhua Software Technology Co., Ltd.), Ying Si Kang Information and Shenzhen Huazhong United Technology Co., Ltd., are entitled to the tax holidays under this notice from 2010 to 2014, 2012 to 2016, 2014 to 2018 and 2015 to 2019, respectively.

### ***Business Tax and VAT***

In November 2011, the Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot VAT reform program, which change the charge of sales tax from business tax to VAT for certain pilot industries. The VAT reform program initially applied only to the pilot industries in Shanghai, and was expanded to eight additional regions, including, among others, Beijing and Guangdong province, in 2012. In August 2013, the program was further expanded nationwide.

With respect to all of our PRC entities for the period immediately prior to the implementation of the VAT reform program, revenues from our services are subject to a 5% PRC business tax. Revenues from our online advertising services are subject to an additional 3% cultural business construction fee.

In March 2016, during the fourth session of the 12th National People's Congress, it was announced that the VAT reform will be fully rolled out and extended to all industries including construction, real estate, financial services and lifestyle services. Subsequently, the State Administration of Taxation and Ministry of Finance jointly issued a Notice on Preparing for the Full Implementation of the VAT Reform (Cai Shui [2016] No. 36). Accordingly, revenues from our services are subject to value-added tax instead of business tax starting from May 1, 2016.

### ***PRC Urban Maintenance and Construction Tax and Education Surcharge***

Any entity, foreign-invested or purely domestic, or individual that is subject to consumption tax, VAT and business tax is also required to pay PRC urban maintenance and construction tax. The rates of urban maintenance and construction tax are 7%, 5% or 1% of the amount of consumption tax, VAT and business tax actually paid depending on where the taxpayer is located. All entities and individuals who pay consumption tax, VAT and business tax are also required to pay education surcharge at a rate of 3%, and local education surcharges at a rate of 2%, of the amount of VAT, business tax and consumption tax actually paid.

### **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***

Our revenue is derived principally from the provision of insurance brokerage, agency and claims adjusting services. We recognize 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 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. We have met all the four criteria of revenue recognition when the premiums are collected by us or the respective insurance companies and not before, because collectability is not ensured until receipt of the premium. Accordingly, we do not accrue any commission and fees prior to the receipt of the related premiums.

Insurance brokerage services revenue is recognized when the signed insurance policy is in place and the premium is collected from the insured and the commission settlement confirmation is received from insurance companies, because the commission rate for brokerage services is negotiated case by case and our fees are fixed when such confirmation is received.

No allowance for cancellation has been recognized for agency and brokerage businesses as we estimate, 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 0.2%, 0.2% and 0.2% of the total commission and fee revenues during years ended December 31, 2014, 2015 and 2016, respectively. For agency and brokerage services, we 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 computed based on the insurance premium amount multiplied by an agreed-upon percentage. The contingent commissions are recorded when a performance target is being 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. We have met all the four criteria of revenue recognition when the service is provided and the loss adjusting report is accepted by insurance companies. We do 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.

We present revenue net of sales taxes incurred. The sales taxes amounted to RMB121.0 million, RMB157.2 million and RMB81.9 million (US\$11.8 million) for the years ended December 31, 2014, 2015 and 2016, respectively.

### ***Impairment of Goodwill***

Goodwill is 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 has 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 as needed, 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, commission and fees 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 2015 and 2016, management compared the carrying value of each reporting unit, including assigned goodwill, to its respective fair value, which is step one of the two-step impairment test. The fair values of all reporting units were estimated by using the income approach. 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 not required. Management concluded that goodwill was not impaired as of December 31, 2015 and 2016.

The use of discounted cash flow methodology requires significant judgments including estimating future revenues and costs, industry economic factors, future profitability, determination of our weighted average cost of capital and other variables. Although we believe that the assumptions adopted in our discounted cash flow model are reasonable, those assumptions are inherently unpredictable and uncertain. If the reporting unit is at risk of failing step one of the impairment test, we will describe the material events, trends and uncertainties that affect the reported income and the extent to which income is so affected.

### ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in our consolidated financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized

Since 2014, we have adopted FASB ASU No. 2013-11—Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists prospectively, to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the balance sheets as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require us to use, and we do not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit is presented in the balance sheets as a liability.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, related to balance sheet classification of deferred taxes. The ASU requires that deferred tax assets and liabilities be classified as noncurrent in the statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amount. We adopted ASU 2015-17 on a prospective basis in 2016. Accordingly, all net deferred tax assets are presented as non-current deferred tax assets as of December 31, 2016. Please see Note 11 to our audited consolidated financial statements included in this annual report.

#### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" which amended the existing accounting standards for revenue recognition. The core principle of the new guidance is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new guidance also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements.

Subsequently, the FASB issued the following various updates affecting the guidance in ASU 2014-09: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. We will adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the "new revenue standards").

The new revenue standards may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (the modified retrospective method). The new revenue standards become effective for the Company on January 1, 2018. We currently anticipates adopting the new revenue standards using the full retrospective method. We are in the process of evaluating the impact on our consolidated financial statements upon adoption.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for certain provisions. We are in the process of evaluating the impact of adoption of this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on the balance sheet. This ASU requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors' accounting under the ASC is largely unchanged from the previous accounting standard. In addition, the ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The provisions of this guidance are effective for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We are in the process of evaluating the impact of adoption of this guidance on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We do not anticipate the adoption of this ASU will have any material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update is intended to improve financial reporting in regards to how certain transactions are classified in the statement of cash flows. This update requires that debt extinguishment costs be classified as cash outflows for financing activities and provides additional classification guidance for the statement of cash flows. The update also requires that the classification of cash receipts and payments that have aspects of more than one class of cash flows to be determined by applying specific guidance under generally accepted accounting principles. The update also requires that each separately identifiable source or use within the cash receipts and payments be classified on the basis of their nature in financing, investing or operating activities. The update is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not anticipate that the adoption of ASU 2016-15 will have any material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. We anticipate that upon adoption of this ASU, the restricted cash will be included in cash and cash equivalents on our consolidated balance sheets, and transfers between restricted cash and cash and cash equivalents will not be presented as cash flow activities on our consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The update is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update provides a more robust framework to use in determining when a set of assets and activities is a business, and also provides more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. For public companies, the update is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The effect of ASU 2017-01 on our consolidated financial statements will be dependent on any future acquisitions.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The update simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. For public companies, the update is effective for any annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not anticipate that the adoption of ASU 2017-04 will have any material impact on our consolidated financial statements.

## Results of Operations

The following table sets forth our net revenues, operating costs and expenses and income from operations by reportable segments for the periods indicated.

Our business is divided into three reporting operating segments: (1) insurance agency, (2) insurance brokerage, and (3) claims adjusting.

	For the Year Ended December 31,					
	2014 to 2015		2015 to 2016		2016	
	2014	Percentage Change	2015	Percentage Change	RMB	US\$
	RMB	%	RMB	%		
(in thousands except percentages)						
<b>Consolidated Statement of Income Data</b>						
<b>Net revenues:</b>						
Agency	1,624,410	32.7	2,155,264	73.8	3,746,471	539,604
Brokerage	232,620	58.7	369,198	67.3	617,738	88,973
Claims adjusting	292,981	3.7	303,846	10.7	336,413	48,454
<b>Total net revenues</b>	<b>2,150,011</b>	<b>31.5</b>	<b>2,828,308</b>	<b>66.2</b>	<b>4,700,622</b>	<b>677,031</b>
<b>Operating costs and expenses:</b>						
Operating costs:						
Agency	(1,261,888)	32.8	(1,675,261)	73.5	(2,906,791)	(418,665)
Brokerage	(185,593)	58.3	(293,875)	71.5	(503,925)	(72,580)
Claims adjusting	(167,676)	8.2	(181,370)	10.2	(199,810)	(28,779)
<b>Total operating costs</b>	<b>(1,615,157)</b>	<b>33.1</b>	<b>(2,150,506)</b>	<b>67.9</b>	<b>(3,610,526)</b>	<b>(520,024)</b>
Selling expenses	(107,263)	33.6	(143,279)	311.0	(588,822)	(84,808)
General and administrative expenses	(396,692)	15.0	(456,001)	6.8	(487,234)	(70,176)
<b>Total operating costs and expenses</b>	<b>(2,119,112)</b>	<b>29.8</b>	<b>(2,749,786)</b>	<b>70.4</b>	<b>(4,686,582)</b>	<b>(675,008)</b>
<b>Income (loss) from operations</b>						
Insurance agency	137,539	35.2	185,935	(57.3)	79,467	11,446
Insurance brokerage	35,603	40.6	50,074	(55.1)	22,506	3,242
Claims adjusting	17,442	(35.6)	11,233	163.6	29,609	4,265
Other	(159,685)	5.7	(168,720)	(30.3)	(117,542)	(16,930)
<b>Income from operation</b>	<b>30,899</b>	<b>154.1</b>	<b>78,522</b>	<b>(82.1)</b>	<b>14,040</b>	<b>2,023</b>
<b>Other income, net:</b>						
Investment income	44,240	48.3	65,624	75.7	115,275	16,603
Interest income	82,251	(30.4)	57,234	(87.9)	6,931	998
Others, net	2,330	459.7	13,042	(12.2)	11,452	1,649
<b>Income before income taxes and income of affiliates</b>	<b>159,720</b>	<b>34.2</b>	<b>214,422</b>	<b>(31.1)</b>	<b>147,698</b>	<b>21,273</b>
Income tax expense	(24,289)	6.5	(25,865)	9.6	(28,353)	(4,084)
Share of income of affiliates	30,649	(12.2)	26,924	79.4	48,293	6,955
<b>Net income</b>	<b>166,080</b>	<b>29.7</b>	<b>215,481</b>	<b>(22.2)</b>	<b>167,638</b>	<b>24,144</b>
Less: Net income attributable to the noncontrolling interests	4,320	24.9	5,395	96.3	10,591	1,526
<b>Net income attributable to the Company's shareholders</b>	<b>161,760</b>	<b>29.9</b>	<b>210,086</b>	<b>(25.2)</b>	<b>157,047</b>	<b>22,618</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, 2016 Compared to Year Ended December 31, 2015*

### *Net Revenues*

Our total net revenues increased by 66.2% from RMB2.8 billion in 2015 to RMB4.7 billion (US\$677.0 million) in 2016 primarily attributable to increases in net revenues from our insurance agency, insurance brokerage and claims adjusting segments.

- Net revenues from our insurance agency segment increased by 73.8% from RMB2.2 billion in 2015 to RMB3.7 billion (US\$539.6 million) in 2016. The increase was primarily driven by (i) a 50.2% increase in net revenues derived from the property and casualty insurance agency business, from RMB1.8 billion in 2015 to RMB2.8 billion (US\$396.9 million) in 2016, and (ii) a 209.6% increase in net revenues derived from the life insurance agency business, from RMB319.9 million in 2015 to RMB990.5 million (US\$142.7 million) in 2016. The growth of the property and casualty insurance agency business was primarily due to the substantial progress we have made in implementing multiple strategic initiatives, including the expansion of our sales network, enhanced cross-selling efforts, the upgrade and promotion of CNpad and the initiation of several marketing campaigns. The increase in net revenues generated from the life insurance agency business was primarily due to a 244.1% increase in commissions derived from the sales of new long-term life insurance policies, which was primarily driven by the successful implementation of our cross-selling strategy and overall industry growth.
- Net revenues from insurance brokerage segment increased by 67.3% from RMB369.2 million in 2015 to RMB617.7 million (US\$89.0 million) in 2016. The increase was primarily due to our business expansion.
- Net revenues from our claims adjusting segment increased by 10.7% from RMB303.8 million in 2015 to RMB336.4 million (US\$48.5 million) in 2016, primarily due to the growth of our automobile insurance related claims adjusting business.

### *Operating Costs and Expenses*

Operating costs and expenses increased by 70.4% from RMB2.7 billion in 2015 to RMB4.7 billion (US\$675.0 million) in 2016.

*Operating Costs.* Our operating costs increased by 67.9% from RMB2.2 billion in 2015 to RMB3.6 billion (US\$520.0 million) in 2016, primarily because of increases in operating costs for our agency insurance, brokerage insurance and claims adjusting segments.

- Operating costs for our insurance agency segment increased by 73.5% from RMB1.7 billion in 2015 to RMB2.9 billion (US\$418.7 million) in 2016, primarily driven by (i) an increase of 51.9% in costs for the property and casualty insurance agency business, and (ii) an increase of 227.9% in costs for the life insurance agency business, both of which are in line with the growth in net revenues from the property and casualty agency business and life insurance agency businesses.
- Operating costs for our insurance brokerage segment increased by 71.5% from RMB293.9 million in 2015 to RMB503.9 million (US\$72.6 million) in 2016. The increase was primarily due to sales growth.
- Operating costs for our claims adjusting segment increased by 10.2% from RMB181.4 million in 2015 to RMB199.8 million (US\$28.8 million) in 2016. The increase was primarily attributable to sales growth.

*Selling Expenses.* Our selling expenses increased by 311.0% from RMB143.3 million in 2015 to RMB588.8 million (US\$84.8 million) in 2016 primarily attributable to an increase in marketing campaign expenses, which mainly aimed at promoting sales and gaining market share of our P&C insurance and life insurance business during 2016.

Marketing campaign expenses were incurred to increase our market share and attract more agents, at certain selected regions which we strategically planned to capture higher market shares, and not a necessary expense to sell insurance policies. Such expenses were temporary, with short regional program terms ranging from one to three months. Marketing campaigns were only effective when such campaigns were officially announced by us to the agents and it can be terminated at any time without further notice. We recorded marketing campaign expenses when the related services were provided. During the years ended December 31, 2014, 2015 and 2016, nil, RMB19.5 million and RMB299.9 million (US\$43.2 million) of marketing campaign expenses were included in the selling expenses, respectively.

*General and Administrative Expenses.* Our general and administrative expenses increased by 6.8% from RMB456.0 million in 2015 to RMB487.2 million (US\$70.2 million) in 2016. The increases were primarily due to the increase in payroll and rental expenses, partially offset by the decrease in share-based compensation and depreciation expenses.

#### *Income from Operations*

As a result of the foregoing factors, income from operations decreased by 82.1% from RMB78.5 million in 2015 to RMB14.0 million (US\$2.0 million) in 2016.

- Income from operations for our agency insurance segment decreased by 57.3% from RMB185.9 million in 2015 to RMB79.5 million (US\$11.4 million) in 2016, which was primarily due to the increase of the marketing campaign expenses. The marketing campaign expenses were incurred to increase our market share and attract more agents at certain selected regions which we strategically planned to capture higher market shares in 2016.
- Income from operations for our brokerage insurance segment significantly decreased by 55.1% from RMB50.1 million in 2015 to RMB22.5 million (US\$3.2 million) in 2016.
- Income from operations for our claims adjusting segment increased by 163.6% from RMB11.2 million in 2015 to RMB29.6 million (US\$4.3 million) in 2016.
- Other loss from operations represented operating loss incurred by the headquarters which was not allocated to each business segment. Operating loss incurred by the headquarters decreased by 30.3% from RMB168.7 million in 2015 to RMB117.5 million (US\$16.9 million) in 2016. The decrease was primarily due to change in the allocation of general and administration expenses related to CNpad, which were allocated to the insurance agency segment in 2016 as compared to headquarters in 2015.

#### *Other Income*

*Investment Income.* Investment income represents income received from short term investments in collective trust products and interbank deposits. Our investment income increase by 75.7% from RMB65.6 million in 2015 to RMB115.3 million (US\$16.6 million) in 2016. The increase was primarily attributable to an increase in short term investment products.

*Interest Income.* Our interest income decreased by 87.9% from RMB57.2 million in 2015 to RMB6.9 million (US\$1.0 million) in 2016. The decrease was primarily due to a decrease in term deposits as a result of the increased short-term investments.

*Others, Net.* Our other income, net, decreased by 12.2% from RMB13.0 million in 2015 to RMB11.5 million (US\$1.6 million) in 2016.

#### *Income from Operations before Income Taxes and Income of Affiliates*

As a result of the foregoing factors, our income before income taxes and income of affiliates decreased by 31.1% from RMB214.4 million in 2015 to RMB147.7 million (US\$21.3 million) in 2016.

#### *Income Tax Expense*

Our income tax expense increased by 9.6% from RMB25.9 million in 2015 to RMB28.4 million (US\$4.1 million) in 2016. The effective tax rate in 2016 was 19.2% compared with 12.1% in 2015. The increase in effective tax rate was primarily due to preferential tax treatment enjoyed by one of our subsidiaries in 2015, which was not available in 2016.

### *Share of Income of Affiliates*

Our share of income of affiliates increased by 79.4% from RMB26.9 million in 2015 to RMB48.3 million (US\$7.0 million) in 2016, primarily due to the rapid growth of net income generated by Sincere Fame, in which we own 20.6% equity interest.

### *Net Income*

As a result of foregoing factors, our net income decreased by 22.2% from RMB215.5 million in 2015 to RMB167.6 million (US\$24.1 million) in 2016.

### *Net Income Attributable to the Noncontrolling Interests*

Our net income attributable to the non-controlling interests increased by 96.3% from RMB5.4 million in 2015 to RMB10.6 million (US\$1.5 million) in 2016, primarily due to increased profits from claims adjusting segments as we currently own 44.7% equity interests in our claims adjusting firms.

### *Net Income Attributable to the Company's Shareholders*

As a result of the foregoing, our net income attributable to our shareholders decreased by 25.2% from RMB210.1 million in 2015 to RMB157.0 million (US\$22.6 million) in 2016.

## ***Year ended December 31, 2015 Compared to Year Ended December 31, 2014***

### *Net Revenues*

Our total net revenues increased by 31.5% from RMB2.2 billion in 2014 to RMB2.8 billion in 2015 primarily attributable to increases in net revenues from our insurance agency, claims adjusting and insurance brokerage segments.

- Net revenues from our insurance agency segment increased by 32.7% from RMB1.6 billion in 2014 to RMB2.2 billion in 2015. The increase was primarily driven by (i) a 28.6% increase in net revenues derived from the property and casualty agency business from RMB1.4 billion in 2014 to RMB1.8 billion for 2015, and (ii) a 62.2% increase in net revenues derived from the life insurance agency business from RMB197.2 million in 2014 to RMB319.9 million in 2015. The growth of the property and casualty insurance agency business was primarily due to the growth of insurance premiums, as a result of increased marketing efforts and an increase in commission rates that we received from insurance companies. The increase in net revenues generated from the life insurance agency business was primarily driven by enhanced marketing efforts and the successful implementation of our cross-selling strategy.
- Net revenues from insurance brokerage segment increased by 58.7% from RMB232.6 million in 2014 to RMB369.2 million in 2015, primarily due to an increase in our customer base as a result of efforts to expand sales channels, develop innovative product offerings and cultivate markets.
- Net revenues from our claims adjusting segment increased by 3.7% from RMB293.0 million in 2014 to RMB303.8 million in 2015.

### *Operating Costs and Expenses*

Operating costs and expenses increased by 29.8% from RMB2.1 billion in 2014 to RMB2.7 billion in 2015.

*Operating Costs.* Our operating costs increased by 33.1% from RMB1.6 billion in 2014 to RMB2.2 billion in 2015, primarily because of increases in operating costs for our agency insurance, brokerage insurance and claims adjusting segments.

- Operating costs for our agency insurance segment increased by 32.8% from RMB1.3 billion in 2014 to RMB1.7 billion in 2015, primarily driven by (i) a 29.8% increase in costs for our property and casualty insurance agency business from RMB1.1 billion in 2014 to RMB1.5 billion in 2015, and (ii) a 58.7% increase in costs for the life insurance agency business from RMB129.4 in 2014 to RMB205.3 million in 2015, which were largely due to the increased costs associated with the sales growth and were in line with the growth in net revenues from the property and casualty insurance agency and life insurance agency businesses.

- Operating costs for our brokerage insurance segment increased by 58.3% from RMB185.6 million in 2014 to RMB293.9 million in 2015. The increase was primarily due to sales growth.
- Operating costs for our claims adjusting segment increased by 8.2% from RMB167.7 million in 2014 to RMB181.4 million in 2015. The increase was primarily due to an increase in payroll costs for claims adjusters and sales growth.

*Selling Expenses.* Our selling expenses increased by 33.6% from RMB107.3 million in 2014 to RMB143.3 million in 2015 primarily due to an increase of RMB19.5 million in marketing expenses to promote CNpad App in the fourth quarter of 2015.

*General and Administrative Expenses.* Our general and administrative expenses increased by 15.0% from RMB396.7 million in 2014 to RMB456.0 million in 2015. The increase was primarily due to increases in research and development expenses associated with development of our online platforms, and increases in payroll expenses and conference expenses, partially offset by decreases in share-based compensation, amortization and depreciation expenses.

#### *Income from Operations*

As a result of the foregoing factors, income from operations increased by 154.1% from RMB30.9 million in 2014 to RMB78.5 million in 2015.

- Income from operations for our agency insurance segment increased by 35.2% from RMB137.5 million in 2014 to RMB185.9 million in 2015.
- Income from operations for our brokerage insurance segment increased by 40.6% from RMB35.6 million in 2014 to RMB50.1 million in 2015.
- Income from operations for our claims adjusting segment decreased by 35.6% from RMB17.4 million in 2014 to RMB11.2 million in 2015. The decrease was mainly because we recorded stock compensation expense of RMB3.4 million, being the excess of (x) the estimated fair value of equity interests in FHISLA transferred to FHISLA's management and employees over (y) the purchases prices paid by them for such equity interests.
- Other loss from operations represented operating loss incurred by our headquarters, which was not allocated to each business segment. Operating loss incurred by our headquarters was RMB168.7 million in 2015, increased by 5.7% from RMB159.7 million in 2014. The change was primarily due to general administration expenses related to the development of our online platforms.

#### *Other Income*

*Investment Income.* Investment income represents income received from short term investments in collective trust products and interbank deposits. Our investment income increased by 48.3% from RMB44.2 million in 2014 to RMB65.6 million in 2015. The increase was primarily attributable to an increase in short term investment products.

*Interest Income.* Our interest income decreased by 30.4% from RMB82.3 million in 2014 to RMB57.2 million in 2015. The decrease was primarily due to a decrease in term deposits as a result of the increased short-term investments and reduction of the interest bearing amounts due from an affiliate and other receivables.

*Others, Net.* Our other income, net, increased by 459.7% from RMB2.3 million in 2014 to RMB13.0 million in 2015, which primarily consisted of (i) interest income of RMB7.8 million from the loans granted to employees related to share issuances and subscriptions in November 2014 and December 2014, and (ii) government subsidies.

#### *Income from Operations before Income Taxes and Income of Affiliates*

As a result of the foregoing factors, our income from operations before income taxes and income of affiliates increased by 34.2% from RMB159.7 million in 2014 to RMB214.4 million in 2015.

#### *Income Tax Expense*

Our income tax expense increased by 6.5% from RMB24.3 million in 2014 to RMB25.9 million in 2015. The effective tax rate in 2015 was 12.1% compared with 15.2% in 2014. The decrease in effective tax rate was primarily due to preferential tax treatment enjoyed by one of our subsidiaries.

#### *Share of Income of Affiliates*

Our share of income of affiliates decreased by 12.2% from RMB30.6 million in 2014 to RMB26.9 million in 2015, which was primarily due to decreased profits from Sincere Fame, in which we own 20.6% equity interest, resulting from (i) narrower interest spreads as a result of reduction in interest rates charged to customers for retail loans; (ii) increased marketing expenses related to its online platform; and (iii) a change in its accounting recognition method for its service fees.

#### *Net Income*

As a result of foregoing factors, our net income increased by 29.7% from RMB166.1 million in 2014 to RMB215.5 million in 2015.

#### *Net Income Attributable to the Noncontrolling Interests*

Our net income attributable to the non-controlling interests increased by 24.9% from RMB4.3 million in 2014 to RMB5.4 million in 2015.

#### *Net Income Attributable to the Company's Shareholders*

As a result of the foregoing, our net income attributable to our shareholders increased by 29.9% from RMB161.8 million in 2014 to RMB210.1 million in 2015.

#### **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 increased by 2.6%, 2.6%, 2.0%, 1.4% and 2.0% in 2012, 2013, 2014, 2015 and 2016, respectively. Our operating costs and expenses, such as sales agent and employee compensation and office operating expenses, increased significantly partly as a result of inflation 2015 and 2016. 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 RMB6.9198 per U.S. dollar in December 2016. The fluctuation of the exchange rate between the RMB and U.S. dollar and HK dollar resulted in foreign currency translation gain of RMB2.2 million (US\$0.3 million) in 2016, 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. As of December 31, 2016, we had RMB240.2 million (US\$34.6 million) in cash. Our cash and cash equivalents consist of cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash, and have insignificant risk of changes in value related to changes in interest rates. Our principal uses of cash have been to fund acquisitions, developments of online projects including CNpad, Baoxian.com, and eHuzhu, establishing sales outlets, working capital requirements, automobiles and office equipment purchases, office renovation and rental deposits.

We expect to require cash to fund our ongoing business needs, particularly the further expansion of our distribution and service network, expansion into the financial services business and development of online platforms.

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,			
	2014	2015	2016	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash generated from operating activities	261,649	281,304	87,846	12,652
Net cash used in investing activities	(445,395)	(1,131,551)	(748,758)	(107,843)
Net cash used in financing activities	(7,817)	(143,708)	(216,575)	(31,193)
Net decrease in cash and cash equivalents	(191,563)	(993,955)	(877,487)	(126,384)
Cash and cash equivalents at the beginning of the year	2,288,623	2,103,068	1,115,266	160,632
Cash and cash equivalents at the end of the year	2,103,068	1,115,266	240,242	34,602

### ***Operating Activities***

Net cash generated from operating activities amounted to RMB87.8 million (US\$12.7 million) for the year ended December 31, 2016, primarily attributable to (i) a net income of RMB167.6 million (US\$24.1 million), (ii) adjustments of depreciation of RMB13.5 million (US\$1.9 million), amortization of acquired intangible assets of RMB20.2 million (US\$2.9 million), compensation expenses associated with stock options of RMB4.9 million (US\$0.7 million) and share of income of affiliates of RMB48.3 million (US\$7.0 million), which were non-cash items, and (iii) an increase of accounts payable of RMB127.0 million (US\$18.3 million) and other payable of RMB142.7 million (US\$20.6 million) due to an increase in the operational cost and expenses that had accrued but unsettled in the fourth quarter of 2016, partially offset by (i) an increase of accounts receivable of RMB271.3 million (US\$39.1 million) as a result of sales growth, and (ii) RMB80.6 million (US\$11.6 million) in investment income from collective trust funds and inter-bank deposit.

Net cash generated from operating activities amounted to RMB281.3 million for the year ended December 31, 2015, primarily attributable to (i) a net income of RMB215.5 million, (ii) an add-back of depreciation of RMB18.4 million, amortization of acquired intangible assets of RMB11.6 million and compensation expenses associated with stock options of RMB17.7 million, which were non-cash items, and (iii) an increase of accounts payable of RMB33.0 million and other payable of RMB71.5 million due to an increase in the operational expenses that had accrued but unsettled in the fourth quarter of 2015, partially offset by (i) an increase of accounts receivable of RMB61.4 million as a result of sales growth and improvement of accounts receivable collections in our claims adjusting segment, (ii) share of income of affiliates of RMB26.9 million, which was also included in net income but did not have cash flow effect during the period, and (iii) RMB31.1 million in investment income from collective trust funds and inter-bank deposit.

Net cash generated from operating activities amounted to RMB261.6 million for the year ended December 31, 2014, primarily attributable to (i) a net income of RMB166.1 million, (ii) an add-back of depreciation of RMB28.2 million, amortization of acquired intangible assets of RMB16.8 million and compensation expenses associated with stock options of RMB23.6 million, which were non-cash items, and (iii) an increase of accounts payable of RMB27.5 million, partially offset by (i) share of income of affiliates of RMB30.6 million which was also included in net income but did not have cash flow effect during the period and (ii) RMB15.4 million in investment income from investment in collective trust funds and inter-bank deposit.

#### ***Investing Activities***

Net cash used in investing activities for the year ended December 31, 2016 was RMB748.8 million (US\$107.8 million), primarily attributable to (i) cash used to purchase financial products including collective trust funds and inter-bank deposits of RMB9.5 billion (US\$1.4 billion), and (ii) cash used to purchase intangible assets of RMB60.0 million (US\$8.6 million), partially offset by (i) proceeds from short term investments of RMB8.8 billion (US\$1.3 billion) that had matured and (ii) proceeds from disposal of subsidiaries of RMB29.4 million (US\$4.2 million).

Net cash used in investing activities for the year ended December 31, 2015 was RMB1.1 billion, primarily attributable to cash used to purchase financial products including collective trust funds and inter-bank deposits of RMB2.3 billion, partially offset by (i) proceeds from short term investments of RMB994.8 million that had matured and (ii) repayment from related parties of RMB181.2 million.

Net cash used in investing activities for the year ended December 31, 2014 was RMB445.4 million, primarily attributable to (i) cash used to purchase short term investments in financial products of RMB546.6 million, (ii) cash paid out for acquisitions of subsidiaries of RMB62.7 million, and (iii) cash advance to related parties of RMB62.7 million, which mainly consisted of advances made to Sincere Fame, partially offset by (i) proceeds from disposal of short term investments of RMB118.2 million and (ii) a decrease in other receivables of RMB113.6 million, mainly representing an repayment in loans from Jintaiping.

#### ***Financing Activities***

Net cash used in financing activities was RMB216.6 million (US\$31.2 million) for the year ended December 31, 2016, attributable to payments totaling RMB213.5 million (US\$30.8 million) for acquisitions of noncontrolling interests in subsidiaries, partially offset by proceeds of RMB1.1 million (US\$0.2 million) received upon exercise of stock options.

Net cash used in financing activities was RMB143.7 million for the year ended December 31, 2015, mainly attributable to payments totaling RMB153.5 million for acquisitions of noncontrolling interests in subsidiaries.

Net cash used in financing activities was RMB7.8 million for the year ended December 31, 2014, attributable to payment of RMB11.0 million for acquisitions of noncontrolling interests in subsidiaries, offset by proceeds received on exercise of stock options of RMB3.2 million.

#### ***Capital Expenditures***

We incurred capital expenditures of RMB6.2 million, RMB6.7 million and RMB11.9 million (US\$1.7 million) for the years ended December 31, 2014, 2015 and 2016, respectively. Our capital expenditures have been used primarily to construct our online platforms including CNpad 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 in China, and construct our e-commerce insurance platform. We anticipate funding our future capital expenditures primarily with net cash flows from financing and operating activities.

#### ***Borrowings***

As of each of December 31, 2015 and 2016, we had no short-term or long-term bank borrowings.

## Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations through our subsidiaries in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries. If our 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 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. As of December 31, 2016, our restricted net asset was RMB2.6 billion (US\$378.8 million). This amount is composed of the registered equity of our PRC subsidiaries and the statutory reserves described above.

We conducted part of our operations through our consolidated affiliated entities prior to May 2016. Beginning from May 2016, all of our business operations are conducted through our subsidiaries. In the years ended December 31, 2014, 2015 and 2016, aggregate revenues derived from our consolidated affiliated entities contributed 3.4%, 3.8% and 0.7%, respectively, of our total consolidated net revenues. Our operations that were not conducted through contractual arrangements with our then-existing consolidated affiliated entities primarily consist of our insurance agency, insurance brokerage and claims adjusting businesses. As of December 31, 2015 and 2016, our consolidated affiliated entities accounted for an aggregate of 2.6% and nil, respectively, of our consolidated total assets. The assets that were not associated with our consolidated affiliated entities primarily consists of cash and cash equivalents, restricted cash, short term investments, accounts receivable, insurance premium receivables, other receivables, deferred tax assets, amounts due from related parties, other current assets, property, plant and equipment, goodwill, intangible assets, deferred tax assets, investments in affiliates and other non-current assets. As of December 31, 2015 and 2016, our consolidated affiliated entities accounted for an aggregate of 18.1% and nil, respectively, of our consolidated total liabilities. Our ability to pay dividends primarily depends upon dividends paid by our subsidiaries. As of December 31, 2016, the total amount of service fees payable to our wholly owned subsidiaries from our consolidated affiliated entities was nil. As of December 31, 2016, we had aggregate undistributed earnings of approximately RMB2.1 billion (US\$296.4 million) that were available for distribution, including nil of undistributed earnings of our consolidated affiliated entities. These undistributed earnings are considered to be indefinitely reinvested, and will be subject to PRC dividend withholding taxes upon distribution.

### 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, 2016 to December 31, 2016 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. As a result, as of December 31, 2016, we did not have any off-balance sheet arrangements that had or were reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



F. Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2016:

	Payment Due by Period				
	Total	Less than 1	1-3 years	3-5 years	More than 5
		year			years
(in thousands of RMB)					
Operating lease obligations	69,034	30,725	30,830	7,479	—
Total	69,034	30,725	30,830	7,479	—

Not included in the table above are uncertain tax liabilities of RMB72.8 million (US\$10.5 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, 2016.

G. Safe Harbor

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 thoroughly read 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.

## **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.

<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Chunlin Wang	47	Chief Executive Officer and Director
Peng Ge	45	Chief Financial Officer and Director
Yinan Hu	51	Director and Chairman of the Board of Directors
Yunxiang Tang	71	Independent Director
Stephen Markscheid.	63	Independent Director
Allen Warren Lueth	48	Independent Director
Mengbo Yin	61	Independent Director

*Mr. Chunlin Wang* has been our chief executive officer since October 2011 and became our director in March 2016. 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. Peng Ge* has been our chief financial officer since April 2008 and became our director in December 2016. 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 our director and 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.

*Mr. Yunxiang Tang*, a senior economist, has been our independent director since May 2012. Mr. Tang served as general manager of the People's Insurance Company (Group) of China Limited, or the PICC and chairman of the Board of Directors of PICC P&C, PICC Asset Management Company Limited, PICC Life Insurance Company Limited and PICC Health Insurance Company Limited from 2000 to 2007. He was the president of Insurance Association of China from 2001 to 2003 and vice chairman of the CIRC from 1998 to 2000. Prior to that, he served in different senior leadership roles in the financial regulatory authorities, including head of the PBOC Guangdong Branch and chief of State Administration of Foreign Exchange, Guangdong Branch and assistant governor of the PBOC.

*Mr. Stephen Markscheid* has been our independent director since August 2007. Mr. Markscheid is currently a venture partner at DealGlobe, a Shanghai based investment bank. He is a member of the board of directors and a member of the audit committee, compensation committee and/or nomination committee of Jinko Solar, Inc., Ener-Core Inc., and ChinaCast Education Corporation, all of which are public companies listed in U.S and ZZ Capital, a public company listed in Hong Kong. He is also a trustee of Princeton-in-Asia, a nonprofit social service organization affiliated with Princeton University. From 2007 to 2015, he was the chief executive officer of Synergenz 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. Prior to that, he worked with the US-China Business Council in Washington D.C. and Beijing. 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. Mr. Lueth is currently a member of the board of directors of Greatview Aseptic Packaging Company Limited, a company listed in Hong Kong and Roots & Shoots, a private environmental charity organization. Since December 2010, he has been the chief financial officer of Cardinal Health China, one of the world's leading pharmaceutical distributors, which acquired Zuellig Pharma China in November 2010 and has been a member of the board of directors of Cardinal Health China since 2005. 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 November 2010. 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 at Northwestern University.

*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 consolidated 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 2016, the aggregate cash compensation, including reimbursement of expenses, to our executive officers was approximately RMB1.7 million (US\$0.3 million), and the aggregate cash compensation to our non-executive directors was approximately RMB2.1 million (US\$0.3 million). We did not set aside or accrue any amounts to provide pension, retirement or similar benefits for our executive officers and directors except for statutory social security payment.

### **Share Incentives**

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

Our 2007 Share Incentive Plan 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 have reserved 136,874,658 ordinary shares for issuance under our 2007 Share Incentive Plan, which was approximately 15% of our outstanding ordinary shares at the time we authorized the number of ordinary shares reserved for issuance.

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 “2008 Option”). The exercise price of these options is US\$0.28 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. During 2016, in connection with the 2008 Option, options to purchase 180,400 ordinary shares were exercised and nil were forfeited.

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 “2009 Option”). The exercise price of these options is US\$0.34 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. During 2016, in connection with the 2009 Option, options to purchase 349,000 ordinary shares were exercised, and nil were forfeited.

On March 12, 2012, pursuant to the amended and restated 2007 Share Incentive Plan, our board of directors approved the grant of options to certain directors, officers, key employees and sales agents to purchase an aggregate of 93,445,000 ordinary shares at an exercise price of US\$0.30 per ordinary share and approved the grant of options to two independent directors who are residents of the United States in an aggregate of 3,200,000 ordinary shares at an exercise price of US\$0.31 per ordinary share (the “2012 Options”). 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 certain option holders and all option holders' continued employment with us.

In December 2013, the board of directors approved an option modification to extend the expiration dates of the outstanding 2008 Options and 2009 Options to December 31, 2017.

In November 2014, the board and compensation committee passed a resolution to modify the exercise price of the 2012 Options. The exercise price of the rest of the 2012 Options was reduced from US\$0.30 per ordinary share (for certain directors, officers, key employees and sales agents) and US\$0.31 per ordinary share (for two independent directors who are residents of the United States) to US\$0.001 per ordinary share while the maximum aggregate award of 96,645,000 ordinary shares was reduced to 46,722,500 ordinary shares. The options are subject to the same service period. As of December 31, 2014, except for the options granted to one of the independent directors, outstanding options to purchase 91,327,722 ordinary shares were modified into 45,663,861 shares options. There was no incremental cost as a result of such option modification. During the year ended December 31, 2016, in connection with the 2012 Options, options to purchase 2,068,000 ordinary shares had been exercised and 147,994 ordinary shares had been forfeited due to option holders' failure to meet the performance target or termination of employment or agency contracts.

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 Share Incentive 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 Share Incentive 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 Share Incentive 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 Share Incentive 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 Share Incentive Plan. Amendments to the 2007 Share Incentive 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 Share Incentive Plan or to extend the term of an option beyond ten years. Unless terminated earlier, the 2007 Share Incentive Plan will expire and no further awards may be granted after the tenth anniversary of the shareholder approval of the 2007 Share Incentive Plan.

As of March 31, 2017, options to purchase 68,501,158 ordinary shares of Fanhua were outstanding. The following table summarizes, as of March 31, 2017, the outstanding options that we granted to our directors and executive officers and to other individuals as a group.

<b>Name</b>	<b>Options Outstanding</b>	<b>Exercise Price (Per Ordinary Share)( US\$)</b>	<b>Grant Date</b>	<b>Expiration Date</b>
Chunlin Wang	2,000,000	0.001	March 12, 2012	March 12, 2022
	2,050,000	0.278	November 21, 2008	December 31, 2017
Peng Ge	2,000,000	0.001	March 12, 2012	March 12, 2022
	3,350,000	0.278	November 21, 2008	December 31, 2017
Yinan Hu	2,000,000	0.001	March 12, 2012	March 12, 2022
	4,500,000	0.278	November 21, 2008	December 31, 2017
Yunxiang Tang	400,000	0.001	March 12, 2012	March 12, 2022
Stephen Markscheid	800,000	0.001	March 12, 2012	March 12, 2022
	600,000	0.278	November 21, 2008	December 31, 2017
Allen Warren Lueth	1,600,000	0.3135	March 12, 2012	March 12, 2022
	600,000	0.278	November 21, 2008	December 31, 2017
Mengbo Yin	800,000	0.001	March 12, 2012	March 12, 2022
	400,000	0.278	November 21, 2008	December 31, 2017
Other individuals as a group	27,551,138	0.001	March 12, 2012	March 12, 2022
	5,913,480	0.336	March 9, 2009	December 31, 2017
	13,936,540	0.278	November 21, 2008	December 31, 2017

#### ***InsCom Holdings Options***

In 2012, 2013 and 2014, InsCom Holdings issued three batches of its options to certain entrepreneurial agents and certain employees of Inscom Holdings and Fanhua ("InsCom Options"). The number of options the grantees are entitled to in each year were calculated based on the key performance indicator scores of the grantees in the respective prior year and subject to their continued services to InsCom Holdings and Fanhua.

As of the grant date of these InsCom Options, the fair values of these InsCom Options were estimated to be nominal and no compensation expenses related to these options were recognized.

As of December 31, 2016, all of the InsCom Options had been exercised when we purchased the remaining interests of InsCom Holdings from the minority shareholders of InsCom Holdings on May 9, 2016.

## C. Board Practices

### **Board of Directors**

Our board of directors consists of seven directors. Under our currently effective amended and restated 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 2016, our board of directors met in person or passed resolutions by unanimous written consent seven times. In addition, our independent directors held executive sessions without the presence of non-independent directors or members of management twice during 2016. 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 2016, our audit committee held meetings or passed resolutions by unanimous written consent four times.

**Compensation Committee.** Our compensation committee consists of Stephen Markscheid (chairman), Allen Lueth and Yunxiang Tang, 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 2016, our compensation committee held meetings or passed resolutions by unanimous written consent twice.

**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 2016, 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 to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated memorandum and articles of association as amended and restated from time to time. In certain limited circumstances, it may be possible for our shareholders to bring a derivative action on behalf of our company if a duty owed by our 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 resigns, 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 a special resolution of 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. For the period during which the directors and executives have served in the office, please see “Item 6. Directors, Senior Management and Employees — A. Directors and Senior Management.”



D. Employees

**Employees, Sales Agents and Training**

We had 3,867, 4,157 and 4,579 employees as of December 31, 2014, 2015 and 2016, 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, 2016:

	<b>Number of Employees</b>	<b>% of Total</b>
Management and administrative staff	2,832	61.9
Financial and accounting staff	334	7.3
Professional claims adjustors	1,304	28.5
Information technology staff	109	2.3
Total	<u>4,579</u>	<u>100.0</u>

As of December 31, 2014, 2015 and 2016, we had 62,248, 116,164 and 231,592 sales representatives, respectively. 99.9% of these sales representatives are independent sales agents who are not our employees and are only compensated by commissions. We have contractual relationships with these sales agents. 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, though we are reducing this hierarchy to only two layers in certain cities. 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 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, 2017, 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, 2017, there were 1,168,889,926 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 <sup>(3)</sup>	62,464,360	5.3%
Peng Ge <sup>(4)</sup>	63,764,360	5.4%
Yinan Hu <sup>(5)</sup>	199,739,310	17.0%
Yunxiang Tang	*	*
Stephen Markscheid	*	*
Allen Warren Lueth	*	*
Sea Synergy Limited <sup>(7)</sup>	183,198,110	15.7%
All Directors and Executive Officers as a Group <sup>(6)</sup>	272,942,470	22.9%
<b>Principal Shareholders:</b>		
Sea Synergy Limited <sup>(7)</sup>	183,198,110	15.7%
Kingsford Resources Limited <sup>(8)</sup>	58,414,360	5.0%
High Rank Investments Limited <sup>(8)</sup>	58,414,360	5.0%
Better Rise Investments Limited <sup>(8)</sup>	58,414,360	5.0%
Qiuping Lai <sup>(9)</sup>	206,361,240	17.6%
Master Trend Limited <sup>(9)</sup>	200,961,240	17.2%
S. Donald Sussman <sup>(10)</sup>	68,487,280	5.9%

\* Less than 0.5% of our total outstanding ordinary shares.

† Except for our independent directors, the business address of our directors and executive officers is c/o 27/F, Pearl River Tower, No. 15 West Zhujiang Road, Guangzhou, Guangdong 510623, 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, 2017.
- (2) Percentage of beneficial ownership of each director and executive officer is based on 1,168,889,926 ordinary shares outstanding as of March 31, 2017, and the number of ordinary shares underlying options held by such person that have vested or will vest within 60 days after March 31, 2017.
- (3) Includes (i) 35,350,940 ordinary share and 23,063,420 ordinary shares in the form of ADSs held by Kingsford Resources Limited, or Kingsford Resources, and (ii) 4,050,000 ordinary shares that are issuable upon exercise of options held by Mr. Chunlin Wang within 60 days after March 31, 2017. Mr. Chunlin Wang holds 100% of the total outstanding shares of Better Rise Investments, which in turn owns approximately 32.9% of Kingsford Resources Limited, or Kingsford Resources. Mr. Wang disclaims direct beneficial ownership of all of our shares held by Kingsford Resources except to the extent of his pecuniary interest through Better Rise Investment therein.
- (4) Includes (i) 35,350,940 ordinary share and 23,063,420 ordinary shares in the form of ADSs held by Kingsford Resources, and (ii) 5,350,000 ordinary shares that are issuable upon exercise of options held by Mr. Ge within 60 days after March 31, 2017. Mr. Ge holds 100% of the total outstanding shares of High Rank Investments, which in turn holds approximately 67.1% of Kingsford Resources. 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 (i) 10,041,200 ordinary shares in the form of ADSs of our company acquired by Mr. Hu on the open market, (ii) 6,500,000 ordinary shares issuable upon exercise of options held by Mr. Hu within 60 days after March 31, 2017 and (iii) 183,198,110 ordinary shares of our company directly held by Sea Synergy Limited, or Sea Synergy. Mr. Hu and his wife hold approximately 98.6% and 1.4%, respectively, of the total outstanding shares 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 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, 2017.
- (7) Includes 183,198,110 ordinary shares of our company directly held by Sea Synergy. Mr. Hu and his wife hold approximately 98.6% and 1.4%, respectively, of the total outstanding shares of Sea Synergy. The registered address of Sea Synergy is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (8) Includes 35,350,940 ordinary share and 23,063,420 ordinary shares in the form of ADSs of our company directly held by Kingsford Resources. High Rank Investments Limited and Better Rise Investments hold 67.1% and 32.9% of the total outstanding shares of Kingsford Resources, respectively. Mr. Wang and Mr. Ge hold 100% of the outstanding shares of Better Rise Investments and High Rank Investments, respectively. Mr. Chunlin Wang and Mr. Ge each has the authority to vote the percentage of shares owned by Kingsford Resources that is proportionate to their respective interests in Kingsford Resources. Following the retirement of Qiuping Lai, or Mr. Lai, from the Issuer's management and board of directors on March 29, 2016, Mr. Lai transferred all of his shares and ADSs including 80,132,620 Ordinary Shares and 2,613,978 ADSs (representing 52,279,560 Ordinary Shares) that were held previously through Kingsford Resources to Crown Cham Limited, a company 100% owned by Mr. Lai, that were determined based on his prior pecuniary interest in Kingsford Resources, on or about June 16, 2016. As a result of such transfer by Mr. Lai, Kingsford Resources, Better Rise and High Rank also went through an internal restructuring on or about the same time: (i) Mr. Lai transferred all of his equity interests in High Rank to Mr. Peng Ge, (ii) Mr. Ge transferred all of his equity interests in Better Rise to Mr. Wang, and (iii) High Rank transferred approximately 2.3% of total outstanding shares of Kingsford Resources to Better Rise, after which High Rank and Better Rise owns 67.1% and 32.9% of Kingsford, respectively. As a result of the transactions, Kingsford's holdings in the Company decreased from 16.6% to 5.0%. The registered address of Kingsford Resources is Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The principal business address for High Rank Investments is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The principal business address for Better Rise Investments is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (9) Includes 80,132,620 ordinary shares and 120,828,620 ordinary shares in the form of ADSs held by Master Trend Limited and 5,400,000 Ordinary Shares issuable upon exercise of options within 60 days after March 31, 2017 held by Crown Charm Limited. Mr. Lai beneficially holds 100% of the total outstanding shares of Master Trend. The registered address of Master Trend is 4F, 5F and 1602 Central Tower, No. 28 Queen's Road, Central, Hong Kong.
- (10) As reported on Schedule 13D/A filed by Cathay Capital Holdings II, L.P., or Cathay Capital, on January 8, 2013, the number includes (1) 21,511,600 ordinary shares in the form of ADS of our company directly held by Mr. Sussman, (2) 271,320 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) 10,013,120 ordinary shares in the form of ADS of our company directly held collectively by 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. 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, (5) 32,294,420 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. Mr. Sussman directly and/or indirectly owns 50% of New China Investment Management, Inc., the investment manager for CIF. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 31, 2017. The business address of Mr. Sussman is 6100 Red Hook Quarters, Suite C1-C6 St. Thomas, United Virgin Islands 00802-1348.

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, 2017, J.P. Morgan Chase Bank, N.A., or J.P. Morgan, the depositary for our ADS program, is our only record holder in the United States, holding approximately 62.5% 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 an Affiliate and its Subsidiaries**

We agreed to grant a revolving loan with a maximum amount of US\$50.0 million (equivalent to RMB318.0 million as per the agreement) to Sincere Fame, and its subsidiaries, pursuant to a facility letter, or the Facility entered in October 2011. The facility is valid for two years and was renewed for another two years in October 2013 and October 2015. On January 1, 2012, we and Sincere Fame further entered into a supplemental loan agreement, which established the legal rights to offset the interests and amounts receivable and payable between us and Sincere Fame, and all subsidiaries of us and Sincere Fame. These amounts are unsecured, bear interest at 7.3% and are repayable on demand. As of December 31, 2015 and 2016, the amount due from Sincere Fame and its subsidiaries represented nil and nil principal receivable, respectively, and RMB36.5 million and RMB32.5 million (US\$4.7 million) interest receivable, respectively. The interest receivable is non-interest bearing.

### **Shares Sold to Employee Companies and Subscription Receivables from Employee Companies**

In November 2014, we entered into share purchase agreements with companies established on behalf of our employees, or the Employee Companies, for the issuance of up to 100,000,000 ordinary shares of our company. In December 2014, we increased the new shares issued to the employees to 150,000,000 ordinary shares, representing approximately 13.0% of our then enlarged total share capital upon completion of the transaction. The purchase price for the 100,000,000 ordinary shares is US\$0.27 per ordinary share or US\$5.40 per ADS, while the purchase price for the additional 50,000,000 ordinary shares is US\$0.29 per ordinary share or US\$5.80 per ADS, both of which are the average closing prices for the 20 trading days prior to the board approvals. The shares purchased by the Employee Companies were subject to a 180 days lock-up. The sale of shares to the Employee Companies was completed on December 17, 2014. As of March 31, 2017, none of the shares held by the Employee Companies had been resold.

In order to facilitate the purchase of shares by our employees as described above, we have granted a loan to Employee Companies. The loans bear interest at a rate of 3.0% per annum and is repayable upon the sale of the shares by employees, termination of employment or within two years, whichever comes first. The interest rate is determined with reference to fair market prices and therefore no interest-related compensation expense is recorded. The repayment of the loan was further extended to June 2018.

### **Revenues and Other Incomes from Affiliates**

None

### **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

We are currently not a party to any material litigation or other legal proceeding that may have a material adverse impact on our business or operations. However, we are and may continue to be subject to various claims and legal actions arising in the ordinary course of business.

## Dividend Policy

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. The timing, amount and form of 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.

On February 28, 2017, our board of directors approved a cash dividend policy, which provides for an annual cash dividend to shareholders of no less than 30% of our net income attributable to shareholders in the previous fiscal year. We expect to declare the first annual cash dividend out of share premium account by the end of April 2017.

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, will be paid in U.S. dollars. Currently, we have no plan to repatriate the remaining undistributed earnings from our subsidiaries in China and intends to retain all of our available funds held by subsidiaries in China and their future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China or share premium 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 4, 2010 for the periods indicated.

	Sales Price	
	High	Low
	US\$	US\$
<b>Annual High and Low</b>		
2012	9.02	5.00
2013	7.00	4.75
2014	9.44	4.90
2015	12.49	5.56
2016	10.35	6.19
<b>Quarterly Highs and Lows</b>		
First Quarter of 2015	9.30	6.60
Second Quarter of 2015	12.49	7.55
Third Quarter of 2015	9.50	5.56
Fourth Quarter of 2015	10.40	7.54
First Quarter of 2016	9.38	6.47
Second Quarter of 2016	8.48	6.19
Third Quarter of 2016	9.58	7.06
Fourth Quarter of 2016	10.35	7.71
First Quarter of 2017	9.61	6.79
<b>Monthly Highs and Lows</b>		
October 2016	8.35	7.75
November 2016	9.51	7.71
December 2016	10.35	8.13
January 2017	9.08	8.26
February 2017	9.61	8.31
March 2017	9.57	6.79
April 2017 (through April 18)	9.07	8.47

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs, each representing 20 ordinary shares, is listed on the Nasdaq Global Select Market under the symbol "FANH." From October 31, 2007 until December 6, 2016, our ticker symbol was "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, as adopted by our shareholders by special resolution at the extraordinary general meeting held on December 6, 2016, as well as the Companies Law (2016 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 within the Cayman Islands as our board of directors may 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 (2016 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 ordinary 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 our 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, Repurchase and Surrender 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 our board of directors 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. In addition, our company may accept the surrender of any fully paid share for no consideration. Pursuant to Companies Law (2013 Revision) as amended, upon the repurchase, redemption or surrender of shares, instead of cancelling them the board of directors can determine whether or not cancel those shares or hold them as treasury shares pending cancellation, transfer or sale. The company must obtain authorization to hold such shares as treasury shares either in accordance with the procedures set out in the company's articles of association or (if there are none) by a board resolution before being repurchased, redeemed or surrendered in accordance with the usual rules and articles.

***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 (Hong Kong) LLP, 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 after execution 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. On April 22, 2009, SAT, issued SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. In addition, the SAT issued a bulletin on July 27, 2011 providing more guidance on the implementation of Circular 82 and clarifies matters such as resident status determination. 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 wholly-owned subsidiary, InsCom HK Limited, or CNinsure Holdings, which is 100% owned by our wholly-owned Hong Kong subsidiary, Minkfair, 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 material United States federal income tax consequences to a United States Holder (as defined below), under current law, of an investment in our ADSs or ordinary shares. This discussion is based on the federal income tax laws of the United States as of the date of this annual report, including the United States Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed Treasury regulations promulgated thereunder, judicial authority, published administrative positions of the United States Internal Revenue Service (“IRS”) and other applicable authorities, all as of the date of this annual report. All of the foregoing authorities are subject to change, which change could apply retroactively and could significantly affect the tax consequences described below. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in the following discussion and there can be no assurance that the IRS or a court will agree with our statements and conclusions. This summary does not discuss the so-called Medicare tax on net investment income, any United States federal non-income tax laws, including the United States federal estate and gift tax laws, or the laws of any state, local or non-United States jurisdiction.

This discussion applies only to a United States Holder (as defined below) that holds ADSs or ordinary shares as capital assets for United States federal income tax purposes (generally, property held for investment). The discussion neither addresses the tax consequences to any particular investor nor describes all of the tax consequences applicable to persons in special tax situations, such as:

- banks;
- certain financial institutions;

- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- brokers or dealers in stocks and securities, or currencies;
- persons who use or are required to use a mark-to-market method of accounting;
- certain former citizens or residents of the United States subject to Section 877 of the Code;
- entities subject to the United States anti-inversion rules;
- tax-exempt organizations and entities;
- persons subject to the alternative minimum tax provisions of the Code;
- persons whose functional currency is other than the United States dollar;
- persons holding ADSs or ordinary shares as part of a straddle, hedging, conversion or integrated transaction;
- persons holding ADSs or ordinary shares through a bank, financial institution or other entity, or a branch thereof, located, organized or resident outside the United States;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of an employee stock option or otherwise as compensation;
- partnerships or other pass-through entities, or persons holding ADSs or ordinary shares through such entities; or
- persons that hold, directly, indirectly or by attribution, ADSs, ordinary shares or other ownership interests in us prior to this offering.

If a partnership (including an entity or arrangement treated as a partnership for United States federal income tax purposes) holds our ADSs or ordinary shares, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership or a partner in a partnership holding our ADSs or ordinary shares should consult its own tax advisors regarding the tax consequences of holding our ADSs or ordinary shares.

**The following discussion is for informational purposes only and is not a substitute for careful tax planning and advice. Investors should consult their own tax advisors with respect to the application of the United States federal income tax laws to their particular situations, as well as any tax consequences arising under the federal estate or gift tax laws or the laws of any state, local or non-United States taxing jurisdiction and under any applicable tax treaty.**

For purposes of the discussion below, a “United States Holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States 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 United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if (i) a court within the United States is able to exercise primary jurisdiction over its administration and one or more United States persons have the authority to control all of its substantial decisions or (ii) in the case of a trust that was treated as a domestic trust under the law in effect before 1997, a valid election is in place under applicable Treasury regulations to treat such trust as a domestic trust.

The discussion below assumes that the representations contained in the deposit agreement and any related agreement are true and that the obligations in such agreements will be complied with in accordance with their terms.

### ***ADSs***

If you own our ADSs, then you should be treated as the owner of the underlying ordinary shares represented by those ADSs for United States federal income tax purposes. Accordingly, deposits or withdrawals of ordinary shares for ADSs should not be subject to United States federal income tax.

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

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

Based on the current and anticipated value of our assets and the composition of our income and assets, we believe we were a passive foreign investment company ("PFIC") for United States federal income tax purposes for our taxable year ending December 31, 2016. A non-United States corporation such as ourselves will be treated as a PFIC for United States federal income tax purposes for any taxable year if, applying applicable look-through rules, either:

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

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than certain royalties and rents derived in the active conduct of a trade or business and not derived from a related person). We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% by value of the stock.

The composition of our income and assets will be affected by the market price of our ADSs and how, and how quickly, we use the cash we generate from our operations and raise in any offering. Unless the market price of our ADSs increases or we reduce the amount of cash, short term investments and other passive assets we hold sufficiently from current levels, we are likely to remain a PFIC for future taxable years. However, PFIC status is based on an annual determination that cannot be made until the close of a taxable year, involves extensive factual investigation, including ascertaining the fair market value of all of our assets on a quarterly basis and the character of each item of income that we earn, and is subject to uncertainty in several respects. Accordingly, we cannot assure you that the IRS will not take a contrary position.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares (as we believe we were for 2016 and prior years), we will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold 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, so long as we do not become a PFIC in a subsequent taxable year, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC and, as a result, you will not be subject to the rules described below with respect to any “excess distribution” you receive from us or any gain from an actual sale or other disposition of the ADSs or ordinary shares. **You are strongly urged to consult your tax advisors as to the possibility and consequences of making a deemed sale election if we are and then cease to be a PFIC and such an election becomes available to you.**

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares (as we believe we were for 2016 and prior years), then, unless you make a “mark-to-market” election (as discussed below), you generally will be subject to special and adverse tax rules with respect to any “excess distribution” that you receive from us and any gain that you recognize from a sale or other disposition, including a pledge, of the ADSs or ordinary shares. For this purpose, distributions that you receive in a taxable year that are greater than 125% of the average annual distributions that 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 rules:

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

If we are a PFIC for any taxable year during which a United States Holder holds our ADSs or ordinary shares (as we believe we were for 2016 and prior years) and any of our non-United States subsidiaries is also a PFIC, such United States Holder would be treated as owning a proportionate amount (by value) of the shares of each such non-United States subsidiary classified as a PFIC (each such subsidiary, a lower tier PFIC) for purposes of the application of these rules. United States Holders should consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares (as we believe we were for 2015 and prior years), then in lieu of being subject to the tax and interest-charge rules discussed above, you may make an election to include gain on our ADSs or ordinary shares as ordinary income under a mark-to-market method. 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 below under “—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.” Marketable stock is stock that is regularly traded on a qualified exchange or other market, as defined in applicable Treasury regulations. Our ADSs, but not our ordinary shares, are listed on the Nasdaq Global Select Market, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs remain listed on the Nasdaq Global Select Market and are regularly traded, and you are a holder of ADSs, we expect that the mark-to-market election will be available to you, but no assurances are given in this regard.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a United States Holder may continue to be subject to the PFIC rules with respect to such United States Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

In certain circumstances, a United States Holder of shares in a PFIC may avoid the adverse tax and interest-charge regime described above by making a “qualified electing fund” election to include in income its share of the corporation's income on a current basis. However, you may make a qualified electing fund election with respect to your ADSs or ordinary shares only if we agree to furnish you annually with a PFIC annual information statement as specified in the applicable Treasury regulations. We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

A United States Holder that holds our ADSs or ordinary shares in any year in which we are classified as a PFIC (as we believe we were for 2015 and prior years) will be required to file an annual report containing such information as the United States Treasury Department may require. **You are strongly urged to consult your own tax advisor regarding the impact of our being a PFIC for 2016 on your investment in our ADSs and ordinary shares, as well as the application of the PFIC rules to your investment in our ADSs or ordinary shares and the availability, application and consequences of the elections discussed above.**

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

Subject to the passive foreign investment company rules discussed above, the gross amount of any distribution that we make to you with respect to our ADSs or ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as a dividend, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including any withheld taxes) will be includable in your gross income on the day actually or constructively received by you, if you own the ordinary shares, or by the depository, if you own ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be treated as a “dividend” for United States federal income tax purposes. Such dividends will not be eligible for the dividends-received deduction allowed to qualifying corporations under the Code.

Dividends received by a non-corporate United States Holder may qualify for the lower rates of tax applicable to “qualified dividend income,” if the dividends are paid by a “qualified foreign corporation” and other conditions discussed below are met. A non-United States corporation is treated as a qualified foreign corporation (i) with respect to dividends paid by that corporation on shares (or American depositary shares backed by such shares) that are readily tradable on an established securities market in the United States or (ii) if such non-United States corporation is eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program. However, a non-United States corporation will not be treated as a qualified foreign corporation if it is a passive foreign investment company in the taxable year in which the dividend is paid or the preceding taxable year. We believe that we were a PFIC for our taxable year ended December 31, 2014, 2015 and, as discussed above in “E. Taxation — Passive Foreign Investment Company,” for the taxable year ending December 31, 2016.

Under a published IRS Notice, common or ordinary shares, or American depositary shares representing such shares, are considered to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Global Select Market, as are our ADSs (but not our ordinary shares). Based on existing guidance, it is unclear whether the ordinary shares will be considered to be readily tradable on an established securities market in the United States, because only the ADSs, and not the underlying ordinary shares, will be listed on a securities market in the United States. We believe, but we cannot assure you, that dividends we pay on the ordinary shares that are represented by ADSs, but not on the ordinary shares that are not so represented, will, subject to applicable limitations, including ineligibility for reduced rates as a result of our being a PFIC, be eligible for the reduced rates of taxation. In addition, if we are treated as a PRC resident enterprise under the PRC tax law (see “Item 10. Additional Information — Taxation — PRC Taxation”), then we may be eligible for the benefits of the income tax treaty between the United States and the PRC. If we are eligible for such benefits, then dividends that we pay on our ordinary shares, regardless of whether such shares are represented by ADSs, would, subject to applicable limitations, including ineligibility for reduced rates as a result of our being a PFIC, be eligible for the reduced rates of taxation.

Even if dividends would be treated as paid by a qualified foreign corporation, non-corporate United States Holders will not be eligible for reduced rates of taxation if they do not hold our ADSs or ordinary shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date or if such United States Holders elect to treat the dividend income as "investment income" pursuant to Section 163(d)(4) of the Code. In addition, the rate reduction will not apply to dividends of a qualified foreign corporation if the non-corporate United States Holder receiving the dividend is obligated to make related payments with respect to positions in substantially similar or related property.

You should consult your own tax advisors regarding the availability of the lower tax rates applicable to qualified dividend income for any dividends that we pay with respect to the ADSs or ordinary shares.

Any PRC withholding taxes imposed on dividends paid to you with respect to ADSs or ordinary shares generally will be treated as foreign taxes eligible for credit against your United States federal income tax liability, subject to the various limitations and disallowance rules that apply to foreign tax credits generally. For purposes of calculating the foreign tax credit, dividends paid to you with respect to the ADSs or ordinary shares will be treated as income from sources outside the United States and generally will constitute passive category income. 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.

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

You will recognize gain or loss on a sale or exchange of ADSs or ordinary shares in an amount equal to the difference between the amount realized on the sale or exchange and your tax basis in the ADSs or ordinary shares. Subject to the discussion under "— Passive Foreign Investment Company" above, such gain or loss generally will be capital gain or loss. Capital gains of a non-corporate United States Holder, including an individual, that has held the ADS or ordinary share for more than one year are eligible for reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss that you recognize on a disposition of our ADSs or ordinary shares generally will be treated as United States-source income or loss for foreign tax credit limitation purposes. However, where we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax is imposed on gain from the disposition of ADSs or ordinary shares (see "Item 10. Additional Information — Taxation — PRC Taxation"), then a United States Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC-source income for foreign tax credit purposes. If such an election is made, the gain so treated will be treated as a separate class or "basket" of income for purposes of the foreign tax credit under Section 865(h) of the Code. You should consult your tax advisors regarding the proper treatment of gain or loss, as well as the availability of a foreign tax credit, in your particular circumstances.

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

Information reporting to the IRS and backup withholding (currently at a rate of 28%) generally will apply to dividends in respect of our ADSs or ordinary shares, and the proceeds from the sale or exchange of our ADSs or ordinary shares, that are paid to you within the United States (and in certain cases, outside the United States), unless you furnish a correct taxpayer identification number and make any other required certification, generally on IRS Form W-9 or you otherwise establish an exemption from information reporting and backup withholding. Backup withholding is not an additional tax. Amounts withheld as backup withholding generally are allowed as a credit against your United States federal income tax liability, and you may be entitled to obtain a refund of any excess amounts withheld under the backup withholding rules if you file an appropriate claim for refund with the IRS and furnish any required information in a timely manner.

United States Holders who are individuals generally will be required to report our name, address and such information relating to an interest in the ADSs or ordinary shares as is necessary to identify the class or issue of which your ADSs or ordinary shares are a part. These requirements are subject to exceptions, including an exception for ADSs or ordinary shares held in accounts maintained by certain financial institutions and an exception applicable if the aggregate value of all "specified foreign financial assets" (as defined in the Code) does not exceed \$50,000.

United States Holders should consult their tax advisors regarding the application of the 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 depositary of our ADSs, with all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depositary 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 depositary 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://ir.fanhuaholdings.com/sec.cfm>. 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, 2017, 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, 2016, 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 a small amount of cash and cash equivalent denominated in U.S. dollars resulting from the remaining proceeds from our 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 PBOC. 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 such policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Removal of the U.S. dollar peg has resulted in an approximately more than 25.0% appreciation of the RMB against the U.S. dollar over the following eight years. In April 2012, the trading band has been widened to 1%, and in March 2014 it was further widened to 2%, which allows the Renminbi to fluctuate against the U.S. dollar by up to 2% above or below the central parity rate published by the PBOC. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. The PRC government may from time to time make further adjustments to the exchange rate system in the future. 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\$2.9 million and HK dollar-denominated financial assets amounting to HK\$1.2 million as of December 31, 2016. A 10% appreciation of the RMB against the U.S. dollar and HK dollar would have resulted in a decrease of RMB2.0 million (US\$0.3 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

## Fees Payable by ADS Holders

We have appointed J.P. Morgan as our depositary. 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 and amended on December 7, 2017, 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	Expenses incurred on behalf of Holders in connection with <ul style="list-style-type: none"> <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

#### 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, 2015 and 2016, the depository reimbursed US\$0.1 million and US\$0.1 million, respectively. For the years ended December 31, 2015 and 2016, 30% of the depository reimbursement has been deducted as withholding income tax. The amounts the depository reimbursed are not performance 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 years ended December 31, 2015 and 2016.

	For the Year Ended December 31,	
	2015	2016
	(in thousands of US\$)	
Investor relations <sup>(1)</sup>	—	45.5
Directors and officers liability insurance	105.8	104.4
Legal fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements	—	—
Listing fees	—	—
Others	—	—
	<u>105.8</u>	<u>149.9</u>

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

## 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

None.

### 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, 2016, 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 such item is defined in Rules 13a-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of the internal control over financial reporting as of December 31, 2016 using criteria established in “Internal Control — Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2016, based on the criteria established in “Internal Control—Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

To the Board of Directors and Shareholders of Fanhua Inc.:

We have audited the internal control over financial reporting of Fanhua Inc., its subsidiaries and variable interest entities (collectively, the “Group”) as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* 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, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* 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 of the Group and financial statement schedule of Fanhua Inc. as of and for the year ended December 31, 2016 of the Group, and our report dated April 19, 2017 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding the translation of Renminbi amounts into United States dollar amounts for the convenience of readers in the United States of America.

/s/ Deloitte Touche Tohmatsu

Hong Kong

April 19, 2017

### Changes in Internal Control over Financial Reporting

Management has evaluated, with the participation of our chief executive officer and chief financial officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal year have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Based on the evaluation we conducted, management has concluded that no such changes occurred during the period covered by this annual report on Form 20-F.

### 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://ir.fanhua Holdings.com/governance.cfm>.

### 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,	
	2015	2016
	(in thousands of US\$)	
Audit fees <sup>(1)</sup>	1,418.0	1,456.0
Audit-related fees <sup>(2)</sup>	204.0	60.0
Tax fees <sup>(3)</sup>	—	6.0
All other fees <sup>(4)</sup>	—	—

(1) “Audit fees” meant the aggregate fees billed and expected to be 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.”

(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.

(4) “All other fees” means the aggregate fees billed in each of the fiscal years listed for products and services provided by our principal accountant, other than the services reported in the other categories.

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**

None.

**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 (Hong Kong) LLP, 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 followed home country practice with respect to annual meetings and did not hold an annual meeting of shareholders from 2009 to 2015. However, we held an extraordinary general meeting on December 6, 2016 and obtained requisite shareholders' approval to change the Company name from "CNinsure Inc." to "Fanhua Inc.". We may hold annual or extraordinary shareholder meetings in the future if there are significant issues that require shareholders' approvals.

We obtained approvals from the board of directors on November 27, 2014 and December 12, 2014 to issue up to 150,000,000 ordinary shares of the Company (the "Shares") to our employees, excluding directors and officers. The purchase prices for the Shares are based on the average closing prices for the then 20 trading days prior to the board approvals. See "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions — Shares Sold to Employee Companies and Subscription Receivables from Employee Companies."

Pursuant to the NASDAQ Stock Market Rule 5635(c), shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, except for a few situations stated thereunder. Maples and Calder (Hong Kong) LLP, our Cayman Island counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to obtain shareholder approval in respect of the issuance of securities in the circumstances set out in NASDAQ Stock Market Rule 5635(c). We follow home country practice accordingly.

Other than the annual meeting and share purchase plan to employees practices 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.

**Item 16H. Mine Safety Disclosure**

Not applicable

### PART III

#### Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

#### Item 18. Financial Statements

The consolidated financial statements of Fanhua Inc., its subsidiaries and variable interest entities are included at the end of this annual report.

Separate consolidated financial statements of Sincere Fame International Limited and its subsidiaries as of and for the year ended December 31, 2016, including the report of independent auditor with respect to such consolidated financial statements, are hereby incorporated by reference to Exhibit 15.5 hereto.

#### Item 19. Exhibits

Exhibit Number	Description of Document
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 adopted by special resolution dated December 6, 2016, 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)
1.3*	Amendments to the Articles of Association adopted by the shareholders of the Registrant on December 6, 2016
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	Share Purchase Agreement dated November 27, 2014, between Rosyedge Limited and CNinsure Inc. (incorporated by reference to Exhibit 4.24 of our annual report on Form 20-F filed with the Commission on April 23, 2015)
4.6	Share Purchase Agreement dated November 27, 2014, between Ojeda Limited and CNinsure Inc. (incorporated by reference to Exhibit 4.25 of our annual report on Form 20-F filed with the Commission on April 23, 2015)
4.7	Share Purchase Agreement dated December 12, 2014, between Colour Step Limited and CNinsure Inc. (incorporated by reference to Exhibit 4.26 of our annual report on Form 20-F filed with the Commission on April 23, 2015)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.8	Loan Agreement between the Company and Rosyedge Limited, Ojeda Limited and Colour Step Limited dated December 17, 2015 regarding the Share Purchase Agreements in November 27, 2014 and December 12, 2014. (incorporated by reference to Exhibit 4.27 of our annual report on Form 20-F filed with the Commission on April 23, 2015)
4.9*	Share Purchase Agreement dated March 29, 2017, between Fosun Industrial Holdings Limited and Fanhua Inc.
8.1*	Subsidiaries and Affiliated Entities of the Registrant
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 (Hong Kong) LLP
15.2*	Consent of Global Law Office
15.3*	Consent of Deloitte Touche Tohmatsu
15.4*	Consent of KPMG Huazhen LLP, Independent Registered Public Accounting Firm of Sincere Fame International Limited
15.5*	Financial information from Sincere Fame International Limited for the year ended December 31, 2016 : (i) Report of Independent Registered Public Accounting Firm; (ii) Consolidated Statements of Financial Position as of January 1, 2015, December 31, 2015 and 2016; (iii) Consolidated Statements of Profit or Loss and Other Comprehensive Income for the Years Ended December 31, 2015 and 2016; (iv) Consolidated Statements of Changes in Equity for the Years Ended December 31, 2015 and 2016; (v) Consolidated Cash Flow Statements for the Years Ended December 31, 2015 and 2016; and (vi) Notes to the Consolidated Financial Statements.
101*	Financial information from Registrant for the year ended December 31, 2016 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2015 and 2016; (ii) Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2014, 2015 and 2016; (iii) Consolidated Statements of Shareholder's Equity for the Years Ended December 31, 2014, 2015 and 2016; (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2015 and 2016; (v) Notes to Consolidated Financial Statements; and (vi) Schedule 1 — Condensed Financial Statements of Fanhua Inc.

\* Filed with this Annual Report on Form 20-F.

\*\* Furnished with this Annual Report on Form 20-F.

### 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.

FANHUA INC.

By: /s/ Chunlin Wang

Name: Chunlin Wang

Title: Chief Executive Officer

Date: April 19, 2017



**FANHUA INC.**  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Board of Directors and Shareholders of Fanhua Inc.:

We have audited the accompanying consolidated balance sheets of Fanhua Inc., its subsidiaries and variable interest entities (the “Group”) as of December 31, 2015 and 2016, and the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule included in schedule 1. These consolidated financial statements and financial statement schedule are the responsibilities of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fanhua Inc., its subsidiaries and variable interest entities as of December 31, 2015 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2(w) to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 19, 2017 expressed an unqualified opinion on the Group’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu  
Hong Kong  
April 19, 2017

FANHUA INC.

Consolidated Balance Sheets  
(In thousands, except for shares and per share data)

	As of December 31,		
	2015 RMB	2016 RMB	2016 US\$
ASSETS:			
<b>Current assets:</b>			
Cash and cash equivalents	1,115,266	240,242	34,602
Restricted cash	17,585	33,737	4,859
Short term investments	2,026,256	2,797,842	402,973
Accounts receivable, net of allowance for doubtful accounts of RMB13,246 and RMB16,792 (US\$2,419) as of December 31, 2015 and 2016, respectively (Note 2(e))	241,264	502,975	72,443
Insurance premium receivables	1,526	187	27
Other receivables (Note 4)	51,828	49,186	7,084
Amounts due from related parties (Note 15)	36,508	32,495	4,680
Other current assets	22,828	37,900	5,459
<b>Total current assets</b>	<b>3,513,061</b>	<b>3,694,564</b>	<b>532,127</b>
<b>Non-current assets:</b>			
Property, plant, and equipment, net (Note 5)	34,145	31,414	4,525
Goodwill, net (Note 6)	133,474	122,077	17,583
Intangible assets, net (Note 2(g))	19,708	59,472	8,566
Deferred tax assets (Note 11)	1,658	8,277	1,192
Investments in affiliates (Note 7)	284,194	294,576	42,427
Other non-current assets	28,188	28,188	4,060
<b>Total non-current assets</b>	<b>501,367</b>	<b>544,004</b>	<b>78,353</b>
<b>Total assets</b>	<b>4,014,428</b>	<b>4,238,568</b>	<b>610,480</b>

The accompanying notes are an integral part of the consolidated financial statements.

FANHUA INC.

**Consolidated Balance Sheets—(Continued)**  
*(In thousands, except for shares and per share data)*

	As of December 31,		
	2015 RMB	2016 RMB	2016 US\$
LIABILITIES AND EQUITY:			
<b>Current liabilities:</b>			
Accounts payable (including accounts payable of the consolidated variable interest entities (“VIEs”) without recourse to Fanhua Inc. of RMB4,141 and nil as of December 31, 2015 and 2016, respectively)	160,891	278,188	40,067
Insurance premium payables (including insurance premium payables of the consolidated VIEs without recourse to Fanhua Inc. of RMB1,680 and nil as of December 31, 2015 and 2016, respectively)	5,187	5,491	791
Other payables and accrued expenses (including other payables and accrued expenses of the consolidated VIEs without recourse to Fanhua Inc. of RMB5,720 and nil as of December 31, 2015 and 2016, respectively) (Note 9)	213,562	314,051	45,233
Accrued payroll (including accrued payroll of the consolidated VIEs without recourse to Fanhua Inc. of RMB1,625 and nil as of December 31, 2015 and 2016, respectively)	48,150	59,201	8,527
Income taxes payable (including income taxes payable of the consolidated VIEs without recourse to Fanhua Inc. of RMB1,152 and nil as of December 31, 2015 and 2016, respectively)	60,658	90,188	12,990
<b>Total current liabilities</b>	<b>488,448</b>	<b>747,119</b>	<b>107,608</b>

The accompanying notes are an integral part of the consolidated financial statements.

FANHUA INC.

Consolidated Balance Sheets—(Continued)  
(In thousands, except for shares and per share data)

	As of December 31,		
	2015	2016	2016
	RMB	RMB	US\$
<b>Non-current liabilities:</b>			
Other tax liabilities (Note 11)	70,354	72,778	10,482
Deferred tax liabilities (Note 11)	22,057	14,577	2,099
<b>Total non-current liabilities</b>	<b>92,411</b>	<b>87,355</b>	<b>12,581</b>
<b>Total liabilities</b>	<b>580,859</b>	<b>834,474</b>	<b>120,189</b>
<b>Commitments and contingencies</b> (Note 16)			
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued and outstanding shares: 1,155,059,526 and 1,165,072,926 as of December 31, 2015 and 2016, respectively) (Note 12)	8,592	8,658	1,247
Additional paid-in capital	2,454,244	2,301,655	331,507
Statutory reserves (Note 14)	302,115	311,590	44,878
Retained earnings	871,356	1,018,928	146,756
Accumulated other comprehensive loss	(50,048)	(65,844)	(9,483)
Subscription receivables (Note 2(m))	(268,829)	(288,135)	(41,500)
<b>Total shareholders' equity</b>	<b>3,317,430</b>	<b>3,286,852</b>	<b>473,405</b>
<b>Noncontrolling interests</b>	<b>116,139</b>	<b>117,242</b>	<b>16,886</b>
<b>Total equity</b>	<b>3,433,569</b>	<b>3,404,094</b>	<b>490,291</b>
<b>Total liabilities and equity</b>	<b>4,014,428</b>	<b>4,238,568</b>	<b>610,480</b>

The accompanying notes are an integral part of the consolidated financial statements.

## FANHUA INC.

**Consolidated Statements of Income and Comprehensive Income**  
*(In thousands, except for shares and per share data)*

	Year Ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US\$
<b>Net revenues:</b>				
Agency	1,624,410	2,155,264	3,746,471	539,604
Brokerage	232,620	369,198	617,738	88,973
Claims adjusting	292,981	303,846	336,413	48,454
<b>Total net revenues</b>	<b>2,150,011</b>	<b>2,828,308</b>	<b>4,700,622</b>	<b>677,031</b>
<b>Operating costs and expenses:</b>				
Agency	(1,261,888)	(1,675,261)	(2,906,791)	(418,665)
Brokerage	(185,593)	(293,875)	(503,925)	(72,580)
Claims adjusting	(167,676)	(181,370)	(199,810)	(28,779)
<b>Total Operating costs</b>	<b>(1,615,157)</b>	<b>(2,150,506)</b>	<b>(3,610,526)</b>	<b>(520,024)</b>
Selling expenses	(107,263)	(143,279)	(588,822)	(84,808)
General and administrative expenses	(396,692)	(456,001)	(487,234)	(70,176)
<b>Total operating costs and expenses</b>	<b>(2,119,112)</b>	<b>(2,749,786)</b>	<b>(4,686,582)</b>	<b>(675,008)</b>
<b>Income from operations</b>	<b>30,899</b>	<b>78,522</b>	<b>14,040</b>	<b>2,023</b>
<b>Other income, net:</b>				
Investment income	44,240	65,624	115,275	16,603
Interest income	82,251	57,234	6,931	998
Other, net	2,330	13,042	11,452	1,649
<b>Income before income taxes and income of affiliates</b>	<b>159,720</b>	<b>214,422</b>	<b>147,698</b>	<b>21,273</b>
Income tax expense	(24,289)	(25,865)	(28,353)	(4,084)
Share of income of affiliates	30,649	26,924	48,293	6,955
<b>Net income</b>	<b>166,080</b>	<b>215,481</b>	<b>167,638</b>	<b>24,144</b>
<b>Less: Net income attributable to the noncontrolling interests</b>	<b>4,320</b>	<b>5,395</b>	<b>10,591</b>	<b>1,526</b>
<b>Net income attributable to the Fanhua's shareholders</b>	<b>161,760</b>	<b>210,086</b>	<b>157,047</b>	<b>22,618</b>

The accompanying notes are an integral part of the consolidated financial statements.

FANHUA INC.

Consolidated Statements of Income and Comprehensive Income—(Continued)  
(In thousands, except for shares and per share data)

	Year Ended December 31,			
	2014 RMB	2015 RMB	2016 RMB	2016 US\$
<b>Net income per share:</b>				
Basic	0.16	0.18	0.14	0.02
Diluted	0.16	0.17	0.13	0.02
<b>Net income per American Depositary Shares (“ADS”):</b>				
Basic	3.22	3.65	2.71	0.39
Diluted	3.19	3.49	2.60	0.37
<b>Shares used in calculating net income per share:</b>				
Basic	<u>1,005,842,212</u>	<u>1,151,705,374</u>	<u>1,160,592,325</u>	<u>1,160,592,325</u>
Diluted	<u>1,012,591,387</u>	<u>1,203,323,521</u>	<u>1,208,821,796</u>	<u>1,208,821,796</u>
<b>Net income</b>	<b>166,080</b>	<b>215,481</b>	<b>167,638</b>	<b>24,144</b>
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	6,008	6,153	2,177	314
Changes in fair value of short term investments	—	—	632	91
Share of other comprehensive income (loss) of affiliate	—	37,567	(37,911)	(5,460)
<b>Comprehensive income</b>	<b>172,088</b>	<b>259,201</b>	<b>132,536</b>	<b>19,089</b>
Less: Comprehensive income attributable to the noncontrolling interests	4,320	5,395	10,591	1,526
<b>Comprehensive income attributable to Fanhua’s shareholders</b>	<b>167,768</b>	<b>253,806</b>	<b>121,945</b>	<b>17,563</b>

The accompanying notes are an integral part of the consolidated financial statements.

## FANHUA INC.

**Consolidated Statements of Shareholders' Equity**  
*(In thousands, except for shares and per share data)*

	Share Capital		Additional Paid-in Capital	Treasury Stock		Statutory Reserves	Retained Earnings	Accumulated Other Comprehensive loss	Subscription Receivables	Noncontrolling Interests	Total
	Number of Share	Amounts		Number of Share	Amounts						
		RMB	RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>Balance as January 1, 2014</b>	<b>998,861,526</b>	<b>7,624</b>	<b>2,329,962</b>	<b>—</b>	<b>—</b>	<b>182,740</b>	<b>618,885</b>	<b>(111,114)</b>	<b>—</b>	<b>118,665</b>	<b>3,146,762</b>
Net income	—	—	—	—	—	—	161,760	—	—	4,320	166,080
Issue new shares to employees	150,000,000	928	256,563	—	—	—	—	—	(257,491)	—	—
Foreign currency translation	—	—	—	—	—	—	—	6,008	—	—	6,008
Exercise of share options	1,704,380	11	3,172	—	—	—	—	—	—	—	3,183
Share-based compensation	—	—	23,598	—	—	—	—	—	—	—	23,598
Provision for statutory reserves	—	—	—	—	—	15,682	(15,682)	—	—	—	—
Acquisition of additional shares in subsidiaries	—	—	(11,894)	—	—	—	—	—	—	523	(11,371)
<b>Balance as of December 31, 2014</b>	<b>1,150,565,906</b>	<b>8,563</b>	<b>2,601,401</b>	<b>—</b>	<b>—</b>	<b>198,422</b>	<b>764,963</b>	<b>(105,106)</b>	<b>(257,491)</b>	<b>123,508</b>	<b>3,334,260</b>
Net income	—	—	—	—	—	—	210,086	—	—	5,395	215,481
Foreign currency translation	—	—	—	—	—	—	—	17,491	(11,338)	—	6,153
Repurchase of ordinary shares	—	—	—	(2,261,100)	(6,276)	—	—	—	—	—	(6,276)
Exercise of share options	4,493,620	29	(4,787)	2,261,100	6,276	—	—	—	—	—	1,518
Share-based compensation	—	—	17,653	—	—	—	—	—	—	—	17,653
Provision for statutory reserves	—	—	—	—	—	104,414	(104,414)	—	—	—	—
Acquisition of additional shares in subsidiaries	—	—	(160,023)	—	—	—	—	—	—	(27,787)	(187,810)
Disposal of a subsidiary	—	—	—	—	—	(721)	721	—	—	473	473
Dividends distributed to noncontrolling interest	—	—	—	—	—	—	—	—	—	(2,450)	(2,450)
Capital injection by noncontrolling interests	—	—	—	—	—	—	—	—	—	17,000	17,000
Share of other comprehensive income of affiliate	—	—	—	—	—	—	—	37,567	—	—	37,567
<b>Balance as of December 31, 2015</b>	<b>1,155,059,526</b>	<b>8,592</b>	<b>2,454,244</b>	<b>—</b>	<b>—</b>	<b>302,115</b>	<b>871,356</b>	<b>(50,048)</b>	<b>(268,829)</b>	<b>116,139</b>	<b>3,433,569</b>

The accompanying notes are an integral part of the consolidated financial statements.



FANHUA INC.

**Consolidated Statements of Shareholders' Equity—(Continued)**  
*(In thousands, except for shares and per share data)*

	Share Capital		Additional Paid-in Capital	Treasury Stock		Statutory Reserves	Retained Earnings	Accumulated Other Comprehensive loss	Subscription Receivables	Noncontrolling Interests	Total
	Number of Share	Amounts		Number of Share	Amount						
		RMB	RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Net income	—	—	—	—	—	—	157,047	—	—	10,591	167,638
Foreign currency translation	—	—	—	—	—	—	—	21,483	(19,306)	—	2,177
Exercise of share options	2,597,400	17	1,127	—	—	—	—	—	—	—	1,144
Share-based compensation	—	—	4,937	—	—	—	—	—	—	—	4,937
Provision for statutory reserves	—	—	—	—	—	9,909	(9,909)	—	—	—	—
Acquisition of additional shares in a subsidiary	7,416,000	49	(174,779)	—	—	—	—	—	—	(4,493)	(179,223)
Disposal of subsidiaries	—	—	16,126	—	—	(434)	434	—	—	(4,995)	11,131
Changes in fair value of short term investments	—	—	—	—	—	—	—	632	—	—	632
Share of other comprehensive loss of affiliates	—	—	—	—	—	—	—	(37,911)	—	—	(37,911)
<b>Balance as of December 31, 2016</b>	<b>1,165,072,926</b>	<b>8,658</b>	<b>2,301,655</b>	<b>—</b>	<b>—</b>	<b>311,590</b>	<b>1,018,928</b>	<b>(65,844)</b>	<b>(288,135)</b>	<b>117,242</b>	<b>3,404,094</b>
<b>Balance as of December 31, 2016 in US\$</b>		<b>1,247</b>	<b>331,507</b>	<b>—</b>	<b>—</b>	<b>44,878</b>	<b>146,756</b>	<b>(9,483)</b>	<b>(41,500)</b>	<b>16,886</b>	<b>490,291</b>

The accompanying notes are an integral part of the consolidated financial statements.

## FANHUA INC.

Consolidated Statements of Cash Flows  
(In thousands)

	Year Ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US\$
<b>OPERATING ACTIVITIES</b>				
Net income	166,080	215,481	167,638	24,144
Adjustments to reconcile net income to net cash generated from operating activities:				
Depreciation	28,235	18,383	13,492	1,943
Amortization of intangible assets	16,826	11,571	20,232	2,914
Allowance for doubtful receivables	6,060	7,597	2,381	343
Compensation expenses associated with stock options	23,598	17,653	4,937	711
Loss (gain) on disposal of property, plant and equipment	292	(126)	115	17
Investment income	(15,419)	(31,092)	(80,599)	(11,609)
Gain on disposal of subsidiaries	—	—	(3,082)	(444)
Share of income of affiliates	(30,649)	(26,924)	(48,293)	(6,955)
Deferred taxes	(1,318)	(1,067)	(14,736)	(2,122)
Changes in operating assets and liabilities:				
Accounts receivable	16,036	(61,356)	(271,275)	(39,072)
Insurance premium receivables	(225)	(1,054)	1,339	193
Other receivables	14,700	7,222	(6,395)	(921)
Amounts due from related parties	(2,513)	(8,088)	3,727	537
Other current assets	2,900	(4,920)	(15,074)	(2,172)
Accounts payable	27,453	33,026	127,015	18,294
Insurance premium payables	(1,116)	2,244	304	44
Other payables and accrued expenses	3,911	71,506	142,720	20,556
Accrued payroll	638	9,143	11,446	1,649
Income taxes payable	(1,768)	6,433	29,530	4,253
Other tax liabilities	7,928	15,672	2,424	349
<b>Net cash generated from operating activities</b>	<b>261,649</b>	<b>281,304</b>	<b>87,846</b>	<b>12,652</b>
<b>Cash flows used in investing activities:</b>				
Purchase of short term investments	(546,600)	(2,308,956)	(9,515,500)	(1,370,517)
Proceeds from disposal of short term investments	118,208	994,839	8,825,355	1,271,116
Purchase of property, plant and equipment	(6,209)	(6,663)	(11,885)	(1,712)
Purchase of intangible asset	(118)	—	(60,000)	(8,642)
Proceeds from disposal of property and equipment	614	539	48	7
Acquisition of subsidiaries, net of cash acquired of RMB1,291, nil and nil in 2014, 2015 and 2016, respectively	(62,709)	—	—	—

FANHUA INC.

Consolidated Statements of Cash Flows—(Continued)  
(In thousands)

	Year Ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US\$
Disposal of subsidiaries, net of cash disposed of nil, RMB4,544 and RMB1,336 (US\$192) in 2014, 2015 and 2016, respectively	—	15,476	29,376	4,231
Decrease (increase) in restricted cash	3,622	(10,107)	(16,152)	(2,326)
Decrease in other receivables	113,632	16,120	—	—
Additions in investments in non-current assets	(7,019)	(13,980)	—	—
Return of investment in non-current assets	3,900	—	—	—
(Increase) decrease in amounts due from related parties	(62,716)	181,181	—	—
<b>Net cash used in investing activities</b>	<b>(445,395)</b>	<b>(1,131,551)</b>	<b>(748,758)</b>	<b>(107,843)</b>
<b>Cash flows used in financing activities:</b>				
Acquisition of additional interests in subsidiaries	(11,000)	(153,500)	(213,534)	(30,755)
Capital injection by noncontrolling interests	—	17,000	—	—
Payment for deferred consideration of acquisition of a subsidiary	—	—	(4,185)	(603)
Dividend distributed to noncontrolling interest	—	(2,450)	—	—
Proceeds on exercise of stock options	3,183	1,518	1,144	165
Repurchase of ordinary shares	—	(6,276)	—	—
<b>Net cash used in financing activities</b>	<b>(7,817)</b>	<b>(143,708)</b>	<b>(216,575)</b>	<b>(31,193)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(191,563)</b>	<b>(993,955)</b>	<b>(877,487)</b>	<b>(126,384)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,288,623</b>	<b>2,103,068</b>	<b>1,115,266</b>	<b>160,632</b>
Effect of exchange rate changes on cash and cash equivalents	6,008	6,153	2,463	354
<b>Cash and cash equivalents at end of year</b>	<b>2,103,068</b>	<b>1,115,266</b>	<b>240,242</b>	<b>34,602</b>
Supplemental disclosure of cash flow information:				
Interest paid	—	—	—	—
Income taxes paid	19,135	4,383	4,133	595

Supplemental disclosure of non-cash transactions is set out in Note 18.

The accompanying notes are an integral part of the consolidated financial statements.

**FANHUA INC.**

**Notes to the Consolidated Financial Statements**  
*(In thousands, except for shares and per share data)*

**(1) Organization and Description of Business**

Fanhua Inc. (the “Company”) (formally known as “CNinsure Inc.”) was incorporated in the Cayman Islands on April 10, 2007. The Company, its subsidiaries and variable interest entities (the “VIEs”) are collectively referred to as the “Group”. The Group is principally engaged in the provision of insurance brokerage and agency services, and insurance claims adjusting services in the People’s Republic of China (the “PRC”).

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation and Consolidation**

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The consolidated financial statements include the financial statements of the Company, all its majority-owned subsidiaries and those VIEs of which the Company is the primary beneficiary, from the dates they were acquired or incorporated. All intercompany balances and transactions have been eliminated in consolidation. In addition, the Group consolidates VIEs of which it is deemed to be the primary beneficiary and absorbs all of the expected losses and residual returns of the entity.

**(b) Use of Estimates**

The preparation of the consolidated financial statements in conformity with US GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant accounting estimates reflected in the Group’s consolidated financial statements included valuation of goodwill, allowance for doubtful receivables, and the valuation of non-controlling interests of the subsidiaries at acquisition dates. Actual results could differ from those estimates.

**(c) Cash and Cash Equivalents and Restricted Cash**

Cash and cash equivalents consist of cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash, and have insignificant risk of changes in value related to changes in interest rates.

In its capacity as an insurance agent and broker, the Group collects premiums from certain insureds and remits the premiums to the appropriate insurance companies. Accordingly, as reported in the consolidated balance sheets, “premiums” are receivables from the insureds. Unremitted net insurance premiums are held in a fiduciary capacity until disbursed by the Group. The Group invests these unremitted funds only in cash accounts held for a short term, and reports such amounts as restricted cash in the consolidated balance sheets. Also included in the restricted cash represents guarantee deposits required by China Insurance Regulatory Commission (“CIRC”) in order to protect insurance premium appropriation by insurance agency as well as entrustment deposit received from the members of eHuzhu, an online mutual aid platform operated by the Group in an escrow account of RMB12,398 and RMB28,246 (US\$4,068) as of December 31, 2015 and 2016, respectively.

**(d) Short Term Investments**

Short term investments are mainly available-for-sale investments in debt securities that do not have a quoted market price in an active market. The majority of the investments are measured at costs which approximate their fair values in the consolidated balance sheets, except for short term investments on certain private fund. The Group benchmark the costs against fair values of comparable investments as of balance sheet date, and categorized all fair value measures of short term investments as level 2 of the fair value hierarchy. No impairment loss on short term investments was identified for each of the years ended December 31, 2014, 2015 and 2016.

FANHUA INC.

**Notes to the Consolidated Financial Statements**  
*(In thousands, except for shares and per share data)*

**(e) Accounts Receivable and Insurance Premium Receivables**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable represent fees receivable on agency, brokerage and claims adjusting services primarily from insurance companies. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable. The Group determines the allowance based on historical write-off experience. The Group reviews its allowance for doubtful accounts regularly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability.

Accounts receivable, net is analyzed as follows:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Accounts receivable	254,510	519,767
Allowance for doubtful accounts	(13,246)	(16,792)
Accounts receivable, net	<u>241,264</u>	<u>502,975</u>

The following table summarizes the movement of the Group's allowance for doubtful accounts for accounts receivables:

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Balance at the beginning of the year	12,655	16,587	13,246
Provision for doubtful accounts	3,932	4,991	3,700
Write-offs	—	(8,332)	(154)
Balance at the end of the year	<u>16,587</u>	<u>13,246</u>	<u>16,792</u>

During the years ended December 31, 2014, 2015, the Group provided allowance for other receivables of RMB2,128, and RMB2,606, respectively.

A reversal of allowance of other receivable of RMB1,319 was recorded for the year ended December 31, 2016.

Insurance premium receivables consist of insurance premium to be collected from the insured, and is recorded at the invoiced amount and do not bear interest. Amounts collected on insurance premium receivables are included in net cash provided by operating activities in the consolidated statements of cash flows.

FANHUA INC.

Notes to the Consolidated Financial Statements  
(In thousands, except for shares and per share data)

(f) *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives, taking into account residual value:

	Estimated useful life (Years)	Estimated residual value
Building	20-36	0%
Office equipment, furniture and fixtures	3-5	0%-3%
Motor vehicles	5-10	0%-3%
Leasehold improvements	5	0%

The depreciation methods and estimated useful lives are reviewed regularly. The following table summarizes the depreciation recognized in the consolidated statement of income and comprehensive income:

	2014	2015	2016
	RMB	RMB	RMB
Commission and fees under operating costs	5,508	2,056	185
Selling expenses	1,282	1,180	1,590
General and administrative expenses	21,445	15,147	11,717
Depreciation for the year	28,235	18,383	13,492

FANHUA INC.

**Notes to the Consolidated Financial Statements**  
*(In thousands, except for shares and per share data)*

**(g) Goodwill and Other Intangible Assets**

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill is not amortized, but is tested for impairment at the reporting unit level at least on an annual basis at the balance sheet date or more frequently if certain indicators arise. The Group operated in three reporting units for the year ended December 31, 2016. The goodwill impairment review is a two-step process. Step 1 consists of a comparison of the fair value of a reporting unit with its carrying amount. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. Estimates of fair value are primarily determined by using discounted cash flows. If the carrying amount of a reporting unit exceeds its fair value, step 2 requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment charge is recorded equal to the excess of the carrying amount over the implied fair value.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted. Other significant assumptions include growth rates and the discount rate applicable to future cash flows.

In 2015 and 2016, management compared the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value which is the step one of the two-step impairment test. The fair value of all reporting units was estimated by using the income approach. Based on this quantitative test, it was determined that the fair value of each reporting unit tested exceeded its carrying amount and, therefore, step 2 of the two-step goodwill impairment test was unnecessary. The management concluded that goodwill was not impaired as of December 31, 2015 and 2016.

Identifiable intangibles assets are required to be determined separately from goodwill based on their fair values. In particular, an intangible asset acquired in a business combination should be recognized as an asset separate from goodwill if it satisfies either the “contractual-legal” or “separability” criterion. Intangible assets with a finite economic life are carried at cost less accumulated amortization. Amortization for identifiable intangibles assets of customer relationship is computed using the accelerated method, while amortization for other identifiable intangibles assets is computed using the straight-line method over the intangible assets’ economic lives. Intangible assets with indefinite economic lives are not amortized but carried at cost less any subsequent accumulated impairment losses. If an intangible asset that is not being amortized is subsequently determined to have a finite economic life, it will be tested for impairment and then amortized prospectively over its estimated remaining economic life and accounted for in the same manner as other intangible assets that are subject to amortization. Intangible assets with indefinite economic lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

Separately identifiable intangible assets consist of brand name, trade name, customer relationship, non-compete agreement, agency agreement and license, and software and system.

FANHUA INC.

Notes to the Consolidated Financial Statements  
(In thousands, except for shares and per share data)

The intangible assets, net consisted of the following:

As of December 31, 2015					
	Useful life (Years)	Cost	Accumulated amortization	Accumulated Impairment loss	Net carrying values
		RMB	RMB	RMB	RMB
Brand name	Indefinite	20,111	—	(16,404)	3,707
Trade name	9.4 to 10	8,898	(4,808)	—	4,090
Customer relationship	4.6 to 9.8	61,186	(51,264)	(2,953)	6,969
Non-compete agreement	3 to 6.25	69,075	(33,819)	(34,692)	564
Agency agreement and license	4.6 to 9.8	20,404	(15,949)	(77)	4,378
Software and system	5 to 10	5,680	(5,680)	—	—
		<u>185,354</u>	<u>(111,520)</u>	<u>(54,126)</u>	<u>19,708</u>

As of December 31, 2016					
	Useful life (Years)	Cost	Accumulated amortization	Accumulated Impairment loss	Net carrying values
		RMB	RMB	RMB	RMB
Brand name	Indefinite	20,111	—	(16,404)	3,707
Trade name	9.4 to 10	8,898	(5,750)	—	3,148
Customer relationship	4.6 to 9.8	60,696	(53,324)	(2,953)	4,419
Non-compete agreement	3 to 6.25	52,195	(22,539)	(29,515)	141
Agency agreement and license	4.6 to 9.8	19,924	(16,790)	(77)	3,057
Software and system	2 to 10	65,680	(20,680)	—	45,000
		<u>227,504</u>	<u>(119,083)</u>	<u>(48,949)</u>	<u>59,472</u>

Aggregate amortization expenses for intangible assets were RMB16,826, RMB11,571 and RMB20,232 for the years ended December 31, 2014, 2015 and 2016, respectively.

*Impairment of intangible assets with definite lives*

The Group evaluates the recoverability of identifiable intangible assets with determinable useful lives, whenever events or changes in circumstances indicate that these assets' carrying amounts may not be recoverable. The Group measures the carrying amount of identifiable intangible asset with determinable useful live against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. During the years ended December 31, 2014, 2015 and 2016, the Group recognized no impairment losses on identifiable intangible assets with determinable useful lives.



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*Impairment of indefinite-lived intangible assets*

An intangible asset that is not subject to amortization is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Such impairment test is to compare the fair values of assets with their carrying amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates or market price. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets. Market prices are based on potential purchase quote from third party, if any. During the years ended December 31, 2014, 2015 and 2016, the Group recognized no impairment losses on its indefinite-lived intangible assets.

The estimated amortization expenses for the next five years are: RMB33,850 in 2017, RMB18,667 in 2018, RMB2,502 in 2019, RMB658 in 2020 and RMB88 in 2021.

**(h) Other Receivables and Other Current Assets**

Other receivables and other current assets mainly consist of receivables from third parties, advances, deposits, interest receivables, value-added tax recoverable and prepaid expenses.

**(i) Investment in Affiliates**

Investments in affiliates are accounted for using the equity method. The Group does not control the affiliates but exerts significant influence over them.

**(j) Other Non-current Assets**

Other non-current assets represent investments in equity security of private companies which the group owns equity interest of less than 20%, over which the Group exerts no significant influence and are measured initially at cost.

**(k) Impairment of Long-Lived Assets**

Property, plant, and equipment, and purchased intangible assets with definite life, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**(l) Insurance Premium Payables**

Insurance premium payables are insurance premiums collected on behalf of insurance companies but not yet remitted as of the balance sheet dates.

**(m) Subscription Receivables**

The Group entered into share purchase agreements with companies established on behalf of its employees (the "Employee Companies") for the issuance of 100,000,000 ordinary shares at US\$0.27 per ordinary share and 50,000,000 ordinary shares at US\$0.29 per ordinary share in 2014. The issue prices are the average closing prices for the 20 trading days prior to the board approval dates of such subscriptions. The sale of shares to the Employee Companies was completed on December 17, 2014.

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In order to facilitate the purchase of shares by employees as described above, the Group has granted a loan to the Employee Companies. The loan bears interest at a rate of 3.0% per annum and is repayable upon the sale of the shares by employees, termination of employment or within two years, whichever comes first. Please refer to Note 12 for details. The interest rate is determined with reference to fair market prices and therefore no interest-related compensation expense is recorded. Upon the expiry of the loan agreement on December 17, 2016, the repayment of the loan was further extended to June 2018 and the loan is interest bearing at rate of 3.0% per annum.

According to FASB ASC 505-10-45, the loan is recorded as a separate line of deduction from equity in the Group's consolidated balance sheets as of December 31, 2015 and 2016. Interest income accruing from the loan is recognized as non-operating income. None of the loans to employees have been repaid and total balance thereof as of December 31, 2016 was RMB288,135 (US\$41,500).

**(n) Treasury shares**

Treasury shares represent ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchase of ordinary shares is accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stocks.

During the years ended December 31, 2014, 2015 and 2016, the Group had repurchased total of nil, 2,261,100 and nil shares from the market for a cash consideration of nil, RMB6,276 and nil. As of December 31, 2015, all the treasury stock had been re-issued for the exercise of stock options.

**(o) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Since 2014, the Group has adopted FASB ASU No. 2013-11—Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* prospectively, to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the balance sheets as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the Group to use, and the Group does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit is presented in the balance sheets as a liability.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, related to balance sheet classification of deferred taxes. The ASU requires that deferred tax assets and liabilities be classified as noncurrent in the statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amount. The Group adopted ASU 2015-17 on a prospective basis in 2016. Accordingly, all net deferred tax assets are presented as non-current deferred tax assets as of December 31, 2016 in the accompanying Consolidated Balance Sheets and Note 11.

**(p) Share-based Compensation**

**Employee 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 income and comprehensive income. Compensation cost related to employee stock options 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. The Group recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, provided that the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. For awards with both service and performance conditions, if each tranche has an independent performance condition for a specified period of service, the Group recognizes the compensation cost of each tranche as a separate award on a straight-line basis; if each tranche has performance conditions that are dependent of activities that occur in the prior service periods, the Group recognizes the compensation cost on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. No compensation cost is recognized for instruments that employees forfeit because a service condition or a performance condition is not satisfied.

Share-based compensation expenses of RMB23,598, RMB17,653 and RMB4,937 (US\$711) for the years ended December 31, 2014, 2015 and 2016, respectively, were included in the general and administrative expenses.

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**(q) Employee Benefit Plans**

As stipulated by the regulations of the PRC, the Group's subsidiaries and VIEs in the PRC participate in various defined contribution plans organized by municipal and provincial governments for its employees. The Group is required to make contributions to these plans at a percentage of the salaries, bonuses and certain allowances of the employees. Under these plans, certain pension, medical and other welfare benefits are provided to employees. The Group has no other material obligation for the payment of employee benefits associated with these plans other than the annual contributions described above. The contributions are charged to the consolidated statement of income and comprehensive income as they become payable in accordance with the rules of the above mentioned defined contribution plans.

**(r) 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 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.

Insurance brokerage services revenue is recognized when the signed insurance policy is in place and the premium is collected from the insured and the commission settlement confirmation is received from insurance companies, because the commission rate for brokerage services is negotiated case by case and the Group's fees are fixed when such confirmation is received.

No allowance for cancellation has been recognized for agency and brokerage businesses 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 0.2%, 0.2% and 0.2% of the total commission and fee revenues during years ended December 31, 2014, 2015 and 2016, respectively. For property insurance and life insurance, agency and brokerage services, the Group may receive a performance bonus from insurance companies as agreed and per contract provisions. Once an agency and brokerage group achieves its performance target, typically a certain sales volume, the bonus will become due. The bonus amount is computed based on the insurance premium amount multiplied by an agreed-upon percentage. The contingent commissions are recorded when a performance target is being 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.

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The Group presents revenue net of sales taxes incurred. The sales taxes amounted to RMB120,965, RMB157,234 and RMB81,890 for the years ended December 31, 2014, 2015 and 2016, respectively. According to the Announcement on the VAT Reform Pilot Program of the Transportation and Selected Modern Service Sectors issued by the State Tax Bureau in July 2012, the transportation and some selected modern service sectors, including research and development (R&D) and technical services, information technology services, cultural creative services, logistics support services, tangible personal property leasing services, and assurance and consulting service, should pay value-added tax instead of business tax based on a predetermined timetable (hereinafter referred to as the “VAT Reform”), effective September 1, 2012 for entities in Beijing and November 1, 2012 for entities in Guangdong. The VAT Reform expanded nation-wide from August 1, 2013. Total Value-added taxes paid by the Group during the years ended December 31, 2014, 2015 and 2016 amounted to RMB14,997 RMB16,370 and RMB160,556, respectively.

In March 2016, during the fourth session of the 12th National People’s Congress, it was announced that the VAT reform will be fully rolled out and extended to all industries including construction, real estate, financial services and lifestyle services. Subsequently, the State Administration of Taxation and Ministry of Finance jointly issued a Notice on Preparing for the Full Implementation of the VAT Reform (Cai Shui [2016] No. 36). Accordingly, the Group started to pay value-added tax instead of business tax from May 1, 2016.

**(s) Marketing campaign expense**

The Group records its marketing campaign expenses pay to agents as selling expenses.

Marketing campaign expenses are incurred to increase the Group’s market share and attract more agents at certain selected regions that the Group strategically plans to capture higher market shares, and are not a necessary expense to sell insurance policies. Such expenses are temporary, with the terms of regional programs ranging from one to three months. Marketing campaign expenses are only recognized when such campaigns are officially announced by the Group to the agents and such campaigns can be terminated at any time without further notice. The Group records the marketing campaign expenses when the related services are provided. During the years ended December 31, 2014, 2015 and 2016, nil, RMB19,503 and RMB299,885 of marketing campaign expenses were included in the selling expenses, respectively.

**(t) Fair Value of Financial Instruments**

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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The carrying values of the Group's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, insurance premium receivables and payables, other receivables, accounts payable, amounts due from related parties, approximate their fair values due to the short term nature of these instruments.

*Measured at fair value on a recurring basis*

As of December 31, 2015 and 2016, information about inputs into the fair value measurements of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows.

Description	As of December 31, 2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Short-term investments - debt security	2,026,256	—	2,026,256	—

Description	As of December 31, 2016	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Short-term investments - debt security	2,797,842	—	2,797,842	—

The majority of debt security consists of investments in trust products and asset management plans that have normally pay a prospective fixed rate of return. These investments are recorded at fair values on a recurring basis. The Group benchmarks the costs against fair values of comparable investments with similar measurement terms, such as prevailing market yields, at the balance sheet date. It is classified as Level 2 of the fair value hierarchy since fair value measurement at reporting date uses significant other observable inputs.

The Group did not have Level 3 investments as of December 31, 2015 and 2016.

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*Measured at fair value on a non-recurring basis*

The Group measures certain assets, including the cost method investments, equity method investments and intangible assets, at fair value on a nonrecurring basis when they are deemed to be impaired. The fair values of these investments and intangible assets are determined based on valuation techniques using the best information available, and may include management judgments, future performance projections, etc. An impairment charge to these investments is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary, and impairment charge to the intangible assets is recorded when their carrying amounts may not be recoverable.

Goodwill (Note 6) and intangible assets (Note 2(g)) are measured at fair value on a nonrecurring basis and they are recorded at fair value only when impairment is recognized by applying unobservable inputs such as forecasted financial performance of the acquired business, discount rate, etc. to the discounted cash flow valuation methodology that are significant to the measurement of the fair value of these assets (Level 3).

**(u) Foreign Currencies**

The functional currency of the Company is the United States dollar (“USD”). Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income or loss in the consolidated statements of income and comprehensive income. The Group has chosen the Renminbi (“RMB”) as their reporting currency.

The functional currency of the most of the Company’s subsidiaries and VIEs is RMB. Transactions in other currencies are recorded in RMB at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect at the balance sheet dates. Exchange gains and losses are recorded in the consolidated statements of income and comprehensive income.

**(v) Foreign Currency Risk**

The RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People’s Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and international economic and political developments that affect supply and demand in the China Foreign Exchange Trading System market of cash and cash equivalents and restricted cash. The Group had aggregate amounts of RMB1,115,296 and RMB253,725 of cash and cash equivalents and restricted cash denominated in RMB as of December 31, 2015 and 2016, respectively.

**(w) Translation into United States Dollars**

The consolidated financial statements of the Group are stated in RMB. Translations of amounts from RMB into U.S. dollars are solely for the convenience of the readers and were calculated at the rate of US\$1.00 = RMB6.943, representing the noon buying rate in the City of New York for cable transfers of RMB on December 30, 2016, the last business day in fiscal year 2016, as set forth in H.10 statistical release of the Federal Reserve Board. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into U.S. dollars at such rate.

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**(x) Segment Reporting**

The Group distributes a variety of property and casualty, and life insurance products underwritten by domestic and foreign insurance companies operating in the PRC, and provides insurance claims adjusting services as well as other insurance-related services and distribution of wealth management products. The Group operated three segments: (1) insurance agency segment, which mainly consists of providing agency services for property and casualty (“P&C”) insurance products and life insurance products to individual clients, (2) insurance brokerage segment, which mainly consists of providing P&C and life insurance brokerage services to institutional clients, and (3) claims adjusting segment, which consists of providing pre-underwriting survey, claim adjusting, disposal of residual value, loading and unloading supervision and consulting services. Details of these operating segments are described in Note 21. Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the Group’s chief operating decision maker in deciding how to allocate resources and in assessing performance.

Substantially all revenues of the Group are derived in the PRC and all long-lived assets are located in the PRC.

**(y) Earnings per Share (“EPS”) or ADS**

Basic EPS is calculated by dividing the net income available to common shareholders by the weighted average number of ordinary shares /ADS outstanding during the year. Diluted EPS is calculated by using the weighted average number of ordinary shares /ADS outstanding adjusted to include the potentially dilutive effect of outstanding share-based awards, unless their inclusion in the calculation is anti-dilutive.

**(z) Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs amounted to RMB6,553, RMB5,696 and RMB18,085 for the years ended December 31, 2014, 2015 and 2016, respectively.

**(aa) Operating Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of income and comprehensive income over the lease period.

**(ab) Accumulated Other Comprehensive Income**

The Group presents comprehensive income in the consolidated statements of income and comprehensive income with net income in a continuous statement.

Accumulated other comprehensive income mainly represents foreign currency translation adjustments and share of other comprehensive income of the affiliates for the period.

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**(ac) Recently Issued Accounting Standards Not Yet Adopted**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” which amended the existing accounting standards for revenue recognition. The core principle of the new guidance is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new guidance also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements.

Subsequently, the FASB issued the following various updates affecting the guidance in ASU 2014-09: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The Group must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the “new revenue standards”).

The new revenue standards may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (the modified retrospective method). The new revenue standards become effective for the Company on January 1, 2018. The Group currently anticipates adopting the new revenue standards using the full retrospective method. The Group is in the process of evaluating the impact on its consolidated financial statements upon adoption.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for certain provisions. The Group is in the process of evaluating the impact of adoption of this guidance on the Group’s consolidated financial statements.



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In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on the balance sheet. This ASU requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors' accounting under the ASC is largely unchanged from the previous accounting standard. In addition, the ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The provisions of this guidance are effective for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Group is in the process of evaluating the impact of adoption of this guidance on the Group's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Group does not anticipate the adoption of this ASU will have a material impact the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update is intended to improve financial reporting in regards to how certain transactions are classified in the statement of cash flows. This update requires that debt extinguishment costs be classified as cash outflows for financing activities and provides additional classification guidance for the statement of cash flows. The update also requires that the classification of cash receipts and payments that have aspects of more than one class of cash flows to be determined by applying specific guidance under generally accepted accounting principles. The update also requires that each separately identifiable source or use within the cash receipts and payments be classified on the basis of their nature in financing, investing or operating activities. The update is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This guidance will be adopted retrospectively by the Group to all periods presented. The Group does not anticipate that the adoption of ASU 2016-15 will have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The Group anticipates that upon adoption of this ASU, the Group's restricted cash will be included in cash and cash equivalents on the consolidated balance sheets, and transfers between restricted cash and cash and cash equivalents will not be presented as cash flow activities on the consolidated statements of cash flows.

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In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The update is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update provides a more robust framework to use in determining when a set of assets and activities is a business, and also provides more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. For public companies, the update is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The effect of ASU 2017-01 on the consolidated financial statements will be dependent on any future acquisitions.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The update simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. For public companies, the update is effective for any annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group does not anticipate that the adoption of ASU 2017-04 will have a material impact on the consolidated financial statements.

**(3) Acquisitions, disposals and reorganization**

**Acquisition of additional interests in a subsidiary in 2016**

On May 9, 2016, the Group had entered into a share purchase agreement with the minority shareholders of Inscom Holding Limited ("Inscom") to acquire the remaining 34.9% of the equity interests in Inscom and the outstanding share options of Inscom for a total consideration of approximately RMB198,776 which consists of (i) RMB179,223 in cash after netting off with the receivable of RMB1,836 in relation with the exercise of the Inscom share options, (ii) 7,416,000 ordinary shares of the Company. Upon completion of the acquisition in May 2016, the Group's equity interests in Inscom increased from 65.1% to 100%.

The schedule below discloses the effects of changes in the Group's ownership in subsidiaries on the Group's equity:

	<b>Year ended December 31, 2016</b>
	<b>RMB</b>
Net income attributable to the Company's shareholders	157,047
Decrease in Company's additional paid-in capital for acquisitions of additional equity interests from noncontrolling interests	(174,779)
Changes from net income attributable to Company's shareholders and transfers to noncontrolling interests	(17,732)

**Disposals of subsidiaries in 2016**

During the year, the Group disposed of three subsidiaries, including Shandong Fanhua Mintai Insurance Agency Co., Ltd ("Shandong Mintai"), Guangdong Huajie Insurance Agency Co., Ltd ("Guangdong Huajie") and Dongguan Zhongxin Insurance Agency Co., Ltd ("Dongguan Zhongxin"), for a total cash consideration of RMB30,712. The Group recognized RMB3,146 gain on disposal of subsidiaries, which was determined by the excess of the sales consideration over the net book value of the subsidiaries at the time of disposal.

As of December 31, 2016, the Group has completed the closing procedures of all the above transactions and has effectively transferred its control of Shandong Mintai, Guangdong Huajie and Dongguan Zhongxin to the respective buyers.

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**Acquisitions and reorganization in 2015**

*Acquisitions of additional interests in subsidiaries*

During the year ended December 31, 2015, the Group had entered into several agreements to acquire from the non-controlling shareholders of certain of the Group's subsidiaries the additional interests in those subsidiaries for total consideration of RMB187,810. The Group retains its controlling financial interests before and after the transactions.

The schedule below discloses the effects of changes in the Group's ownership in subsidiaries on the Group's equity:

	<b>Year ended December 31, 2015</b>
	<b>RMB</b>
Net income attributable to the Company's shareholders	210,086
Decrease in Company's additional paid-in capital for acquisitions of additional equity interests from noncontrolling interests	(160,023)
Changes from net income attributable to Company's shareholders and transfers to noncontrolling interests	<u>50,063</u>

*Reorganization*

As part of the Group's growth strategy, Fanhua Insurance Surveyors & Loss Adjustors Holding Co., Ltd. ("FHISLA") filed on application in November 2015 with National Equities Exchanges and Quotations ("NEEQ") to list on the New Third Board, on emerging over-the-counter stock market for medium-and small-cap companies in China. In June 2015, FHISLA introduced two new investors, Shenzhen Yuanqian Investment Partnership (Limited Partnership) and Shenzhen Longqian Investment Partnership (Limited Partnership), hereinafter referred to as "Yuanqian" and "Longqian". Yuanqian and Longqian together subscribed for total of 12.4% of the equity interests in FHISLA for a cash consideration of RMB17,000. In July 2015, Fangzhong transferred 44.7% and 42.9% of the equity interests in FHISLA to Guangdong Meidiya Investment Co., Ltd. ("Meidiya Investments"), a subsidiary of the Group, and 22 individuals, among whom were management members of the claims adjusting segment, for total purchase prices of RMB61,200 and RMB58,800, respectively. After the FHISLA Restructuring, the Group owns 44.7% of the equity interests and remains as the largest shareholder. The Group continue to exercise substantial control over FHISLA pursuant to shareholders' agreements signed with Yuanqian, Longqian and two executive officers of the claims adjusting segment. The Group recorded stock compensation expense of RMB3,400, being the excess of the estimated fair value of Yuanqian, Longqian and 22 individual's equity interest in FHISLA over the consideration paid by the investors.

In July 2015, in order to align the interests of the founding team of Chetong.net with the growth of the platform, Fangzhong, the subsidiary of the Group transferred 80.1% of the equity interests in Chetong Network to the management and employees of Chetong Network for cash consideration of RMB16,020, and 19.9% of the equity interests in Chetong Network to FHISLA for cash consideration of RMB3,980 which approximated its fair value at the disposal date. As a result, FHISLA and the management and employees of Chetong Network currently hold 19.9% and 80.1% of Chetong Network, respectively.

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**(4) Other Receivables**

Other receivables, net are analyzed as follows:

	As of December 31,	
	2015	2016
	RMB	RMB
Advances to staff (i)	6,492	9,250
Advances to entrepreneurial agents (ii)	367	1,270
Rental deposits	7,655	8,041
Interest income receivables (iii)	29,708	17,620
Other	7,606	13,005
	<u>51,828</u>	<u>49,186</u>

(i) This represented advances to staff of the Group for daily business operations which are unsecured, interest-free and repayable on demand.

(ii) This represented advances to entrepreneurial agents who provide services to the Group. The advances are used by agents to develop business. The advances were unsecured, interest-free and repayable on demand.

(iii) This represented accrued interest income on bank deposits and accrued interest on subscription receivables (Note 2(m)).

**(5) Property, Plant and Equipment**

Property, plant and equipment, net, is comprised of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Building	12,317	12,317
Office equipment, furniture and fixtures	128,401	130,172
Motor vehicles	26,341	23,774
Leasehold improvements	9,657	13,146
Total	176,716	179,409
Less: Accumulated depreciation	(142,571)	(147,995)
Property, plant and equipment, net	<u>34,145</u>	<u>31,414</u>

No impairment for property, plant and equipment was recorded for the years ended December 31, 2014, 2015 and 2016.

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(6) Goodwill

The movements in carrying amount of goodwill by reportable segments are as follows:

	Agency segment RMB
Balance as of December 31, 2015	133,474
Eliminated on disposal of a subsidiary	(11,397)
Balance as of December 31, 2016	122,077

The gross amount and accumulated impairment losses by segment as of December 31, 2015 and 2016 are as follows:

	Agency segment RMB	Claims Adjusting segment RMB	Total RMB
Gross as of January 1, 2015	1,096,102	38,077	1,134,179
Eliminated on disposal of a subsidiary	—	(16,940)	(16,940)
Gross as of December 31, 2015	1,096,102	21,137	1,117,239
Eliminated on disposal of a subsidiary	(173,608)	—	(173,608)
Gross as of December 31, 2016	922,494	21,137	943,631
Accumulated impairment loss as of January 1, 2015	(962,628)	(38,077)	(1,000,705)
Eliminated on disposal of a subsidiary	—	16,940	16,940
Accumulated impairment loss as of December 31, 2015	(962,628)	(21,137)	(983,765)
Eliminated on disposal of a subsidiary	162,211	—	162,211
Accumulated impairment loss as of December 31, 2016	(800,417)	(21,137)	(821,554)
Net as of December 31, 2015	133,474	—	133,474
Net as of December 31, 2016	122,077	—	122,077

The Group performed the annual impairment analysis as of the balance sheet date. There has been no impairment loss recognized in goodwill for the years ended December 31, 2014, 2015 and 2016.

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**(7) Investments in Affiliates**

As of December 31, 2015 and 2016, investments in affiliates represent (i) 40% equity interest in Shanghai Teamhead Automobile Surveyors Co., Ltd. (“Teamhead Automobile”) through one of the Group’s claim adjusting subsidiary; the affiliate is a PRC registered company that provides insurance surveyor and loss adjustors services, and (ii) 20.6% equity interests in Sincere Fame International Limited (“Sincere Fame”) which is financial services company registered in BVI and based in Guangzhou, PRC, primarily engaged in the origination and management of small loans made to individuals, loan repackaging transactions, asset management-related services to financial institutions and mortgage agency services to individuals.

During the years ended December 31, 2014, 2015 and 2016, the Group recognized its share of income of affiliates in the amount of RMB30,649, RMB26,924 and RMB48,293 respectively. During the years ended December 31, 2014, 2015 and 2016, the Group recognized its share of other comprehensive income of affiliates in the amount of nil, RMB37,567 and other comprehensive loss of RMB37,911, respectively.

The Group has filed Sincere Fame’s consolidated financial statement for the year ended December 31, 2016, as the 20% significant subsidiary test was met for year 2016 in accordance with Rule 3-09 of SEC Regulation S-X.

Investments as of December 31, 2015 and 2016 were as follows:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Teamhead Automobile	528	227
Sincere Fame	283,666	294,349
<b>Total</b>	<b>284,194</b>	<b>294,576</b>

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**(8) Variable Interest Entities**

PRC laws and regulations place certain restrictions on foreign investment in and ownership of insurance agencies, brokerages and on-line business. Accordingly, the Group used to conduct some of its operations in China through contractual arrangements among its PRC subsidiaries, two PRC affiliated entities and the equity shareholders of these PRC affiliated entities, who are PRC nationals.

In recent years, some rules and regulations governing the insurance intermediary sector in China have begun to encourage foreign investment. The Group has commenced a restructuring which has resulted in obtaining controlling equity ownership in a majority of its affiliated insurance intermediary companies.

In May 2016, the Group had completed its restructuring and all the individual shareholders had transferred their respective equity interest in Shenzhen Dianliang Information Technology Co., Ltd and Shenzhen Xinbao Investment Management Co., Ltd to the subsidiaries of the Company. Thereafter, the Group conducts all of its operations in China through its directly owned subsidiaries.

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Total assets	103,740	—
Total liabilities	104,795	—

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Net Revenues	72,645	108,133	33,679
Net loss	(9,636)	(14,554)	(4,598)
Net cash (used in) generated from operating activities	(49,782)	37,943	(11,536)
Net cash generated from (used in) investing activities	14,709	(31,682)	2,601
Net cash generated from financing activities	33,370	—	—

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**(9) Other Payables and Accrued Expenses**

Components of other payables and accrued expenses are as follows:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Business and other tax payable	35,358	59,919
Refundable deposits from employees and agents	13,239	23,472
Professional fees	18,553	45,745
Accrued expenses to third parties (i)	42,622	79,847
Payables for addition of office equipment, furniture and fixtures	8,618	8,618
Advance from third parties	35,808	47,534
Insurance compensation claim payable to customers	823	875
Payable for equity acquisition of investment in affiliates/additional equity interest in subsidiaries	38,495	—
Contributions from members of eHuzhu mutual aid program	8,995	25,605
Others	11,051	22,436
<b>Total</b>	<b>213,562</b>	<b>314,051</b>

- (i) As of December 31, 2015, included in accrued expenses to third parties represented an amount of RMB19,500 payable to Chengdu Puyi Bohui Information Technology Co., Ltd, the shareholder of Fanhua Puyi Fund Sales Co. Ltd. ("Puyi Fund Sales") for marketing activities. The amount was settled in 2016. The Group beneficially owns 15.4% equity interests in Puyi Fund Sales. Other than the amount payable to Puyi Fund Sales, the remaining balance mainly represented the accrued commission payable to the agents.

As of December 31, 2016, the balances mainly represented the accrued commission payable to the agents.

**(10) Employee Benefit Plans**

Employees of the Group located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution plans. The calculation of contributions for these eligible employees is based on 10% to 22% of the applicable payroll cost according to the specific requirements of the local regime government.

In addition, the Group is required by law to contribute certain percentage of applicable salaries for medical insurance benefits, unemployment and other statutory benefits. The contribution percentages may be different from district to district which is subject to the specific requirement of local regime government. The PRC government is directly responsible for the payments of the benefits to these employees.

For the years ended December 31, 2014, 2015 and 2016, the Group contributed RMB45,467, RMB47,955 and RMB57,090, respectively.

**(11) Income Taxes**

The Company is a tax exempted company incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on their income or capital gains. In addition, upon any payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

The Group's subsidiaries and VIEs incorporated in PRC are subject to Income Tax in the PRC.

The provision for current income taxes of the subsidiaries operating in Hong Kong has been calculated by applying the current rate of taxation of 16.5% for the years ended December 31, 2014, 2015 and 2016, if applicable.



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Pursuant to the relevant laws and regulations in the PRC, Litian, Shenzhen Fanhua Software Technology Co., Ltd (“Fanhua Software”), Shenzhen Huazhong United Technology Co., Ltd (“Huazhong”) and Ying Si Kang Information, subsidiaries of the Group, were regarded as software companies and thus exempted from PRC Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. For Litian, year 2010 was the first profit-making year and accordingly, Litian and has made a 12.5% tax provision for its profits for the years ended December 31, 2012, 2013 and 2014. For Fanhua Software, year 2012 was the first profit-making year and accordingly, Fanhua Software has made a 12.5% tax provision for its profits for the years ended December 31, 2014, 2015 and 2016. For Huazhong, year 2015 was the first profit-making year and accordingly it has not made any provision for PRC income tax for the years ended December 31, 2015 and 2016. For Ying Si Kang Information, year 2014 was the first profit-making year and accordingly it has not made any provision for PRC income tax for the years ended December 31, 2014 and 2015, and has made a 12.5% tax provision for its profits for the year ended December 31, 2016.

The Group accounts for uncertain income tax positions by prescribing a minimum recognition threshold in the financial statements.

As of December 31, 2016, the Group’s liabilities for unrecognized tax benefits were included in other tax liabilities. The movements of unrecognized tax benefits are as follows:

	<b>RMB</b>
Balance as of January 1, 2014	50,735
Change in unrecognized tax benefits	(4,808)
Gross increase in tax positions	7,928
Balance as of December 31, 2014	53,855
Change in unrecognized tax benefits	825
Gross increase in tax positions	15,674
Balance as of December 31, 2015	70,354
Change in unrecognized tax benefits	—
Gross increase in tax positions	2,424
Balance as of December 31, 2016	72,778

The uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. Based on the outcome of any future examinations, or as a result of the expiration of statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns, might materially change from those recorded as liabilities for uncertain tax positions in the Group’s consolidated financial statements as of December 31, 2015 and 2016. In addition, the outcome of these examinations may impact the valuation of certain deferred tax assets (such as net operating losses) in future periods. The Group’s policy is to recognize interest and penalties accrued on any unrecognized tax benefits, if any, as a component of income tax expense. The Company does not anticipate any significant increases or decreases to its liability for unrecognized tax benefit within the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

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Income tax expenses are comprised of the following:

	Year Ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Current tax expense	25,607	26,932	43,089
Deferred tax income	(1,318)	(1,067)	(14,736)
Income tax expense	24,289	25,865	28,353

The principal components of the deferred income tax assets and liabilities are as follows:

	As of December 31,	
	2015	2016
	RMB	RMB
<b>Current deferred tax assets:</b>		
Operating loss carryforward	1,079	—
Less: valuation allowances	(1,079)	—
Current deferred tax asset, net	—	—
<b>Non-current deferred tax assets:</b>		
Operating loss carryforward, after offset unrecognized tax benefits	27,245	33,611
Less: valuation allowances	(25,587)	(25,334)
Non-current deferred tax asset, net	1,658	8,277
<b>Total</b>	<b>1,658</b>	<b>8,277</b>
<b>Deferred tax liabilities:</b>		
Intangible assets, net	3,895	2,604
Investment income	18,162	11,973
<b>Total</b>	<b>22,057</b>	<b>14,577</b>

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward periods, the Group's experience with tax attributes expiring unused and tax planning alternatives. Valuation allowances have been established for deferred tax assets based on a more-likely-than-not threshold. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. The Group has provided RMB26,666 and RMB25,334 valuation allowance for the years ended December 31, 2015 and 2016 respectively.

The Group had total operating loss carry-forwards of RMB131,198 and RMB150,373 as of December 31, 2015 and 2016, respectively. As of December 31, 2016, the operating loss carry-forwards of RMB13,404, RMB19,295, RMB25,203, RMB26,961 and RMB65,510 are to expire for the years ending December 31, 2017, 2018, 2019, 2020 and 2021, respectively. During the years ended December 31, 2014, 2015 and 2016, nil, RMB4,251 and RMB29,431, respectively, of tax loss carried forward has been expired and canceled.

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Reconciliation between the provision for income taxes computed by applying the PRC enterprise income rate of 25% to net income before income taxes and income of affiliates, and the actual provision for income taxes is as follows:

	Year Ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Income before income taxes and income of affiliates	159,720	214,422	147,698
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	39,930	53,605	36,925
Expenses not deductible for tax purposes:			
Entertainment	579	685	973
Other	6,482	5,176	3,691
Tax exemption and tax relief:			
Tax rate differential	(34,315)	(44,381)	(4,089)
Change in valuation allowance	2,934	(4,194)	(1,332)
Uncertain tax provisions	7,928	15,674	2,424
Effect of utilization of deductible temporary difference previously unrecognized	—	—	(12,872)
Other	751	(700)	2,633
Income tax expense	24,289	25,865	28,353

Additional PRC income taxes that would have been payable without the tax exemption amounted to approximately RMB34,315, RMB44,381 and RMB4,089 for the years ended December 31, 2014, 2015 and 2016, respectively. Without such exemption, the Group's basic and diluted net profit per share for the years ended December 31, 2014, 2015 and 2016 would have been decreased by RMB 0.03, RMB0.04 and RMB0.00.

If the entities were to be non-resident for PRC tax purpose, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries the withholding tax would be 10% whereas in the case of dividends paid by PRC subsidiaries which are 25% or more directly owned by tax residents in the Hong Kong SAR, the withholding tax would be 5%.

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Aggregate undistributed earnings of the Group's subsidiaries and VIEs in the PRC that are available for distribution to the Group of approximately RMB1,954,541 and RMB2,058,189 as of December 31, 2015 and 2016 respectively, are considered to be indefinitely reinvested, and accordingly, no provision has been made for the dividend withholding taxes that would be payable upon the distribution of those amounts to the Group. If those earnings were to be distributed or they were determined to be no longer permanently reinvested, the Group would have to record a deferred tax liability in respect of those undistributed earnings of approximately RMB195,454 and RMB205,819, respectively.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting over tax basis, including those differences attributable to a more-than-50-percent-owned domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means.

**(12) Capital Structure**

During 2016, the Company issued 2,597,400 new shares for the exercise of options, representing 0.22% of the total shares outstanding as of December 31, 2016.

During 2016, the Company issued 7,416,000 new shares for acquisition of additional interest in a subsidiary, representing 0.64% of total shares outstanding as of December 31, 2016.

During 2015, the Company repurchased 2,261,100 shares from the public market, representing 0.20% of the total shares outstanding as of December 31, 2015.

During 2015, the Company issued 4,493,620 new shares and utilized 2,261,100 repurchased shares for the exercise of options, representing 0.59% of the total shares outstanding as of December 31, 2015.

During 2014, the Company issued 1,704,380 new shares for the exercise of options, representing 0.15% of the total shares outstanding as of December 31, 2014.

In November 2014, the Group entered into share purchase agreements with the Employee Companies, for the issuance of up to 100,000,000 ordinary shares of the Group. In December 2014, the Group increased the new shares issued to the Employee Companies to 150,000,000 ordinary shares. The total 150,000,000 ordinary shares represented approximately 13.04% of the total enlarged outstanding share capital as of December 31, 2014. The subscription price for the 100,000,000 ordinary shares is US\$0.27 per ordinary share or US\$5.40 per ADS, while the subscription price for the additional 50,000,000 ordinary shares is US\$0.29 per ordinary share or US\$5.8 per ADS, both of which were the average closing prices for the 20 trading days prior to the board approvals of such transactions. Accordingly, the Group considers that the employees have subscribed these shares at prices that were set at the best estimation of the future market prices on issuance date, and the Group has no intention to compensate the employees with a below market price subscription; therefore, the Group has not recorded any share-based compensation expenses related to any price deviations of the Group's ordinary shares from the board approval dates to issuances of these shares. The shares purchased by the Employee Companies are subject to 180 days lock-up. The sale of shares to the Employee Companies was completed on December 17, 2014.

In order to facilitate the purchase of shares by employees as described above, the Group has granted a loan to Employee Companies. The loans bear interest at a rate of 3.0% per annum and is repayable upon the sale of the shares by employees, termination of employment or within two years, whichever comes first. The interest rate is determined with reference to fair market prices and therefore no interest-related compensation expense is recorded. Please refer to Note 2(m) for accounting policy details. The repayment of the loan was further extended to June 2018.

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(13) Net Income per Share

The computation of basic and diluted net income per ordinary share is as follows:

	Year Ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
<i>Basic:</i>			
Net income	166,080	215,481	167,638
Less: Net income attributable to the noncontrolling interests	4,320	5,395	10,591
Net income attributable to the Company's shareholders	<b>161,760</b>	<b>210,086</b>	<b>157,047</b>
Weighted average number of ordinary shares outstanding	1,005,842,212	1,151,705,374	1,160,592,325
Basic net income per ordinary share	0.16	0.18	0.14
Basic net income per ADS	3.22	3.65	2.71
<i>Diluted:</i>			
Net income	166,080	215,481	167,638
Less: Net income attributable to the noncontrolling interests	4,320	5,395	10,591
Net income attributable to the Company's shareholders	<b>161,760</b>	<b>210,086</b>	<b>157,047</b>
Weighted average number of ordinary shares outstanding	1,005,842,212	1,151,705,374	1,160,592,325
Weighted average number of dilutive potential ordinary shares from share options	6,749,175	51,618,147	48,229,471
Total	1,012,591,387	1,203,323,521	1,208,821,796
Diluted net income per ordinary share	0.16	0.17	0.13
Diluted net income per ADS	3.19	3.49	2.60

During the years ended December 31, 2014, 2015 and 2016, the Company had share options of which would potentially dilute earnings per share in the future, but which were excluded from the computation of diluted earnings per share as their effect would have been antidilutive, such share options consist of 16,920, nil and nil, respectively.

(14) Distribution of Profits

As stipulated by the relevant PRC laws and regulations applicable to China's foreign investment enterprise, the Group's subsidiaries and VIEs in the PRC are required to maintain non-distributable reserves which include a statutory surplus reserve as of December 31, 2016. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of individual company's net profit as reported in the PRC statutory financial statements of the Company's subsidiaries and VIEs. The appropriations to statutory surplus reserve are required until the balance reaches 50% of the registered capital of respective subsidiaries and VIEs.

The statutory surplus reserve is used to offset future losses. These reserves represent appropriations of retained earnings determined according to PRC law and may not be distributed. There are no appropriations to reserves by the Company other than the Group's subsidiaries and VIEs in the PRC during the periods presented. Amounts contributed to the statutory reserves were RMB302,115 and RMB311,590 as of December 31, 2015 and 2016, respectively.

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**(15) Related Party Balances and Transactions**

The principal related party balances and transactions as of and for the years ended December 31, 2015 and 2016 are as follows:

- a) Amounts due from related parties:

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Amounts due from an equity method affiliate and its subsidiaries, net (i)	36,508	32,495
Subscription receivables (Note 2(m) & Note 12)	268,829	288,135

- (i) The Group agreed to grant a revolving loan with a maximum amount of US\$50,000 (equivalent to RMB317,990 as per the agreement) to Sincere Fame and its subsidiaries pursuant to a facility letter entered in October 2011 (the “Facility”). The Facility is valid for two years and is renewed upon mutual agreement for another two years in October 2013 and October 2015, separately. On January 1, 2012, the Group and Sincere Fame further entered into a supplemental loan agreement, which established the legal rights to offset the interests and amounts receivable or payable between the Group and Sincere Fame, and all the subsidiaries of the Group and Sincere Fame. The amounts are unsecured and bear interest at 7.3% and are repayable on demand. As of December 31, 2015 and 2016, the amount due from Sincere Fame and its subsidiaries represented nil and nil principal receivable, respectively, and RMB36,508 and RMB32,495 interest receivable, respectively. The interest receivables is non-interest bearing.
- b) The Group charged affiliates interest income of RMB12,170, RMB8,088 and nil for loans receivable for the years ended December 31, 2014, 2015, and 2016, respectively.

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(16) Commitments and Contingencies

(i) The Group has several non-cancelable operating leases, primarily for office premises.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum operating lease payments as of December 31, 2016 are:

	Minimum Lease Payment RMB
Year ending December 31:	
2017	30,725
2018	18,935
2019	11,895
2020	6,634
2021	845
Total	69,034

Rental expenses incurred under operating leases for the years ended December 31, 2014, 2015 and 2016 amounted to RMB27,455, RMB36,206 and RMB40,394, respectively.

(17) Concentrations of Credit Risk

*Concentration risks*

Details of the customers accounting for 10% or more of total net revenues are as follows:

	Year ended December 31,					
	2014	% of sales	2015	% of sales	2016	% of sales
	RMB		RMB		RMB	
PICC Property and Casualty Company Limited ("PICC")	442,608	20.6%	676,939	23.9%	1,247,860	26.5%
Huaxia Life Insurance Company Limited ("Huaxia")	*	*	*	*	517,759	11.0%
China Pacific Property Insurance Co., Ltd. ("CPIC")	255,655	11.9%	315,961	11.2%	487,705	10.4%
Ping An Property & Casualty Insurance Company of China, Ltd. ("Ping An")	294,228	13.7%	283,935	10.0%	*	*
	992,491	46.2%	1,276,835	45.1%	2,253,324	47.9%

\* represented less than 10% of total net revenues as of the year.

FANHUA INC.

**Notes to the Consolidated Financial Statements**  
(In thousands, except for shares and per share data)

Details of the customers which accounted for 10% or more of accounts receivable are as follows:

	As of December 31,			
	2015	%	2016	%
	RMB		RMB	
Huaxia	26,456	11.0%	101,749	20.2%
PICC.	53,851	22.3%	84,523	16.8%
Tianan Life Insurance Company Limited	*	*	75,750	15.1%
CPIC	28,947	12.0%	*	*
	<u>109,254</u>	<u>45.3%</u>	<u>262,022</u>	<u>52.1%</u>

\* represented less than 10.0% of account receivables as of the year end.

The Group performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable.

The Group places its cash and cash equivalents with financial institutions with high-credit ratings and quality.

The Group performs ongoing credit evaluations on the amounts due from Sincere Fame and its subsidiaries (Note 15(a)(i)). As the Group has significant influences over the operations of Sincere Fame through its equity investment in Sincere Fame, and in view of the historically positive operating results of Sincere Fame and its subsidiaries, the Group considered that the credit risks on the amounts due from an affiliate and its subsidiaries are not significant.

In respect of the suspension of business cooperation with PICC (Note 22), the management has assessed the recoverability for the amounts due from PICC and concluded there is no significant deterioration of the credit risk for the receivable as of December 31, 2016 accordingly.

**Currency risk**

Except for the proceeds from the initial public offering and the follow-on offering (which were in USD), substantially all of the revenue-generating operations of the Group are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of RMB into USD or other foreign currencies. All foreign exchange transactions must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange or at a swap center. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.



FANHUA INC.

**Notes to the Consolidated Financial Statements**  
(In thousands, except for shares and per share data)

**(18) Non-Cash Transactions**

The Group entered into the following non-cash investing and financing activities:

	Year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Considerations payable in connection with acquisition of subsidiaries and additional interests in subsidiaries	4,685	34,310	—
Non-cash consideration in connection with acquisition of additional interests in a subsidiary (Note 3)	—	—	19,551
Subscription receivables from Employee Companies (Note 2(m) & Note 12)	257,491	—	—

**(19) Share-based Compensation**

**2012 Option**

**a. 2012 Options G**

On March 12, 2012, the Company granted options ("2012 Options G") to its directors and employees to purchase up to 92,845,000 ordinary shares of the Company. Pursuant to the option agreements entered into between the Company and the option grantees, the options shall vest over a five-year service period from 2012 to 2016. The expiration date of the 2012 Options is March 12, 2022. The 2012 Options G had an exercise price of US\$0.30 (RMB1.90) and an intrinsic value of US\$0.04 (RMB0.26) per ordinary share, except for the 3,200,000 options granted to the two independent directors which had an exercise price of US\$0.31 (RMB1.98) and an intrinsic value of US\$0.03 (RMB0.17) per ordinary share. The exercise price for Option G was later modified to US\$0.001 (RMB0.006) and the number of shares are reduced by half with no incremental cost as a result of such option modification. The fair value of the options was determined by using the Black-Scholes option pricing model.

For the years ended December 31, 2014, 2015 and 2016, share-based compensation expenses of RMB22,200, RMB12,940 and RMB4,367 were recognized in connection with the 2012 Options G, respectively. During the year ended December 31, 2016, 2,068,000 shares of 2012 Options G had been exercised. During the years ended December 31, 2014, 2015 and 2016, 932,305, 114,250 and 10 shares of 2012 Options G, respectively, were forfeited due to employee resignations. No share-based compensation expense related to the forfeited options was recognized.

**b. 2012 Options H**

On March 12, 2012, the Company granted options ("2012 Options H") to its entrepreneurial agents and captains (non-employees) to purchase 3,800,000 ordinary shares of the Company, of which 3,000,000 and 800,000 options were granted to agents and captains respectively. Pursuant to the option agreements entered into between the Company and the option grantees, 40% ("Option H1"), 40% ("Option H2") and 20% ("Option H3") of the 3,000,000 award options granted to agents shall vest in May 31, 2014, 2015 and 2016 of each year respectively; and 40% ("Option H4"), 40% ("Option H5") and 20% ("Option H6") of the 800,000 award options granted to captains shall vest in May 31, 2013, 2014 and 2015 of each year respectively. The expiration date of the 2012 Options H is March 12, 2022. The 2012 Options H had an exercise price of US\$0.30 (RMB1.90), which was later modified to US\$0.001 (RMB0.006) and an intrinsic value of US\$0.04 (RMB0.26) per ordinary share as of the date of grant. The fair value of the options was determined by using the Black-Scholes option pricing model and revalued every balance sheet date until the options was vested.

**FANHUA INC.**

**Notes to the Consolidated Financial Statements**  
(In thousands, except for shares and per share data)

For the years ended December 31, 2014, 2015 and 2016, share-based compensation expenses of RMB1,289, RMB1,213 and RMB570 were recognized in connection with the 2012 Options H, respectively. During the year ended December 31, 2016, nil of 2012 Options H had been exercised. During the years ended December 31, 2013, 2014 and 2015, 898,740, 284,978 and 147,984 shares of 2012 Options H, respectively, were forfeited due to termination of agency contracts. No share-based compensation expense related to the forfeited options was recognized.

Prior to our 2012 Option, the company granted options its employees under 2009 Options and 2008 Options. The Options shall vest over a four-year period subject to the continuous employment of the option grantees and their key performance indicators ("KPI") results for the year 2009. The expiration date of the Options is March 31, 2015, which was later modified to December 31, 2017 with an incremental compensation cost of RMB6,700 charged for the period in which the modification occurred in December 2013. During the year ended December 31, 2016, 349,000 shares and 180,400 shares had been exercised for 2009 and 2008 Options respectively. No share-based compensation expense was recognized for the years ended December 31, 2014, 2015 and 2016.

For each of the three years ended December 31, 2014, 2015 and 2016, changes in the status of total outstanding options under 2012 Options, 2009 Options and 2008 Options, were as follows:

	Number of options	Weighted average exercise price in RMB	Aggregate Intrinsic Value RMB
Outstanding as of January 1, 2014	131,729,497	1.92	15,436
Exercised	(1,704,380)	2.09	
Forfeited	(2,113,656)	1.92	
Modification of the 2012 Options	(45,663,861)	1.90	
Outstanding as of December 31, 2014	82,247,600	1.93	10,177
Exercised	(6,754,720)	1.92	
Forfeited	(429,328)	1.93	
Outstanding as of December 31, 2015	75,063,552	1.93	70,931
Exercised	(2,597,400)	1.95	
Forfeited	(147,994)	1.90	
Outstanding as of December 31, 2016	72,318,158	1.93	68,055
Exercisable as of December 31, 2016	72,318,158	1.93	68,055

As of December 31, 2016, all of the above options were fully vested.

The following table summarizes information about the Company's share option plans for the years ended December 31, 2014, 2015 and 2016:

	Year ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Weighted-average grant-date fair value per share of options granted	—	—	—
Total intrinsic value of options exercised	837	17,399	6,406
Total fair value of share options vested	44,912	38,178	13,631

FANHUA INC.

**Notes to the Consolidated Financial Statements**  
(In thousands, except for shares and per share data)

The following table summarizes information about the Company's stock option plans as of December 31, 2016, excluding the InsCom options:

	<b>Options outstanding</b>	<b>Weighted average remaining contractual life (Years)</b>	<b>Weighted average exercise price in RMB</b>	<b>Options Exercisable</b>
2012 Options G	37,770,812	5.25	0.006	37,770,812
2012 Options H	875,326	5.25	0.006	875,326
2009 Options	6,226,480	1.00	2.30	6,226,480
2008 Options	27,445,540	1.00	1.90	27,445,540
<b>Total</b>	<b>72,318,158</b>			<b>72,318,158</b>

**InsCom Options**

During the years ended December 31, 2012, 2013 and 2014, InsCom Holdings Limited ("InsCom"), a private subsidiary of the Group, issued three batches of the options to its entrepreneurial agents and the Group's employees ("Options"). There is no intrinsic value of the options as of the date of grant. As of the grant date of these options, the fair values of these Options were estimated to be of nominal values. The share-based compensation expenses related to the above Options was RMB109, nil and nil during the years ended December 31, 2014, 2015 and 2016, respectively. During the year ended December 31, 2016, all of the InsCom Options had been exercised when the Company purchased the remaining interest from the minority interest of InsCom. Details of the acquisition is described in Note 3.

**(20) Restricted Net Assets**

Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. As a result of these PRC laws and regulations, the Group's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets either in the form of dividends, loans or advances. As of December 31, 2015 and 2016, the Company had restricted net assets of RMB2,164,132 and RMB2,630,106 (including RMB78,847 and nil restricted share capital and statutory reserves of the VIEs), respectively, which were not eligible to be distributed. These amounts were comprised of the registered capital of the Company's PRC subsidiaries and the statutory reserves disclosed in Note 14.

**(21) Segment Reporting**

The Group operated three segments: (1) insurance agency business segment, which mainly consists of providing agency services for P&C insurance products and life insurance products to individual clients, (2) insurance brokerage business segment, which mainly consists of providing P&C and life insurance brokerage services to institutional clients, and (3) claims adjusting segment, which consists of providing pre-underwriting survey, claim adjusting, disposal of residual value, loading and unloading supervision and consulting services. Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the Group's chief operating decision maker in deciding how to allocate resources and in assessing performance.

FANHUA INC.

**Notes to the Consolidated Financial Statements**  
(In thousands, except for shares and per share data)

The following table shows the Group's operations by business segment for the years ended December 31, 2014, 2015 and 2016. Other includes revenue and expenses that are not allocated to reportable segments and corporate related items.

	Year ended December 31,			
	2014 RMB	2015 RMB	2016 RMB	2016 US\$
<b>Net revenues</b>				
Agency	1,624,410	2,155,264	3,746,471	539,604
Brokerage	232,620	369,198	617,738	88,973
Claims Adjusting	292,981	303,846	336,413	48,454
<b>Total net revenues</b>	<b>2,150,011</b>	<b>2,828,308</b>	<b>4,700,622</b>	<b>677,031</b>
<b>Operating costs and expenses</b>				
Agency	(1,486,871)	(1,969,329)	(3,667,004)	(528,158)
Brokerage	(197,017)	(319,124)	(595,232)	(85,731)
Claims Adjusting	(275,539)	(292,613)	(306,804)	(44,189)
Other	(159,685)	(168,720)	(117,542)	(16,930)
<b>Total operating costs and expenses</b>	<b>(2,119,112)</b>	<b>(2,749,786)</b>	<b>(4,686,582)</b>	<b>(675,008)</b>
<b>Income (loss) from operations</b>				
Agency	137,539	185,935	79,467	11,446
Brokerage	35,603	50,074	22,506	3,242
Claims Adjusting	17,442	11,233	29,609	4,265
Other	(159,685)	(168,720)	(117,542)	(16,930)
<b>Total income from operations</b>	<b>30,899</b>	<b>78,522</b>	<b>14,040</b>	<b>2,023</b>
	As of December 31,			
	2015 RMB	2016 RMB	2016 US\$	
<b>Segment assets</b>				
Agency	454,803	2,245,121	323,365	
Brokerage	160,286	13,041	1,878	
Claims Adjusting	226,121	256,004	36,872	
Other	3,173,218	1,724,402	248,365	
<b>Total assets</b>	<b>4,014,428</b>	<b>4,238,568</b>	<b>610,480</b>	

Substantially all of the Group's revenues for the three years ended December 31, 2014, 2015 and 2016 were generated from the PRC. A substantial portion of the identifiable assets of the Group is located in the PRC. Accordingly, no geographical segments are presented.

The acquisition of intangible asset in 2016 is related to agency segment.

**FANHUA INC.**

**Notes to the Consolidated Financial Statements**  
*(In thousands, except for shares and per share data)*

**(22) Subsequent events**

(a) On March 6, 2017, the Company announced that its subsidiaries were notified verbally by PICC's local branches on March 1, 2017 that PICC was temporarily suspending its business cooperation with the Group on areas in P&C of agency segment, P&C of brokerage segment and claims adjusting segment because certain of PICC's senior management members was being investigated by the PRC government.

During the year ended December 31, 2016, the Group derived 26.5% of its total revenues from PICC. As of December 31, 2016, the Group has approximately 16.8% of account receivables due from PICC.

(b) On March 6, 2017, a cash dividend policy approved by its Board of Directors on February 28, 2017, was announced by the Company, which provides for an annual cash dividend to shareholders of no less than 30% of the Company's net income attributable to shareholders in the previous fiscal year. The Company expects to declare the first annual cash dividend out of share premium account after the release of its annual report.

(c) On April 6, 2017, the Company announced that it entered into a share purchase agreement with Fosun Industrial Holdings Limited ("Fosun"), a wholly owned subsidiary of Fosun International Limited (00656.HK) for a private placement of 66,000,000 ordinary shares (equivalent to 3,300,000 ADS) of the Company, at purchase price of US\$0.44185 per ordinary share equivalent to US\$8.837 per ADS), for a total investment of US\$29,162.1. The purchase price represents the average closing price of the past 20 trading days prior to the signing of the share purchase agreement between Fosun and the Company on March 29, 2017. Fosun holds 5.3% of the equity interests in the Company post-closing and its purchased shares are subject to a contractual one-year lock-up.

## FANHUA INC.

## SCHEDULE 1—CONDENSED FINANCIAL STATEMENTS OF THE COMPANY

**Balance Sheets**  
*(In thousands, except for shares and per share data)*

	As of December 31,		
	2015 RMB	2016 RMB	2016 US\$
<b>ASSETS:</b>			
<i><b>Current assets:</b></i>			
Cash and cash equivalents	5,349	10,746	1,548
Other receivables and amounts due from subsidiaries and affiliates	1,607,924	1,742,796	251,014
<b>Total current assets</b>	<b>1,613,273</b>	<b>1,753,542</b>	<b>252,562</b>
<i><b>Non-current assets:</b></i>			
Investment in subsidiaries	1,736,488	1,571,844	226,393
<b>Total assets</b>	<b>3,349,761</b>	<b>3,325,386</b>	<b>478,955</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<i><b>Current liabilities:</b></i>			
Other payables	4,602	8,108	1,168
Amounts due to subsidiaries	27,729	30,426	4,382
<b>Total liabilities</b>	<b>32,331</b>	<b>38,534</b>	<b>5,550</b>
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued and outstanding shares: 1,155,059,526 and 1,165,072,926 as of December 31, 2015 and 2016, respectively)	8,592	8,658	1,247
Additional paid-in capital	2,454,244	2,301,655	331,507
Retained earnings	1,173,471	1,330,518	191,634
Accumulated other comprehensive loss	(50,048)	(65,844)	(9,483)
Subscription receivables	(268,829)	(288,135)	(41,500)
<b>Total shareholders' equity</b>	<b>3,317,430</b>	<b>3,286,852</b>	<b>473,405</b>
<b>Total liabilities and shareholders' equity</b>	<b>3,349,761</b>	<b>3,325,386</b>	<b>478,955</b>

## FANHUA INC.

## SCHEDULE 1—CONDENSED FINANCIAL STATEMENTS OF THE COMPANY—(Continued)

Statements of Income and Comprehensive Income  
(In thousands)

	Year Ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US\$
General and administrative expenses	(31,191)	(19,839)	(9,938)	(1,433)
Interest income	12,464	15,913	8,271	1,191
Equity in earnings of subsidiaries	180,487	214,012	158,714	22,860
<b>Net income</b>	<b>161,760</b>	<b>210,086</b>	<b>157,047</b>	<b>22,618</b>
<b>Other comprehensive (loss) income, net of tax:</b>				
Foreign currency translation adjustments	6,008	6,153	2,177	314
Changes in fair value of short term investments	—	—	632	91
Share of other comprehensive income (loss) of affiliates, net of tax	—	37,567	(37,911)	(5,460)
<b>Comprehensive income attributable to the Company's shareholders</b>	<b>167,768</b>	<b>253,806</b>	<b>121,945</b>	<b>17,563</b>

## FANHUA INC.

## SCHEDULE 1—CONDENSED FINANCIAL STATEMENTS OF THE COMPANY—(Continued)

Statements of Shareholders' Equity  
(In thousands, except for shares)

	Share Capital		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Subscription Receivables	Total
	Number of Share	Amounts		Number of Share	Amounts				
		RMB	RMB		RMB	RMB	RMB	RMB	RMB
<b>Balance as of January 1, 2014</b>	<b>998,861,526</b>	<b>7,624</b>	<b>2,329,962</b>	—	—	<b>801,625</b>	<b>(111,114)</b>	—	<b>3,028,097</b>
Net income	—	—	—	—	—	161,760	—	—	161,760
Issue new shares to employees	150,000,000	928	256,563	—	—	—	—	(257,491)	—
Foreign currency translation	—	—	—	—	—	—	6,008	—	6,008
Exercise of share options	1,704,380	11	3,172	—	—	—	—	—	3,183
Share-based compensation	—	—	23,598	—	—	—	—	—	23,598
Other	—	—	(11,894)	—	—	—	—	—	(11,894)
<b>Balance as of December 31, 2014</b>	<b>1,150,565,906</b>	<b>8,563</b>	<b>2,601,401</b>	—	—	<b>963,385</b>	<b>(105,106)</b>	<b>(257,491)</b>	<b>3,210,752</b>
Net income	—	—	—	—	—	210,086	—	—	210,086
Foreign currency translation	—	—	—	—	—	—	17,491	(11,338)	6,153
Repurchase of ordinary shares	—	—	—	(2,261,100)	(6,276)	—	—	—	(6,276)
Exercise of share options	4,493,620	29	(4,787)	2,261,100	6,276	—	—	—	1,518
Share-based compensation	—	—	17,653	—	—	—	—	—	17,653
Acquisition of additional interest in a subsidiary	—	—	(160,023)	—	—	—	—	—	(160,023)
Share of other comprehensive income in affiliates	—	—	—	—	—	—	37,567	—	37,567
<b>Balance as of December 31, 2015</b>	<b>1,155,059,526</b>	<b>8,592</b>	<b>2,454,244</b>	—	—	<b>1,173,471</b>	<b>(50,048)</b>	<b>(268,829)</b>	<b>3,317,430</b>
Net income	—	—	—	—	—	157,047	—	—	157,047
Foreign currency translation	—	—	—	—	—	—	21,483	(19,306)	2,177
Exercise of share options	2,597,400	17	1,127	—	—	—	—	—	1,144
Share-based compensation	—	—	4,937	—	—	—	—	—	4,937
Acquisition of additional interest in a subsidiary	7,416,000	49	(174,779)	—	—	—	—	—	(174,730)
Disposal of subsidiaries	—	—	16,126	—	—	—	—	—	16,126
Changes in fair value of short term investments	—	—	—	—	—	—	632	—	632
Share of other comprehensive income in affiliates	—	—	—	—	—	—	(37,911)	—	(37,911)
<b>Balance as of December 31, 2016</b>	<b>1,165,072,926</b>	<b>8,658</b>	<b>2,301,655</b>	—	—	<b>1,330,518</b>	<b>(65,844)</b>	<b>(288,135)</b>	<b>3,286,852</b>
<b>Balance as of December 31, 2016 in US\$</b>		<b>1,247</b>	<b>331,507</b>		—	<b>191,634</b>	<b>(9,483)</b>	<b>(41,500)</b>	<b>473,405</b>



## FANHUA INC.

## SCHEDULE 1—CONDENSED FINANCIAL STATEMENTS OF THE COMPANY—(Continued)

Statements of Cash Flows  
(In thousands)

	Year Ended December 31,			
	2014 RMB	2015 RMB	2016 RMB	2016 US\$
<b>OPERATING ACTIVITIES</b>				
Net income	161,760	210,086	157,047	22,618
Adjustments to reconcile net income to net cash generated from (used in) operating activities:				
Equity in earnings of subsidiaries	(180,487)	(214,012)	(158,714)	(22,860)
Compensation expenses associated with stock options	23,598	17,653	4,937	711
<b>Changes in operating assets and liabilities:</b>				
Other receivables	39,810	(67,925)	(9,290)	(1,338)
Other payables	(42,379)	1,879	3,506	506
<b>Net cash generated from (used in) operating activities</b>	<b>2,302</b>	<b>(52,319)</b>	<b>(2,514)</b>	<b>(363)</b>
<b>Cash flows (used in) generated from investing activities</b>				
Decrease in investment in subsidiaries	29,853	55,363	127,475	18,361
Advances to subsidiaries and affiliates	(43,110)	(8,797)	(122,885)	(17,699)
<b>Net cash (used in) generated from investing activities</b>	<b>(13,257)</b>	<b>46,566</b>	<b>4,590</b>	<b>662</b>
<b>Cash flows generated from (used in) financing activities:</b>				
Proceeds on exercise of stock options	3,183	1,518	1,144	165
Repurchase ordinary shares	—	(6,276)	—	—
<b>Net cash generated from (used in) financing activities</b>	<b>3,183</b>	<b>(4,758)</b>	<b>1,144</b>	<b>165</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(7,772)</b>	<b>(10,511)</b>	<b>3,220</b>	<b>464</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>11,471</b>	<b>9,707</b>	<b>5,349</b>	<b>770</b>
Effect of exchange rate changes on cash and cash equivalents	6,008	6,153	2,177	314
<b>Cash and cash equivalents at end of year</b>	<b>9,707</b>	<b>5,349</b>	<b>10,746</b>	<b>1,548</b>

**FANHUA INC.**

**Note to Schedule 1**  
***(In thousands, except for shares)***

Schedule 1 has been provided pursuant to the requirements of Rule 12-04(a), 5-04(c) and 4-08(e)(3) of Regulation S-X, which require condensed financial statements as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of the consolidated and unconsolidated subsidiaries (including variable interest entities) together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of December 31, 2016, RMB2,630,106 of the restricted capital and reserves are not available for distribution, and as such, the condensed financial statements of the Company have been presented for the years ended December 31, 2015 and 2016.

**THE COMPANIES LAW (2016 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES**

**AMENDED AND RESTATED  
MEMORANDUM AND ARTICLES  
OF ASSOCIATION  
OF  
FANHUA INC.**

**(Adopted by Special Resolution dated December 6, 2016)**

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THE COMPANIES LAW (2016 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES

**AMENDED AND RESTATED**

**MEMORANDUM OF ASSOCIATION**

**OF**

**FANHUA INC.**

(Adopted by Special Resolution dated December 6, 2016)

1. The name of the Company is **Fanhua Inc.**
2. The Registered Office of the Company shall be at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place within the Cayman Islands as the Directors may decide.
3. The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law (2016 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.
4. The liability of each Member is limited to the amount from time to time unpaid on such Member's shares.
5. The authorized share capital of the Company is US\$10,000,000 divided into 10,000,000,000 ordinary shares of a nominal or par value of US\$0.001 each. The Company has the power to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (2016 Revision) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.
6. The Company has the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
7. Capitalized terms that are not defined in this Amended and Restated Memorandum of Association bear the same meaning as those given in the Amended and Restated Articles of Association of the Company.

THE COMPANIES LAW (2016 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES

**AMENDED AND RESTATED**

**ARTICLES OF ASSOCIATION**

**OF**

**FANHUA INC.**

(Adopted by Special Resolution dated December 6, 2016)

**INTERPRETATION**

1. In these Articles, unless otherwise defined, the defined terms shall have the meanings assigned to them as follows:

**“Articles”**

the Amended and Restated Articles of Association adopted by Special Resolution on December 6, 2016, as from time to time altered or added to in accordance with the Statutes and these Articles;

**“Board”**

the board of directors of the Company;

**“Business Day”**

a day (excluding Saturdays or Sundays), on which banks in Hong Kong, Beijing and New York are open for general banking business throughout their normal business hours;

**“Commission”**

Securities and Exchange Commission of the United States of America or any other federal agency for the time being administering the Securities Act;

**“Companies Law”**

the Companies Law (2016 Revision) of the Cayman Islands and any statutory amendment or re-enactment thereof. Where any provision of the Companies Law is referred to, the reference is to that provision as amended by any law for the time being in force;

**“Company”**

Fanhua Inc., a Cayman Islands exempted company limited by shares;

**“Company's Website”**

the website of the Company, the address or domain name of which has been notified to Members;

**“Designated Stock Exchange”**

the Global Market of The Nasdaq Stock Market, The New York Stock Exchange or any other internationally recognized stock exchange where the Company's securities are traded;

**“Directors”**

the directors of the Company for the time being, or as the case may be, the Directors assembled as a Board or as a committee thereof;

**“electronic”**

the meaning given to it in the Electronic Transactions Law (2003 Revision) of the Cayman Islands and any amendment thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefore;

**“electronic communication”**

electronic posting to the Company's Website, transmission to any number, address or internet website or other electronic delivery methods as otherwise decided and approved by not less than two-thirds of the vote of the Board;

**“in writing”**

includes writing, printing, lithograph, photograph, type-writing and every other mode of representing words or figures in a legible and non-transitory form and, only where used in connection with a notice served by the Company on Members or other persons entitled to receive notices hereunder, shall also include a record maintained in an electronic medium which is accessible in visible form so as to be useable for subsequent reference;

**“Member”**

a person whose name is entered in the Register of Members as the holder of a share or shares;

**“Memorandum of Association”**

the Amended and Restated Memorandum of Association of the Company, as amended and re-stated from time to time;

**“month”**

calendar month;

**“Ordinary Resolution”**

a resolution:

- (a) passed by a simple majority of votes cast by such Members as, being entitled to do so, vote in person or, in the case of any Member being an organization, by its duly authorized representative or, where proxies are allowed, by proxy at a general meeting of the Company; or
- (b) approved in writing by all of the Members entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Members and the effective date of the resolution so adopted shall be the date on which the instrument, or the last of such instruments if more than one, is executed;

**“Ordinary Shares”**

shares of par value of US\$0.001 each in the capital of the Company with the rights set out in these Articles;

**“paid up”**

paid up as to the par value and any premium payable in respect of the issue of any shares and includes credited as paid up;

**“Register of Members”**

the register to be kept by the Company in accordance with Section 40 of the Companies Law;

**Registered Office”**

the registered office for the time being of the Company;

**“Seal”**

the common seal of the Company including any facsimile thereof;

**“Securities Act”**

the Securities Act of 1933 of the United States of America, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time;

**“share”**

any share in the capital of the Company, including the Ordinary Shares and shares of other classes;

**“signed”**

includes a signature or representation of a signature affixed by mechanical means or an electronic symbol or process attached to or logically associated with an electronic communication and executed or adopted by a person with the intent to sign the electronic communication;

**“Special Resolution”**

a resolution passed in accordance with Section 60 of the Companies Law and includes a unanimous written resolution expressly passed as a special resolution;

**“Statutes”**

the Companies Law and every other laws and regulations of the Cayman Islands for the time being in force concerning companies and affecting the Company;

**“year”**

calendar year.

2. In these Articles, save where the context requires otherwise:

- (a) words importing the singular number shall include the plural number and vice versa;
- (b) words importing the masculine gender only shall include the feminine gender;
- (c) words importing persons only shall include companies or associations or bodies of persons, whether corporate or not;
- (d) **“may”** shall be construed as permissive and **“shall”** shall be construed as imperative;
- (e) a reference to a dollar or dollars (or \$) is a reference to dollars of the United States;
- (f) references to a statutory enactment shall include reference to any amendment or re-enactment thereof for the time being in force;
- (g) any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms; and
- (h) Section 8 of the Electronic Transactions Law (2003 Revision) shall not apply.

3. Subject to the last two preceding Articles, any words defined in the Companies Law shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.



#### **PRELIMINARY**

4. The business of the Company may be commenced as soon after incorporation as the Directors see fit, notwithstanding that only part of the shares may have been allotted or issued.
5. The registered office of the Company shall be at such address in the Cayman Islands as the Directors shall from time to time determine. The Company may in addition establish and maintain such other offices and places of business and agencies in such places as the Directors may from time to time determine.

#### **SHARE CAPITAL**

6. The authorized share capital of the Company at the date of adoption of these Articles is US\$10,000,000 divided into 10,000,000,000 ordinary shares of a nominal or par value of US\$0.001 each, with power for the Company, insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law and these Articles and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares, whether declared to be preference or otherwise, shall be subject to the powers hereinbefore contained.

#### **ISSUE OF SHARES**

7. Subject to the provisions, if any, in the Memorandum of Association, the Directors may, in their absolute discretion and without approval of the holders of Ordinary Shares, cause the Company to issue such amounts of Ordinary Shares and/or preferred shares (whether in certificated form or non-certificated form), grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, voting rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the Ordinary Shares, at such times and on such other terms as they think proper. The Company shall not issue shares in bearer form.

#### **REGISTER OF MEMBERS AND SHARE CERTIFICATES**

8. The Company shall maintain a Register of Members and every person whose name is entered as a Member in the Register of Members shall, without payment, be entitled to a certificate within two months after allotment or lodgement of transfer (or within such other period as the conditions of issue shall provide) in the form determined by the Directors. All certificates shall specify the share or shares held by that person and the amount paid up thereon, provided that in respect of a share or shares held jointly by several persons, the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all. All certificates for shares shall be delivered personally or sent through the post addressed to the Member entitled thereto at the Member's registered address as appearing in the register.

9. Every share certificate of the Company shall bear legends required under the applicable laws, including the Securities Act.
10. Any two or more certificates representing shares of any one class held by any Member may at the Member's request be cancelled and a single new certificate for such shares issued in lieu on payment (if the Directors shall so require) of US\$1.00 or such smaller sum as the Directors shall determine.
11. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same shares may be issued to the relevant Member upon request subject to delivery up of the old certificate or (if alleged to have been lost, stolen or destroyed) compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Directors may think fit.
12. In the event that shares are held jointly by several persons, any request may be made by any one of the joint holders and if so made shall be binding on all of the joint holders.

#### **TRANSFER OF SHARES**

13. The instrument of transfer of any share shall be in writing and executed by or on behalf of the transferor and shall be accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the Register of Members in respect thereof.
14. All instruments of transfer that shall be registered shall be retained by the Company.

#### **REDEMPTION AND PURCHASE OF OWN SHARES**

15. Subject to the provisions of the Statutes and these Articles, the Company may:
  - (a) issue shares on terms that they are to be redeemed or are liable to be redeemed at the option of the Member or the Company on such terms and in such manner as the Board may, before the issue of the shares, determine;
  - (b) purchase its own shares (including any redeemable shares) provided that the Members shall have approved the manner of purchase by ordinary resolution or the manner of purchase shall be in accordance with the following Articles (this authorisation is in accordance with section 37(2) of the Companies Law or any modification or re-enactment thereof for the time being in force); and
  - (c) make a payment in respect of the redemption or purchase of its own shares in any manner permitted by the Statutes, including out of capital.
16. Purchase of shares listed on a Designated Stock Exchange: the Company is authorised to purchase any share listed on a Designated Stock Exchange in accordance with the following manner of purchase:
  - (a) the maximum number of shares that may be repurchased shall be equal to the number of issued and outstanding shares less one share; and

- (b) the repurchase shall be at such time; at such price and on such other terms as determined and agreed by the Board in their sole discretion provided however that:
  - (i) such repurchase transactions shall be in accordance with the relevant code, rules and regulations applicable to the listing of the shares on the Designated Stock Exchange; and
  - (ii) at the time of the repurchase, the Company is able to pay its debts as they fall due in the ordinary course of its business.

17A. Purchase of shares not listed on a Designated Stock Exchange: the Company is authorised to purchase any shares not listed on a Designated Stock Exchange in accordance with the following manner of purchase:

- (a) the Company shall serve a repurchase notice in a form approved by the Board on the Member from whom the shares are to be repurchased at least two business days prior to the date specified in the notice as being the repurchase date;
- (b) the price for the shares being repurchased shall be such price as agreed between the Board and the applicable Member;
- (c) the date of repurchase shall be the date specified in the repurchase notice; and
- (d) the repurchase shall be on such other terms as specified in the repurchase notice as determined and agreed by the Board and the applicable Member in their sole discretion.

17B. The purchase of any share shall not oblige the Company to purchase any other share other than as may be required pursuant to applicable law and any other contractual obligations of the Company.

18. The holder of the shares being purchased shall be bound to deliver up to the Company at its registered office or such other place as the Board shall specify, the certificate(s) (if any) thereof for cancellation and thereupon the Company shall pay to him the purchase or redemption monies or consideration in respect thereof.”

#### **VARIATION OF RIGHTS ATTACHING TO SHARES**

19 If at any time the share capital is divided into different classes of shares, the rights attaching to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to these Articles, be varied or abrogated with the consent in writing 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.

20 The provisions of these Articles relating to general meetings shall apply to every such general meeting of the holders of one class of shares except that the necessary quorum shall be one person holding or representing by proxy at least one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.

21 The rights conferred upon the holders of the shares of any class shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking in priority to or *pari passu* therewith.

#### **COMMISSION ON SALE OF SHARES**

22 The Company may, in so far as the Statutes from time to time permit, pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any shares of the Company. Such commissions may be satisfied by the payment of cash or the lodgement of fully or partly paid-up shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

#### **NON-RECOGNITION OF TRUSTS**

23 No person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future, or partial interest in any share, or any interest in any fractional part of a share, or (except only as is otherwise provided by these Articles or the Statutes) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

#### **LIEN ON SHARES**

24 The Company shall have a first and paramount lien and charge on all shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such share shall operate as a waiver of the Company's lien (if any) thereon. The Company's lien (if any) on a share shall extend to all dividends or other monies payable in respect thereof.

25 The Company may sell, in such manner as the Directors think fit, any shares on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of 14 calendar days after a notice in writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share, or to the persons entitled thereto by reason of the death or bankruptcy of such registered holder.

- 26 To give effect to any such sale, the Directors may authorise any person to transfer the shares sold to, or in accordance with the direction of, the purchaser thereof. The purchaser or his nominee shall be registered as the holder of the shares comprised in any such transfer and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the sale or the exercise of the Company's power of sale under these Articles.
- 27 The proceeds of the sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the date of the sale.

#### **CALLS ON SHARES**

- 28 The Directors may from time to time make calls upon the Members in respect of any money unpaid on their shares, and each Member shall (subject to receiving at least 14 calendar days notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on his shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.
- 29 The joint holders of a share shall be jointly and severally liable to pay calls in respect thereof.
- 30 If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum from the day appointed for the payment thereof to the time of the actual payment at such rate as the Directors may determine, but the Directors may waive payment of that interest wholly or in part.
- 31 An amount payable in respect of a share on allotment or at any fixed date, whether on account of the par value of the share or premium or otherwise, shall be deemed to be a call and if it is not paid all the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call duly made and notified.
- 32 The Directors may make arrangements on the issue of shares for a difference between the Members, or the particular shares, in the amount of calls to be paid and in the times of payment.
- 33 The Directors may, if they think fit, receive from any Member willing to advance the same all or any part of the moneys uncalled and unpaid upon any shares held by him, and upon all or any of the moneys so advanced may (until the same would otherwise become payable) pay interest at such rate as may be agreed upon between the Member paying the sum in advance and the Directors. No such sum paid in advance of calls shall entitle the member paying such sum to any portion of a dividend declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable.

#### **FORFEITURE OF SHARES**

- 34 If a Member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of such much of the call or instalment as is unpaid, together with any interest which may have accrued.

- 35 The notice shall name a further day (not earlier than the expiration of 14 calendar days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.
- 36 If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by notice has been made, be forfeited by a resolution of the Directors to that effect.
- 37 A forfeited share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit, and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the Directors think fit.
- 38 A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, but his liability shall cease if and when the Company receives payment in full of all monies due and payable by him with respect to those shares.
- 39 A statutory declaration in writing that the declarant is a Director of the Company, and that a share in the Company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. The Company may receive the consideration, if any, given for the share or any sale or disposition thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of and he shall thereupon be registered as the holder of the share, and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.
- 40 The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of a share becomes due and payable, whether on account of the par value of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

#### **REGISTRATION OF EMPOWERING INSTRUMENTS**

- 41 The Company shall be entitled to charge a fee not exceeding one dollar (US\$1.00) on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, notice in lieu of distringas, or other instrument.

#### **TRANSMISSION OF SHARES**

- 42 The legal personal representative of a deceased sole holder of a share shall be the only person recognised by the Company as having any title to the share. In the case of a share registered in the name of two or more holders, the survivors or survivor, or the legal personal representatives of the deceased survivor, shall be the only person recognised by the Company as having any title to the share.

- 43 Any person becoming entitled to a share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) shall upon such evidence being produced as may from time to time be properly required by the Directors, have the right either to be registered as a Member in respect of the share or, instead of being registered himself, to have some person nominated by him as the transferee. If the person so becoming entitled shall elect to be registered himself as holder he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.
- 44 A person becoming entitled to a share by reason of the death or bankruptcy or liquidation or dissolution of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a Member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company, *provided, however*, that the Directors may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share, and if the notice is not complied with within 90 calendar days, the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share until the requirements of the notice have been complied with.

#### ALTERATION OF CAPITAL

- 45 Subject to these Articles, the Company may from time to time by Ordinary Resolution increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe.
- 46 Subject to these Articles, the Company may by Ordinary Resolution:
- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
  - (b) sub-divide its existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
  - (c) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.
- 47 The Company may by Special Resolution reduce its share capital and any capital redemption reserve in any manner authorized by law.
- 48 All new shares created hereunder shall be subject to the same provisions with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.

## **CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE**

- 49 For the purpose of determining those Members that are entitled to receive notice of, attend or vote at any meeting of Members or any adjournment thereof, or those Members that are entitled to receive payment of any dividend, or in order to make a determination as to who is a Member for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period but not to exceed in any case 30 calendar days. If the Register of Members shall be so closed for the purpose of determining those Members that are entitled to receive notice of, attend or vote at a meeting of Members, such register shall be so closed for at least 10 calendar days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the Register of Members.
- 50 In lieu of or apart from closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of those Members that are entitled to receive notice of, attend or vote at a meeting of the Members, and for the purpose of determining those Members that are entitled to receive payment of any dividend, the Directors may, at or within 30 calendar days prior to the date of declaration of such dividend fix a subsequent date as the record date of such determination.
- 51 If the Register of Members is not so closed and no record date is fixed for the determination of those Members entitled to receive notice of, attend or vote at a meeting of Members or those Members that are entitled to receive payment of a dividend, the date on which notice of the meeting is posted or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of those Members that are entitled to receive notice of, attend or vote at a meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof.

## **GENERAL MEETINGS**

- 52 All general meetings of the Company other than annual general meetings shall be called extraordinary general meetings.
- 53 (a) The Company may hold an annual general meeting but shall not (unless required by the Companies Law) be obliged to hold an annual general meeting.
- (b) At these meetings the report of the Directors (if any) shall be presented.
- 54 (a) The Directors may call general meetings, and they shall on a Members requisition forthwith proceed to convene an extraordinary general meeting of the Company.
- (b) A Members requisition is a requisition of Members of the Company holding at the date of deposit of the requisition not less than one-third of the share capital of the Company as at that date carries the right of voting at general meetings of the Company.
- (c) The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.
- (d) If the Directors do not within 21 calendar days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further 21 calendar days, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the second said 21 calendar days.



- (e) A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

#### NOTICE OF GENERAL MEETINGS

- 55 At least 14 calendar days' notice shall be given for any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, *provided* that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of these Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:
- (a) in the case of an annual general meeting by all the Members (or their proxies) entitled to attend and vote thereat; and
  - (b) in the case of an extraordinary general meeting by a majority in number of the Members (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than ninety five per cent in par value of the shares giving that right.
- 56 The accidental omission to give notice of a meeting to or the non-receipt of a notice of a meeting by any Member shall not invalidate the proceedings at any meeting.

#### PROCEEDINGS AT GENERAL MEETINGS

- 57 No business shall be transacted at any general meeting unless a quorum of Members is present at the time when the meeting proceeds to business. Members holding not less than an aggregate of one-third of all voting share capital of the Company in issue present in person or by proxy or, if a corporation or other non-natural person, by its duly authorised representative or proxy and entitled to vote shall be a quorum for all purposes. A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.
- 58 If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such other day, time and place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved.
- 59 The Chairman of the Board of Directors shall preside as chairman at every general meeting of the Company.

- 60 If at any meeting the Chairman of the Board of Directors is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as chairman, the Members present shall choose a chairman of the meeting.
- 61 The Chairman may with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting) adjourn a meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for 10 calendar days or more, not less than seven Business Days' notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.
- 62 At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman or one or more Members present in person or by proxy entitled to vote and who together hold not less than 10 per cent of the paid up voting share capital of the Company, and unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution.
- 63 If a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn.
- 64 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.
- 65 A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

#### **VOTES OF MEMBERS**

- 66 Subject to any rights and restrictions for the time being attached to any class or classes of shares, on a show of hands every Member who (being an individual) is present in person or by proxy or, if a corporation or other non-natural person, who is present by its duly authorised representative or proxy, at a general meeting of the Company shall have one vote and, on a poll, shall have one vote for each share registered in his name in the Register of Members.
- 67 In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

- 68 A Member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, or other person in the nature of a committee appointed by that court, and any such committee or other person may, on a poll, vote by proxy.
- 69 No Member shall be entitled to vote at any general meeting unless he is registered as a Member on the record date for such meeting nor unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.
- 70 On a poll or on a show of hands, votes may be given either personally or by proxy. A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy, the instrument of proxy shall state which proxy is entitled to vote on a show of hands.
- 71 No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.
- 72 A Member holding more than one share need not cast the votes in respect of his shares in the same way on any resolution and therefore may vote a share or some or all such shares either for or against a resolution and/or abstain from voting a share or some or all of the shares and, subject to the terms of the instrument appointing him, a proxy appointed under one or more instruments may vote a share or some or all of the shares in respect of which he is appointed either for or against a resolution and/or abstain from voting.
- 73 A resolution in writing signed (in one or more counterparts) by all the Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations or other non-natural persons, signed by their duly authorized representatives) shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.

#### **PROXIES**

- 74 The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized. A proxy need not be a Member of the Company.
- 75 The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company:
- (a) not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or

- (b) in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or
- (c) where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded be delivered at the meeting at which the poll was demanded to the chairman or to the secretary or to any director;

*provided* that the Directors may in the notice convening the meeting, or in an instrument of proxy sent out by the Company, direct that the instrument appointing a proxy may be deposited (no later than the time for holding the meeting or adjourned meeting) at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company. The chairman may in any event at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.

- 76 The instrument appointing a proxy may be in any usual or common form or such other form as the Directors may approve and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
- 77 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting or adjourned meeting at which it is sought to use the proxy.

#### **CORPORATIONS ACTING BY REPRESENTATIVES AT MEETING**

- 78 Any corporation which is a Member or a Director may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members or of the Board of Directors or of a committee of Directors, and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member or Director.

#### **CLEARING HOUSES**

- 79 If a clearing house (or its nominee) is a Member, it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its representative or representatives at any general meeting of the Company or at any general meeting of any class of members of the Company *provided* that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person so authorized pursuant to this provision shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual Member of the Company holding the number and class of shares specified in such authorisation.

## DIRECTORS

- 80 (A) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three Directors. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter by the Members at general meeting.
- (B) Each Director shall hold office until the expiration of his term and until his successor shall have been elected and qualified.
- (C) The Board of Directors shall have a Chairman of the Board of Directors (the "Chairman") elected and appointed by a majority of the Directors then in office. The Directors may also elect a Co-Chairman or a Vice-Chairman of the Board of Directors (the "Co-Chairman"). The Chairman shall preside as chairman at every meeting of the Board of Directors. To the extent the Chairman is not present at a meeting of the Board of Directors, the Co-Chairman, or in his absence, the attending Directors may choose one Director to be the chairman of the meeting. The Chairman's voting right as to the matters to be decided by the Board of Directors shall be the same as other Directors.
- (D) Subject to these Articles and the Companies Law, the Company may by Ordinary Resolution elect any person to be a Director either to fill a casual vacancy on the Board or as an addition to the existing Board.
- (E) The Directors by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, or the sole remaining Director, shall have the power from time to time and at any time to appoint any person as a Director to fill a casual vacancy on the Board or as an addition to the existing Board, subject to the Company's compliance with director nomination procedures required under applicable corporate governance rules of the Designated Stock Exchange, as long as the Company's securities are traded on the Designated Stock Exchange.
- 81 Subject to Article 80, a Director may be removed from office by Special Resolution at any time before the expiration of his term notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under such agreement).
- 82 A vacancy on the Board created by the removal of a Director under the provisions of Article 81 above may be filled by the election or appointment by Ordinary Resolution at the meeting at which such Director is removed or by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting.

83 The Board may, from time to time, and except as required by applicable law or the listing rules of the Designated Stock Exchange, adopt, institute, amend, modify or revoke the corporate governance policies or initiatives, which shall be intended to set forth the policies of the Company and the Board on various corporate governance related matters as the Board shall determine by resolution from time to time.

84 A Director shall not be required to hold any shares in the Company by way of qualification. A Director who is not a Member of the Company shall nevertheless be entitled to receive notice of and to attend and speak at general meetings of the Company and of all classes of shares of the Company.

#### **DIRECTORS' FEES AND EXPENSES**

85 The Directors may receive such remuneration as the Board may from time to time determine. The Directors may be entitled to be repaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.

86 Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Article.

#### **ALTERNATE DIRECTOR**

87 Any Director may in writing appoint another person to be his alternate to act in his place at any meeting of the Directors at which he is unable to be present. Every such alternate shall be entitled to notice of meetings of the Directors and to attend and vote thereat as a Director when the person appointing him is not personally present and, where he is a Director, to have a separate vote on behalf of the Director he is representing in addition to his own vote. A Director may at any time in writing revoke the appointment of an alternate appointed by him. An alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him. An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director. Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.

88 Any Director may appoint any person, whether or not a Director, to be the proxy of that Director to attend and vote on his behalf, in accordance with instructions given by that Director or, in the absence of such instructions, at the discretion of the proxy, at a meeting or meetings of the Directors which that Director is unable to attend personally. The instrument appointing the proxy shall be in writing under the hand of the appointing Director and shall be in any usual or common form or such other form as the Directors may approve, and must be lodged with the chairman of the meeting of the Directors at which such proxy is to be used, or first used, prior to the commencement of the meeting.

## POWERS AND DUTIES OF DIRECTORS

- 89 Subject to the provisions of the Companies Law, these Articles and to any resolutions made in a general meeting, the business of the Company shall be managed by the Directors, who may pay all expenses incurred in setting up and registering the Company and may exercise all powers of the Company. No resolution made by the Company in a general meeting shall invalidate any prior act of the Directors that would have been valid if that resolution had not been made.
- 90 Subject to these Articles, the Directors may from time to time appoint any person, whether or not a director of the Company, to hold such office in the Company as the Directors may think necessary for the administration of the Company, including without prejudice to the foregoing generality, the office of the Chief Executive Officer, President, one or more Vice Presidents, Chief Operating Officer, Chief Financial Officer, Manager or Controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. The Directors may also appoint one or more of their number to the office of Managing Director upon like terms, but any such appointment shall ipso facto determine if any Managing Director ceases from any cause to be a Director, or if the Company by Ordinary Resolution resolves that his tenure of office be terminated.
- 91 The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
- 92 The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretion (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to delegate all or any of the powers, authorities and discretion vested in him.
- 93 The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in the following paragraphs shall be without prejudice to the general powers conferred by this paragraph.
- 94 The Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any persons to be members of such committees or local boards and may appoint any managers or agents of the Company and may fix the remuneration of any of the aforesaid.

- 95 The Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members for the time being of any such local board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
- 96 Any such delegates as aforesaid may be authorized by the Directors to subdelegate all or any of the powers, authorities, and discretions for the time being vested to them.
- 97 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

#### **DISQUALIFICATION OF DIRECTORS**

- 98 Subject to Article 80, the office of Director shall be vacated, if the Director:
- (a) becomes bankrupt or makes any arrangement or composition with his creditors;
  - (b) is found to be or becomes of unsound mind;
  - (c) resigns his office by notice in writing to the Company;
  - (d) without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months and the Board resolves that his office be vacated; or
  - (e) if he shall be removed from office pursuant to these Articles or the Statutes.



## PROCEEDINGS OF DIRECTORS

- 99 Subject to Article 80, the Directors may meet together (whether within or outside the Cayman Islands) for the dispatch of business, adjourn, and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting of the Directors shall be decided by a majority of votes. In case of an equality of votes the chairman shall have a second or casting vote. A Director may at any time summon a meeting of the Directors by at least three Business Days' notice to every other Director and alternate Director.
- 100 A Director or Directors may participate in any meeting of the Board of Directors, or of any committee appointed by the Board of Directors of which such Director or Directors are members, by means of telephone or similar communication equipment by way of which all persons participating in such meeting can hear each other and such participation shall be deemed to constitute presence in person at the meeting.
- 101 The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority of the Directors then in office, provided that a Director and his appointed alternate Director shall be considered only one person for this purpose. A meeting of the Directors at which a quorum is present when the meeting proceeds to business shall be competent to exercise all powers and discretions for the time being exercisable by the Directors. A meeting of the Directors may be held by means of telephone or teleconferencing or any other telecommunications facility provided that all participants are thereby able to communicate immediately by voice with all other participants.
- 102 Subject to Article 80, a Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a shareholder, director, officer or employee of any specified company or firm and is to be regarded as interested in any contract or transaction with that company or firm shall be deemed a sufficient declaration of interest for the purposes of voting on a resolution in respect to a contract or transaction in which he has an interest. A Director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or proposed contract or arrangement shall come before the meeting for consideration.
- 103 A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relation thereby established. A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement.

- 104 Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; *provided* that nothing herein contained shall authorise a Director or his firm to act as auditor to the Company.
- 105 The Directors shall cause minutes to be made in books or loose-leaf folders provided for the purpose of recording:
- (a) all appointments of officers made by the Directors;
  - (b) the names of the Directors present at each meeting of the Directors and of any committee of the Directors; and
  - (c) all resolutions and proceedings at all meetings of the Company, and of the Directors and of committees of Directors.
- 106 When the chairman of a meeting of the Directors signs the minutes of such meeting the same shall be deemed to have been duly held notwithstanding that all the Directors have not actually come together or that there may have been a technical defect in the proceedings.
- 107 A resolution signed by all the Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted. When signed a resolution may consist of several documents each signed by one or more of the Directors.
- 108 The continuing Directors may act notwithstanding any vacancy in their body but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors may act for the purpose of increasing the number, or of summoning a general meeting of the Company, but for no other purpose.
- 109 The Directors shall elect a chairman of their meetings and determine the period for which he is to hold office but if at any meeting the chairman is not present within fifteen minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.
- 110 A committee appointed by the Directors may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting.
- 111 A committee appointed by the Directors may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the committee members present and in case of an equality of votes the chairman shall have a second or casting vote.

- 112 All acts done by any meeting of the Directors or of a committee of Directors, or by any person acting as a Director, shall notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

#### **PRESUMPTION OF ASSENT**

- 113 A Director of the Company who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the Minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

#### **DIVIDENDS, DISTRIBUTIONS AND RESERVE**

- 114 Subject to any rights and restrictions for the time being attached to any class or classes of shares and these Articles, the Directors may from time to time declare dividends (including interim dividends) and other distributions on shares in issue and authorise payment of the same out of the funds of the Company lawfully available therefor.
- 115 Subject to any rights and restrictions for the time being attached to any class or classes of shares and these Articles, the Company by Ordinary Resolution may declare dividends, but no dividend shall exceed the amount recommended by the Directors.
- 116 The Directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for meeting contingencies, or for equalising dividends or for any other purpose to which those funds may be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit.
- 117 Any dividend may be paid by cheque or wire transfer to the registered address of the Member or person entitled thereto, or in the case of joint holders, to any one of such joint holders at his registered address or to such person and such address as the Member or person entitled, or such joint holders as the case may be, may direct. Every such cheque shall be made payable to the order of the person to whom it is sent or to the order of such other person as the Member or person entitled, or such joint holders as the case may be, may direct.
- 118 The Directors when paying dividends to the Members in accordance with the foregoing provisions may make such payment either in cash or in specie.
- 119 No dividend shall be paid otherwise than out of profits or, subject to the restrictions of the Companies Law, the share premium account.

- 120 Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or credited as fully paid on the shares, but if and so long as nothing is paid up on any of the shares in the Company, dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this Article as paid on the share.
- 121 If several persons are registered as joint holders of any share, any of them may give effectual receipts for any dividend or other moneys payable on or in respect of the share.
- 122 No dividend shall bear interest against the Company. Any dividend which cannot be paid to a Member and/or which remains unclaimed after six months from the date of declaration of such dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, *provided* that the Company shall not be constituted as a trustee in respect of that account and the Dividend shall remain as a debt due to the Member. Any Dividend which remains unclaimed after a period of six years from the date of declaration of such Dividend shall be forfeited and shall revert to the Company.

#### **BOOK OF ACCOUNTS**

- 123 The books of account relating to the Company's affairs shall be kept in such manner as may be determined from time to time by the Directors.
- 124 The books of account shall be kept at such place or places as the Directors think fit, and shall always be open to the inspection of the Directors.
- 125 The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors, and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by law or authorized by the Directors or by the Company by Ordinary Resolution.
- 126 The accounts relating to the Company's affairs shall be audited in such manner and with such financial year end as may be determined from time to time by the Company by Ordinary Resolution or failing any such determination by the Directors.

#### **ANNUAL RETURNS AND FILINGS**

- 127 The Board shall make the requisite annual returns and any other requisite filings in accordance with the Companies Law.

#### **AUDIT**

- 128 The Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors and may fix his or their remuneration.
- 129 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.

- 130 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next special meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any time during their term of office, upon request of the Directors or any general meeting of the Members.

#### **THE SEAL**

- 131 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer or other person appointed by the Directors for the purpose.
- 132 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
- 133 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

#### **OFFICERS**

- 134 Subject to Article 90, the Company may have a Chief Executive Officer, President, Chief Operating Officer and Chief Financial Officer, one or more Vice Presidents, Manager or Controller, appointed by the Directors. The Directors may also from time to time appoint such other officers as they consider necessary, all for such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors from time to time subscribe.

#### **CAPITALISATION OF PROFITS**

- 135 Subject to the Statutes and these Articles, the Board may, with the authority of an Ordinary Resolution:
- (a) resolve to capitalise an amount standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution;
  - (b) appropriate the sum resolved to be capitalised to the Members in proportion to the nominal amount of shares (whether or not fully paid) held by them respectively and apply that sum on their behalf in or towards:

- (i) paying up the amounts (if any) for the time being unpaid on shares held by them respectively; or
  - (ii) paying up in full unissued shares or debentures of a nominal amount equal to that sum,
- and allot the shares or debentures, credited as fully paid, to the Members (or as they may direct) in those proportions, or partly in one way and partly in the other, but the share premium account, the capital redemption reserve and profits which are not available for distribution may, for the purposes of this Article, only be applied in paying up unissued shares to be allotted to Members credited as fully paid;
- (c) make any arrangements it thinks fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular, without limitation, where shares or debentures become distributable in fractions the Board may deal with the fractions as it thinks fit;
  - (d) authorise a person to enter (on behalf of all the Members concerned) an agreement with the Company providing for either:
    - (i) the allotment to the Members respectively, credited as fully paid, of shares or debentures to which they may be entitled on the capitalization; or
    - (ii) the payment by the Company on behalf of the Members (by the application of their respective operations of the reserves resolved to be capitalised) of the amounts or part of the amounts remaining unpaid on their existing shares,an agreement made under the authority being effective and binding on all those Members; and
  - (e) generally do all acts and things required to give effect to the resolution.

#### **NOTICES**

- 136 Except as otherwise provided in these Articles, any notice or document may be served by the Company or by the person entitled to give notice to any Member either personally, by facsimile, or by sending it through the post in a prepaid letter or via a recognised courier service, fees prepaid, addressed to the Member at his address as appearing in the Register of Members or, to the extent permitted by all applicable laws and regulations, by electronic means by transmitting it to any electronic number or address or website supplied by the Member to the Company or by placing it on the Company's Website. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register of Members in respect of the joint holding, and notice so given shall be sufficient notice to all the joint holders.
- 137 Notices posted to addresses outside the Cayman Islands shall be forwarded by prepaid airmail.

- 138 Any Member present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting and, where requisite, of the purposes for which such meeting was convened.
- 139 Any notice or other document, if served by (a) post, shall be deemed to have been served five calendar days after the time when the letter containing the same is posted, or (b) facsimile, shall be deemed to have been served upon confirmation of receipt, or (c) recognised delivery service, shall be deemed to have been served 48 hours after the time when the letter containing the same is delivered to the courier service and in proving such service it shall be sufficient to provide that the letter containing the notice or documents was properly addressed and duly posted or delivered to the courier or (d) electronic means as provided herein shall be deemed to have been served and delivered on the day following that on which it is successfully transmitted or at such later time as may be prescribed by any applicable laws or regulations.
- 140 Any notice or document delivered or sent to any Member in accordance with the terms of these Articles shall notwithstanding that such Member be then dead or bankrupt, and whether or not the Company has notice of his death or bankruptcy, be deemed to have been duly served in respect of any share registered in the name of such Member as sole or joint holder, unless his name shall at the time of the service of the notice or document, have been removed from the Register of Members as the holder of the share, and such service shall for all purposes be deemed a sufficient service of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.
- 141 Notice of every general meeting shall be given to:
- (a) all Members who have supplied to the Company an address for the giving of notices to them;
  - (b) every person entitled to a share in consequence of the death or bankruptcy of a Member, who but for his death or bankruptcy would be entitled to receive notice of the meeting; and
  - (c) each Director and Alternate Director.

No other person shall be entitled to receive notices of general meetings.

#### **INFORMATION**

- 142 No Member shall be entitled to require discovery of any information in respect of any detail of the Company's trading or any information which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Board would not be in the interests of the Members to communicate to the public.
- 143 The Board shall be entitled to release or disclose any information in its possession, custody or control regarding the Company or its affairs to any of its Members including, without limitation, information contained in the Register of Members and transfer books of the Company.

#### **INDEMNITY**

- 144 To the fullest extent permissible under the Companies Law, every Director (including for the purposes of this Article any Alternate Director appointed pursuant to the provisions of these Articles) and officer of the Company for the time being and from time to time shall be indemnified and secured harmless out of the assets and funds of the Company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him in connection with the execution or discharge of his duties, powers, authorities or discretions as a Director or officer of the Company, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by him in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.
- 145 No such Director or officer of the Company shall be liable to the Company for any loss or damage unless such liability arises through the willful neglect or default of such Director or officer.

#### **FINANCIAL YEAR**

- 146 Unless the Directors otherwise prescribe, the financial year of the Company shall end on December 31<sup>st</sup> in each year and shall begin on January 1<sup>st</sup> in each year.

#### **WINDING UP**

- 147 Subject to these Articles, if the Company shall be wound up, the liquidator may, with the sanction of an Ordinary Resolution of the Company, divide amongst the Members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.

#### **AMENDMENT OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND NAME OF COMPANY**

- 148 Subject to the Companies Law and these Articles, the Company may at any time and from time to time by Special Resolution alter or amend these Articles or the Memorandum of Association of the Company, in whole or in part, or change the name of the Company.

#### **REGISTRATION BY WAY OF CONTINUATION**

- 149 Subject to these Articles, the Company may by Special Resolution resolve to be registered by way of continuation in a jurisdiction outside the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing. In furtherance of a resolution adopted pursuant to this Article, the Directors may cause an application to be made to the Registrar of Companies to deregister the Company in the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing and may cause all such further steps as they consider appropriate to be taken to effect the transfer by way of continuation of the Company.



## PURCHASE AGREEMENT

This Purchase Agreement (this “Agreement”), dated as of March 29, 2017 (the “Signing Date”), is by and between Fosun Industrial Holdings Limited, a company organized under the laws of Hong Kong (the “Purchaser”), and Fanhua Inc., an exempted company incorporated under the laws of the Cayman Islands (the “Company”). The Purchaser and the Company are sometimes herein referred to each as a “Party,” and collectively as the “Parties.”

### WITNESSETH:

WHEREAS, the Company and the Purchaser desire to provide for the allotment, issuance, sale and purchase of the number of ordinary shares, par value US\$0.001 per share, each in the capital of the Company (the “Ordinary Shares”), as set forth in Section 1.1, on the terms and conditions set forth in this Agreement; and

WHEREAS, the Company and the Purchaser desire to make certain representations, warranties, covenants and agreements in connection with the issuance, sale and purchase and related transactions contemplated by this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the Company and the Purchaser agree as follows:

## ARTICLE I

### PURCHASE AND SALE

**Section 1.1** Issuance, Sale and Purchase of Shares. Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties set forth herein, the Company agrees to allot, issue and sell to the Purchaser free and clear of any pledge, mortgage, security interest, encumbrance, lien, charge, assessment, claim or restriction of any kind or nature other than those imposed by the Memorandum and Articles of Association of the Company, and the Purchaser agrees to purchase from the Company and subscribe for, on the Closing Date (as defined below), 66,000,000 Ordinary Shares (the “Purchase Shares”). Upon written instruction from the Purchaser, the Purchase Shares may be issued to any Affiliate of the Purchaser that the Purchaser designated in accordance with Section 1.3 (b).

**Section 1.2** Purchase Price. The purchase price per share shall be equal to the product of (a) the 20-day average closing price of the Company’s American Depositary Shares (the “ADS”) prior to the Signing Date, each of which represents 20 Ordinary Shares and is traded on the NASDAQ Global Select Market, multiplied by (b) 0.05. The total consideration payable by the Purchaser to the Company (the “Purchase Price”) shall be US\$29,162,100.

**Section 1.3** Closing.

(a) Upon the terms and subject to the conditions of this Agreement, the closing (the “Closing”) of the purchase and sale of the Purchase Shares shall occur remotely via the exchange of documents and signatures no later than 7 Business Days from the Signing Date (the “Closing Deadline”), provided that all closing conditions specified in Section 1.4 have been waived or satisfied (other than those conditions to be satisfied at the Closing, but subject to the satisfaction or waiver thereof at the Closing), or any other date and time that is agreed upon in writing by the Company and the Purchaser (the “Closing Date”).

(b) At the Closing, (i) the Purchaser shall deliver the Purchase Price to the Company by wire transfer in immediately available funds, and (ii) the Company shall deliver or cause to be delivered to the Purchaser (a) a copy of the Company's updated register of members reflecting such Purchaser's ownership of the Purchase Shares and (b) one or more certificates in definitive form for the Purchase Shares, in such denomination or denominations and registered in such name or names (each, a “Designated Party”) as the Purchaser requests upon notice to the Company at least five Business Days prior to the Closing Date.

(c) At the Closing, the parties hereto shall execute and deliver such additional documents and take such additional actions as the parties reasonably may deem to be practical and necessary in order to consummate the transactions as contemplated by this Agreement. All of the actions specified under Section 1.3(b) above shall take place simultaneously, and no such actions shall be taken or be deemed to have been taken unless each of the other actions are also taken and completed, and neither Party shall have an obligation to consummate the Closing unless all such actions (other than such actions to be taken by such Party) have been taken and completed.

For purposes of this Agreement:

“Affiliate” means in respect of a Person (as defined below), any other Person that, directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such Person. “Control” with respect to any Person means having the ability to direct the management and affairs of such Person, whether through the ownership of voting securities or by contract, and such ability shall be deemed to exist when any Person holds a majority of the outstanding voting securities, or the economic rights and benefits, of such Person.

“Business Day” shall mean any day, other than a Saturday, Sunday or other day on which the commercial banks in the United States, People's Republic of China, Hong Kong and the Cayman Islands are authorized or required to be closed for the conduct of regular banking business.

“Governmental Authority” means any: (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental or regulatory authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

#### **Section 1.4    Closing Conditions.**

(a)    Purchaser's Closing Conditions. The obligation of the Purchaser to purchase and pay for the Purchase Shares as contemplated by this Agreement is subject to the satisfaction, on or before the Closing Date, of the following conditions, any of which may be waived by the Purchaser in its sole discretion:

(i)    The representations and warranties of the Company contained in Section 2.1 of this Agreement shall have been true and correct in all material respects (except for representations and warranties that are qualified by materiality or Material Adverse Effect (as defined below), which shall be true and correct in all respects) on the date of this Agreement and on and as of the Closing Date (except to the extent any such statement speaks expressly as of a specific date, in which event such statement is true and correct in all material respects (except for representations and warranties that are qualified by materiality or Material Adverse Effect, which shall be true and correct in all respects) as of such specific date).

(ii)   All corporate and other actions required to be taken by the Company, including the approval from Company's board of directors (the "Company Board"), in connection with the issuance and sale of the Purchase Shares shall have been completed.

(iii)   The Company shall have performed and complied in all material respects with all, and not be in breach or default in any material respect under any, agreements, covenants, conditions and obligations contained in this Agreement that are required to be performed or complied with on or before the Closing Date.

(iv)   No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any judgment, order, law, rule or regulation (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits, or otherwise makes illegal the consummation of the transactions contemplated by this Agreement; and no action, suit, proceeding or investigation shall have been instituted by a Governmental Authority of competent jurisdiction or threatened that seeks to restrain, enjoin, prevent, prohibit, or otherwise makes illegal the consummation of the transactions contemplated by this Agreement.

(v)    The Purchaser shall have received from Maples and Calder (Hong Kong) LLP, Cayman Islands counsel for the Company, an opinion substantially in the form attached as Exhibit A hereto, dated as of the Closing Date.

(vi)   There shall have been no Material Adverse Effect since the date hereof.

As used herein, "Material Adverse Effect" shall mean any event, circumstance, change or effect that is materially adverse to the business, condition (financial or otherwise), or results of operations of the Company and the Subsidiaries taken as a whole; provided, however, that in no event shall any of the following, either alone or in combination, constitute, or be taken into account in determining whether there has been, a "Material Adverse Effect": (A) changes affecting the economic conditions or financial markets generally in any country or region in which the Company or any of its Subsidiaries conducts business; (B) changes in the general accounting principles or any interpretation thereof after the date hereof, or to applicable laws or the interpretation or enforcement thereof; (C) changes that are the result of factors generally affecting the industries in which the Company and its Subsidiaries operate; (D) changes affecting the financial, credit or securities markets in which the Company or any of its Subsidiaries operates, including changes in interest rates or foreign exchange rates; (E) effects resulting from the public announcement of the transactions contemplated by this Agreement; (F) natural disasters, declarations of war, acts of sabotage or terrorism or armed hostilities, in each case occurring after the date hereof; or (G) actions taken (or omitted to be taken) at the request of the Purchaser; provided, further, that events, circumstances, changes or effects set forth in clauses (A), (C) and (D) above shall be taken into account in determining whether a "Material Adverse Effect" has occurred or reasonably would be expected to occur if and to the extent such events, circumstances, changes or effects individually or in the aggregate have a materially disproportionate impact on the Company and its Subsidiaries, taken as a whole, relative to the other participants in the industries and geographic markets in which the Company and its Subsidiaries conduct their businesses. A "Subsidiary" means any entity over which the Company has the power or authority to direct the business, management and policies, whether through the ownership of voting securities, by contract or otherwise, directly or indirectly, including but not limited to any variable interests entities controlled by the Company.

(vii) The Company shall have obtained any and all consents, permits, approvals, registrations and waivers necessary or appropriate for consummation of the purchase and sale of the Purchased Shares, all of which shall be in full force and effect on the Closing Date.

(viii) No stop order or suspension of trading shall have been imposed by Nasdaq, the SEC or any other Governmental Authority with respect to public trading in the ADSs.

(b) Company's Closing Conditions. The obligation of the Company to issue and sell the Purchase Shares to be sold to and purchased by the Purchaser as contemplated by this Agreement are subject to the satisfaction, on or before the Closing Date, of each of the following conditions, any of which may be waived in writing by the Company in its sole discretion:

(i) The representations and warranties of the Purchaser contained in Section 2.2 of this Agreement shall have been true and correct in all material respects on the date of this Agreement and on and as of the Closing Date (except to the extent any such statement speaks expressly as of a specific date, in which event such statement is true and correct in all material respects as of such specific date).

(ii) All corporate and other actions, including the approval from the Purchaser's investment committee or other internal departments (the "Internal Approval"), required to be taken by the Purchaser in connection with the purchase of the Purchase Shares and delivery of the Purchase Price shall have been completed.

(iii) The Purchaser shall have performed and complied in all material respects with all, and not be in breach or default in any material respect under any, agreements, covenants, conditions and obligations contained in this Agreement that are required to be performed or complied with on or before the Closing Date.

(iv) No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any judgment, order, law, rule or regulation (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits, or otherwise makes illegal the consummation of the transactions contemplated by this Agreement; and no action, suit, proceeding or investigation shall have been instituted by a Governmental Authority of competent jurisdiction or threatened that seeks to restrain, enjoin, prevent, prohibit, or otherwise makes illegal the consummation of the transactions contemplated by this Agreement.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

**Section 2.1** Representations and Warranties of the Company. Except as disclosed in the SEC Reports filed on or prior to the Signing Date and the Closing Date, the Company hereby represents and warrants to the Purchaser, as of the Signing Date and as of the Closing Date, as follows:

(a) Organization and Authority.

(i) The Company and each of its Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with the requisite power and authority to own and use its properties and assets and to carry on its business in all material respects as is currently conducted.

(ii) The Company has all necessary corporate power and authority, under its Memorandum and Articles of Association and any applicable laws, to enter into this Agreement and to perform its obligations hereunder. The execution and delivery by the Company of this Agreement and the performance of its obligations hereunder has been duly authorized by all requisite action on the part of the Company. This Agreement has been duly executed by the Company and, assuming the authorization, execution and delivery by the Purchaser, constitutes the valid and legally binding obligations of the Company, enforceable in accordance with its respective terms and conditions, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(b) Capitalization.

(i) The authorized share capital of the Company is US\$10,000,000 divided into 10,000,000,000 Ordinary Shares, of which, as of February 13, 2017, 1,165, 072,926 Ordinary Shares are issued and outstanding. All issued and outstanding Ordinary Shares and ADSs" (together with Ordinary Shares, collectively, "Shares") are validly issued, fully paid and non-assessable. As of the date of this Agreement, no Shares are reserved for future issuance except as provided in the 2007 share incentive plan of the Company (the "Plan"). Except as disclosed in the SEC Reports including but not limited to the disclosure relating to the Plan and the share incentive plan of InsCom Holdings Limited, there are no options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued shares in the capital of the Company or any of its Subsidiaries or obligating the Company or any of its Subsidiaries to issue or sell any shares in capital of, or other equity interests in, the Company or any of its Subsidiaries. All Shares subject to issuance as aforesaid, upon issuance on the terms and subject to the conditions specified in the instruments pursuant to which they are issuable, will be duly authorized, validly issued, fully paid and non-assessable. There are no outstanding contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares in the capital of the Company or any of its Subsidiaries or to provide funds to, or make any investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary or any other Person.

As used herein, “Person” means an individual, corporation, partnership, limited partnership, limited liability company, syndicate, person (including, without limitation, a “person” as defined in Section 13(d)(3) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”)), trust, association or entity or government, political subdivision, agency or instrumentality of a government.

(i i) All issued and outstanding Ordinary Shares, all outstanding ADSs, all outstanding awards under the Plan and all outstanding shares of capital stock of each of the Subsidiaries have been issued and granted in compliance with (i) all applicable Securities Laws and other applicable laws and (ii) all requirements set forth in applicable contracts. Neither the Company nor any of its Subsidiaries has issued any notes, bonds or other debt securities, or any option, warrant or other right to acquire the same, of the Company or any of its Subsidiaries. “Securities Laws” means the United States Securities Act of 1933, as amended (the “Securities Act”), the Exchange Act, the listing rules of, or any listing agreement with the NASDAQ Global Select Market and any other applicable law regulating securities or takeover matters.

(c) Due Issuance of the Purchase Shares. The issuance and allotment of the Purchase Shares have been duly authorized by and on behalf of the Company. When (i) the Purchase Shares have been paid for by the Purchaser pursuant to this Agreement, and (ii) an entry has been made on the register of members of the Company to reflect such Purchase Shares as being fully paid for, the Purchase Shares shall be validly issued, fully paid and non-assessable. The Purchase Shares, when issued, shall be free and clear of any pledge, mortgage, security interest, encumbrance, lien, charge, assessment, claim or restriction of any kind or nature, except for restrictions arising under the Securities Act.

(d) Non-contravention; Compliance with Laws. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, in each case after approval by the Company Board, will (i) violate any provision of the Memorandum and Articles of Association, bylaws or other constitutional documents of the Company or its Subsidiaries, (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of or creation of an encumbrance under, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under, any agreement, contract, lease, license, instrument, or other arrangement to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound or to which any of the Company’s or any of its Subsidiaries assets are subject, or (iii) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or Governmental Authority to which the Company or any of its Subsidiaries is subject (including national, provincial and foreign, laws and regulations (including but not limited to China foreign exchange and tax laws and regulations) and United States federal and state securities laws and regulations) (“Legal Requirement”), or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, except, with respect to clauses (ii) and (iii), for any such conflicts, breaches, defaults or other occurrences which would not (x) prevent or materially delay the consummation of the transactions contemplated hereby, or (y) have a Company Material Adverse Effect.

The business of the Company and its Subsidiaries was and is not being conducted in violation of any law, regulation, rule or governmental, regulatory or judicial order applicable to the Company or the relevant Subsidiaries that had, has or will have a Material Adverse Effect.

(e) Filings, Consents and Approvals. Neither the execution and delivery by the Company of this Agreement, nor the consummation by the Company of any of the transactions contemplated hereby, nor the performance by the Company of this Agreement in accordance with its terms requires the filing, consent, approval, order or authorization of, or registration with, or the giving notice to, any Governmental Authority or any third party, except (i) for compliance with the applicable requirements under the Exchange Act and the rules and regulations promulgated thereunder, (ii) for compliance with the rules and regulations of the NASDAQ Global Select Market, and (iii) and where the failure to obtain or make, as applicable, any such consent, approval, order or authorization of, registration, or notification would not have a Material Adverse Effect.

(f) SEC Filings: Financial Statements.

(i) The Company has filed or furnished all forms, reports, schedules, and documents required to be filed or furnished by it with the Securities and Exchange Commission (the “SEC”) under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) of the Exchange Act since January 1 2014 (the forms, reports, schedules, and other documents referred to above being, collectively, the “SEC Reports”). The SEC Reports, as amended, (i) complied as to form in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder, and (ii) did not, at the time they were filed, or, if amended, as of the date of such amendment contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. There are no material outstanding or unresolved comments in comment letters from the SEC with respect to any of the SEC Reports.

(ii) Each of the consolidated financial statements (including, in each case, any notes thereto) contained in the SEC Reports was prepared in accordance with United States generally accepted accounting principles (“GAAP”) applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto) and each fairly presents, in all material respects, the consolidated financial position, results of operations and cash flows of the Company and its consolidated Subsidiaries as at the respective dates thereof and for the respective periods indicated therein (subject, in the case of unaudited statements, to normal year-end adjustments which would not have had a Material Adverse Effect).

(iii) Except as and to the extent set forth on the consolidated balance sheet of the Company and the consolidated Subsidiaries as of December 31, 2016, including the notes thereto, neither the Company nor any Subsidiary has any liability or obligation of any nature (whether accrued, absolute, contingent or otherwise) that would be required to be disclosed in accordance with GAAP, except for liabilities and obligations, incurred in the ordinary course of business consistent with past practice since December 31, 2016, which would not have a Material Adverse Effect.

(iv) The Company has provided the Purchaser with a reasonable opportunity to review drafts of the SEC Reports relating to the Agreement and the transaction contemplated therein prior to filing with, or furnishing to, the SEC.

(g) Events Subsequent to Most Recent Fiscal Period. Since December 31, 2016, there has not occurred any Material Adverse Effect.

( h ) Litigation. There is no action, suit, inquiry, notice of proceeding, or investigation by or against the Company or any of its Subsidiaries or affecting the business or any of the assets of the Company or any of its Subsidiaries pending before any court or Governmental Authority, or, to the Company's knowledge, threatened to be brought by or before any Governmental Authority which would result in a Material Adverse Effect.

(i) Private Placement. The Purchase Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, as defined in Regulation S under the Securities Act ("Regulation S"). The Purchase Shares are being offered and sold by the Company solely to the Purchaser, which has represented to the Company that it is not a U.S. person, in an offshore transaction (as defined in Regulation S), in reliance upon Regulation S.

**Section 2.2** Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company as of the date hereof and as of the Closing Date, as follows:

( a ) Due Formation. The Purchaser and each Designated Party is a company duly incorporated, validly existing and in good standing under the laws of its place of incorporation, with full power and authority to own and operate and to carry on its business in the places and in the manner as currently conducted.

( b ) Authority. The Purchaser has full power and authority to enter into, execute and deliver this Agreement and each agreement, certificate, document and instrument to be executed and delivered by the Purchaser pursuant to this Agreement and to perform its obligations hereunder. The execution and delivery by the Purchaser of this Agreement and the performance by the Purchaser of its obligations hereunder has been duly authorized by all requisite actions on its part.

( c ) Valid Agreement. This Agreement has been duly executed and delivered by the Purchaser and constitutes the legal, valid and binding obligation of the Purchaser, enforceable against it in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

( d ) Consents. Neither the execution and delivery by the Purchaser of this Agreement nor the consummation by it of any of the transactions contemplated hereby nor the performance by the Purchaser of this Agreement in accordance with its terms requires the consent, approval, order or authorization of, or registration with, or the giving of notice to, any Governmental Authority or any third party, except as have been obtained, made or given.



( e ) No Conflict. Neither the execution and delivery by Purchaser of this Agreement, nor the consummation by it of any of the transactions contemplated hereby, nor compliance by Purchaser with any of the terms and conditions hereof will (i) violate any provision of the Memorandum and Articles of Association, bylaws or other constitutional documents of the Purchaser or any Designated Party, (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of or creation of an encumbrance under, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under, any agreement, contract, lease, license, instrument, or other arrangement to which the Purchaser or any of the Designated Party is a party or by which the Purchaser or any of the Designated Party is bound or to which any of the Purchaser's or any of the Designated Party's assets are subject, or (iii) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or Governmental Authority to which the Purchaser or any of the Designated Party is subject (including national, provincial and foreign, laws and regulations (including but not limited to China foreign exchange and tax laws and regulations) and United States federal and state securities laws and regulations) ("Legal Requirement"), or by which any property or asset of the Purchaser or any of the Designated Party is bound or affected, except, with respect to clauses (ii) and (iii), for any such conflicts, breaches, defaults or other occurrences which would not prevent or materially delay the consummation of the transactions contemplated hereby.

(f) Status and Investment Intent.

(i) Experience. The Purchaser is a sophisticated investor and has independently evaluated the merits of its decision to purchase the Purchase Shares. In connection with such purchase, the Purchaser is not relying on the Company or any of its Affiliates or representatives (including any act, representation or warranty by the Company or any of its Affiliates or representatives) in any respect in making its decision to make such purchase except for such representations and warranties made by the Company under Section 2.1 hereof. The Purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Purchase Shares. The Purchaser is capable of bearing the economic risks of such investment, including a complete loss of its investment.

(ii) Purchase Entirely for Own Account. The Purchaser is acquiring the Purchase Shares that it is purchasing pursuant to this Agreement for investment for its own account for investment purposes only and not with the view to, or with any intention of, resale, distribution or other disposition thereof. The Purchaser does not have any direct or indirect arrangement, or understanding with any other persons to distribute, or regarding the distribution of the Purchase Shares in violation of the Securities Act or any other applicable state.

(iii) Securities Law Matters. The Purchaser is not a U.S. person (as defined in Regulation S). The Purchaser has been advised and acknowledges that in issuing Purchase Shares to the Purchaser pursuant hereto, the Company is relying upon the exemption from registration provided by Regulation S. The Purchaser is acquiring its Purchase Shares in an offshore transaction in reliance upon the exemption from registration provided by Regulation S. The Purchaser acknowledges that the Company has provided the Purchaser with a reasonable opportunity to review drafts of the SEC Reports relating to the Agreement and the transaction contemplated therein and consents to the filing of such SEC Reports with, or furnishing to, the SEC

( i v ) Restrictive Legend. The Purchaser understands, and its Designated Party will understand, that the Purchase Shares are “restricted securities” within the meaning of Rule 144 of the Securities Act and will bear a legend or other restriction substantially to the following effect:

“THIS SECURITY EVIDENCED HEREBY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR ANY SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED: (A) IN THE ABSENCE OF (1) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, (2) AN EXEMPTION OR QUALIFICATION UNDER THE ACT AND OTHER APPLICABLE SECURITIES LAWS OR (3) DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED; AND (B) WITHIN THE UNITED STATES OR TO ANY U.S. PERSON, AS EACH OF THOSE TERMS IS DEFINED IN REGULATION S UNDER THE ACT, DURING THE SIX MONTHS FOLLOWING CLOSING OF THE PURCHASE. ANY ATTEMPT TO TRANSFER, SELL, PLEDGE OR HYPOTHECATE THIS SECURITY IN VIOLATION OF THESE RESTRICTIONS SHALL BE VOID.”

(v) Information. The Purchaser has been furnished access to all materials such Purchaser has requested relating to the Company and its Subsidiaries and other due diligence information and documents, including certain balance sheet and income statement data of the Company on a consolidated basis for 2016, and the Purchaser has been afforded the opportunity to ask questions of and receive answers from representatives of the Company concerning the foregoing, including the terms and conditions of this Agreement. The Purchaser has consulted to the extent deemed appropriate by such Purchaser with such Purchaser’s own advisers as to the financial, tax, legal and related matters concerning an investment in the Purchase Shares.

( v i ) No Broker. No broker, investment banker or other person is entitled to any broker’s, finder’s or other similar fee or commission in connection with the execution and delivery of this Agreement or the consummation of any of the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Purchaser.

( v i i ) Financing. The Purchaser has sufficient funds available to it to purchase all of the Purchase Shares pursuant to this Agreement.

## ARTICLE III

### COVENANTS

**Section 3.1 Lock-Up.** Each of the Purchaser and Designated Parties agrees that it will not, without the prior written consent of the Company and except as provided under Section 1.1 and 1.3 relating to the Closing, (i) offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, transfer, lend, assign, pledge, encumber, charge or otherwise dispose of any of the Purchase Shares or any right thereto or interest therein ("Transfer") or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any of the Purchase Shares or any right thereto or interest therein, in each case, prior to the one year from the Closing Date (the "Lock-up Period"); provided, however, that notwithstanding the foregoing, the Purchaser shall have the right to transfer any Purchaser Shares to one or more of its Affiliates so long as such Affiliate(s) agree to comply with this Section 3.1

**Section 3.2 Issuance of ADSs.** Subject to Section 3.1 and following the expiration of the Lock-up Period, the provisions of the deposit agreement (the "Deposit Agreement") by and among the Company, JPMorgan Chase Bank, N.A. (the "Depository") and holders from time to time of the American depositary receipts evidencing the ADSs and applicable Securities Laws, upon request of the Purchaser, the Company shall promptly cause the ADSs corresponding to the Purchase Shares to be issued in the name of the Depository in compliance with the Deposit Agreement, and the Purchaser shall pay any fees or expense required to be paid to the Depository in connection therewith, including ADS conversion fee and annual administrative fee charged by the Depository.

**Section 3.3 Further Assurances.** From the date of this Agreement until the earlier of the Closing Date or the termination of this Agreement in accordance with Section 4.1, the Parties shall use their commercially reasonable efforts to fulfill or obtain the fulfillment of the conditions precedent to the consummation of the transactions contemplated hereby.

**Section 3.4 Operation of Business.** Between the date of this Agreement and the Closing, the Company and its Subsidiaries shall operate their respective businesses in the ordinary course consistent with past practice.

**Section 3.5 Form F-3 Registration Rights.** The Purchaser shall be entitled to request the Company to file a Form F-3 registration statement (the "Registration Statement") to register the resale of Purchase Shares by the Purchaser, if the Company is then eligible to file on such form under the Securities Act; provided, however, that the Purchaser may exercise its registration right under this Section 3.5 twice, each time for the full Effective Period (as defined below).

(a) At any time the Company is eligible to file registration statement on Form F-3 under the Securities Act to register the resale of the Purchase Shares by the Purchaser, the Purchaser may send a written request to the Company exercising its registration right under this Section 3.5. Upon receipt of such written request from the Purchaser, the Company shall use its best efforts to file such Registration Statement within sixty (60) days of receipt of written notice from the Purchaser and shall use commercially reasonable efforts to effect such Registration Statement and request the SEC to declare it effective within one hundred twenty (120) days of filing; provided, however, that the Company shall only keep such Registration Statement effective for a period of one hundred eighty (180) days (the “Effective Period”); provided, further, the Company shall not be obligated to effect any such registration pursuant to this Section 3.5:

(i) if form F-3 is not available for such offering by the Purchaser;

(ii) if the Purchaser, together with the holders of any other securities of the Company entitled to inclusion in such registration (together, the “Registrable Securities”), propose to sell the Registrable Securities at an aggregate price to the public of less than US\$1,000,000;

(iii) if the Company shall furnish to the holders of the Registrable Securities a certificate signed by the president or chief executive officer of the Company stating that in the good faith judgment of the Company Board, it would be materially detrimental to the Company and its shareholders to file the Form F-3 Registration at such time, the Company shall have the right to defer the filing of the Form F-3 registration statement no more than once during any twelve (12) month period for a period of no more than ninety (90) days after receipt of the request of the Purchaser under this Section 3.5; provided that the Company shall not register any of its other shares during such ninety (90) day period;

(iv) if the Company has, within the twelve (12) month period preceding the date of such request, already effected two registrations under the Securities Act other than a registration from which the Purchase Shares has been excluded (with respect to all or any portion of the Purchase Shares requested be included in such registration) pursuant to any other shareholder’s registration rights; or

(v) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(b) All Registration Expenses incurred in connection with any registration pursuant to this Section 3.5 shall be borne by the Purchaser. The term “Registration Expenses” shall mean all expenses incurred by the Company in complying with this Section 3.5, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, “blue sky” fees and expenses and the expense of any audits incidental to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

(c) Obligations of the Purchaser.

(i) At least ten (10) Business Days prior to the first anticipated filing date of the Registration Statement, the Company shall notify the Purchaser in writing of the information the Company requires from the Purchaser with respect to such Registration Statement. It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Section 3.5 with respect to the Purchase Shares that the Purchaser shall furnish to the Company such information regarding itself as required to effect and maintain the effectiveness of the registration of the Purchase Shares and shall execute such documents in connection with such registration as required to effectuate such registration.

(ii) The Purchaser agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement.

(iii) The Purchaser agrees that, upon receipt of any notice from the Company that the prospectus that forms part of the Registration Statement may be supplemented or amended, the Purchaser will immediately discontinue disposition of Purchase Shares pursuant to the Registration Statement for no longer than forty five (45) days during an Effective Period (the “Blackout Period”). The Company may effectuate a Blackout Period no more often than twice in any twelve (12) month period. For the avoidance of doubt, any remaining days of the interrupted Effective Period shall commence and continue through expiration immediately upon the end of the Blackout Period.

(d) The provisions in this Section 3.5 shall remain in full force and effect after Closing.

**Section 3.6** Indemnification. Each of the Company and the Purchaser (an “Indemnifying Party”) shall indemnify and hold each other and their directors, officers, employees, advisors and agents (collectively, the “Indemnified Party”) harmless from and against any losses, claims, damages, fines, expenses and liabilities of any kind or nature whatsoever, including but not limited to any investigative, legal and other expenses incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding, and any taxes or levies that may be payable by such person by reason of the indemnification of any indemnifiable loss hereunder (collectively, “Losses”) resulting from or arising out of: (a) the breach of any representation or warranty of such Indemnifying Party contained in this Agreement or in any schedule or exhibit hereto; or (b) the violation or nonperformance, partial or total, of any covenant or agreement of such Indemnifying Party contained in this Agreement for reasons other than gross negligence or willful misconduct of such Indemnified Party. In calculating the amount of any Losses of an Indemnified Party hereunder, there shall be subtracted the amount of any insurance proceeds and third-party payments received by the Indemnified Party with respect to such Losses, if any.

#### ARTICLE IV

#### MISCELLANEOUS

**Section 4.1** Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned at any time prior to Closing, (i) by mutual agreement of the Parties, (ii) by any Party in the event that the Closing has not occurred by the Closing Deadline, provided, however, that the right to terminate this Agreement pursuant to this Section 4.1 shall not be available to any Party whose willful breach of this Agreement has resulted in the failure of the Closing to occur on or before the Termination Date.

**Section 4.2** Governing Law. This Agreement shall be governed and interpreted in accordance with the laws of the State of New York without giving effect to the conflicts of law principles thereof.

**Section 4.3** Dispute Resolution. Any dispute, controversy or claim (each, a “Dispute”) arising out of or relating to this Agreement, or the interpretation, performance breach, termination, validity or invalidity thereof, shall be referred to arbitration upon the demand of any Party to the dispute with notice (the “Arbitration Notice”) to the other Parties.

- (i) The Dispute shall be settled in Hong Kong in a proceeding conducted in English by one (1) arbitrator from the Hong Kong International Arbitration Centre in accordance with the Hong Kong International Arbitration Centre Administered Arbitration Rules (the “HKIAC Rules”) in force when the Arbitration Notice is submitted in accordance with the HKIAC Rules.
- (ii) Each party to the arbitration shall cooperate with each other party to the arbitration in making full disclosure of and providing complete access to all information and documents reasonably requested by such other party in connection with such arbitral proceedings, subject only to any confidentiality obligations binding on such party.
- (iii) The award of the arbitral tribunal shall be final and binding upon the parties thereto, and the prevailing party may apply to a court of competent jurisdiction for enforcement of such award.
- (iv) During the course of the arbitral tribunal's adjudication of the Dispute, this Agreement shall continue to be performed except with respect to the part in dispute and under adjudication.

**Section 4.4** Amendment. This Agreement shall not be amended, changed or modified, except by another agreement in writing executed by the Parties hereto.

**Section 4.5** Binding Effect. This Agreement shall inure to the benefit of, and be binding upon, each of the Company and the Purchaser and their respective heirs, successors and permitted assigns and legal representatives.

**Section 4.6** Assignment. Neither this Agreement nor any of the rights, duties or obligations hereunder may be assigned by the Company or the Purchaser without the express written consent of the other Parties.

**Section 4.7** Notices. All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of actual delivery if delivered personally to the Party or Parties to whom notice is to be given, on the date sent if sent by telecopier, tested telex or prepaid telegram, on the next Business Day following delivery if sent by courier or on the day of attempted delivery by postal service if mailed by registered or certified mail, return receipt requested, postage paid, and properly addressed as follows:

If to Purchaser, at:

Fosun Industrial Holdings Limited  
Room 808, ICBC Tower, 3 Garden Road  
Central, Hong Kong  
Attn: Sze Mei Ming

If to the Company, at:

Fanhua Inc.  
27/F, Pearl River Tower  
No. 15 West Zhujiang Road, Tianhe District  
Guangzhou, Guangdong 510623  
People's Republic of China  
Attn: Peng Ge, Chief Financial Officer

With copy to:

Kirkland & Ellis  
26th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong  
Fax: +852 3761-3301  
Attn: Benjamin Su

Any Party may change its address for purposes of this Section 4.8 by giving the other Parties hereto written notice of the new address in the manner set forth above.

**Section 4.8** Entire Agreement. This Agreement constitutes the entire understanding and agreement between the Parties hereto with respect to the matters covered hereby, and all prior agreements and understandings, oral or in writing, if any, between the Parties with respect to the matters covered hereby are merged and superseded by this Agreement.

**Section 4.9** Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

**Section 4.10** Fees and Expenses. Except as otherwise provided in this Agreement, each Party will be responsible for all of its own expenses incurred in connection with the negotiation, preparation and execution of this Agreement.

**Section 4.11** Public Announcements. None of the Parties to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated by this Agreement or otherwise communicate with any news media without the prior written consent of the Purchaser and the Company unless otherwise required by the Securities Laws or other applicable law, and the Parties to this Agreement shall cooperate as to the timing and contents of any such press release, public announcement or communication.

**Section 4.12** Headings. The headings of the various articles and sections of this Agreement are inserted merely for the purpose of convenience and do not expressly or by implication limit, define or extend the specific terms of the section so designated.

**Section 4.13** Execution in Counterparts. For the convenience of the Parties and to facilitate execution, this Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the day and year first above written.

Fosun Industrial Holdings Limited

By: \_\_\_\_\_  
Name:  
Title:

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the day and year first above written.

**Fanhua Inc.**

By: \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_

**List of Subsidiaries and Affiliated Entities**  
(As of March 31, 2017)

Subsidiaries <sup>(1)</sup>	Percentage Attributable to Our Company	Place of Incorporation
1. CISG Holdings Ltd. <sup>(2)</sup>	100%	BVI
2. Minkfair Insurance Management Limited <sup>(3)</sup>	100%	Hong Kong
3. CNinsure Holdings Ltd. <sup>(4)</sup>	100%	BVI& Hong Kong
4. Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (formerly known as CNinsure Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd.) <sup>(5)</sup>	100%	PRC
5. Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (also known as CNinsure Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.) <sup>(5)</sup>	100%	PRC
6. Fanhua Insurance Sales Service Group Company Limited (formerly known as CNinsure Insurance Sales Service Group Company Limited) <sup>(6)</sup>	100%	PRC
7. Guangdong Meidiya Investment Co., Ltd. <sup>(7)</sup>	100%	PRC
8. Litian Zhuoyue Software (Beijing) Co., Ltd. <sup>(7)</sup>	100%	PRC
9. Beijing Fanlian Investment Co., Ltd. <sup>(8)</sup>	100%	PRC
10. Guangzhou Zhongqi Enterprise Management Consulting Co., Ltd. <sup>(9)</sup>	100%	PRC
11. Tibet Zhuli Investment Co. Ltd. <sup>(9)</sup>	100%	PRC
12. Ying Si Kang Information Technology (Shenzhen) Co., Ltd. <sup>(10)</sup>	100%	PRC
13. Sichuan Yihe Investment Co., Ltd. <sup>(11)</sup>	100%	PRC
14. Fujian Fanhua Investment Co. Ltd. (formerly known as Fujian CNinsure Investment Co. Ltd.) <sup>(12)</sup>	100%	PRC
15. InsCom Service Limited <sup>(3)</sup>	100%	CAI
16. InsCom Management Limited <sup>(13)</sup>	100%	BVI
17. InsCom Century Limited <sup>(14)</sup>	100%	HK
18. Guangdong Ying Si Kang Information Technology Consulting Co., Ltd. <sup>(15)</sup>	100%	PRC
19. InsCom Holdings Limited <sup>(3)</sup>	100%	BVI
20. InsCom Group Limited <sup>(16)</sup>	100%	BVI
21. InsCom HK Limited <sup>(17)</sup>	100%	Hong Kong
22. Bao Si Kang Information Technology (Shenzhen) Co., Ltd. <sup>(18)</sup>	100%	PRC
23. Shenzhen Xinbao Investment Management Co., Ltd. <sup>(19)</sup>	100%	PRC

Subsidiaries <sup>(1)</sup>		Percentage Attributable to Our Company	Place of Incorporation
<b>Insurance Agencies</b>			
24.	Fanhua Times Insurance Sales & Service Co., Ltd. (formerly known as CNinsure Times Insurance Sales & Service Co., Ltd.) <sup>(7)</sup>	100%	PRC
25.	Fanhua Lianxing Insurance Sales Co., Ltd. (formerly known as CNinsure Lianxing Insurance Sales Co., Ltd.) <sup>(20)</sup>	100%	PRC
26.	Fanhua Century Insurance Co., Ltd. (formerly known as CNinsure Century Insurance Sales & Service Co., Ltd.) <sup>(21)</sup>	100%	PRC
27.	Hubei Fanhua Insurance Agency Co., Ltd. (formerly known as Hubei CNinsure Insurance Agency Co., Ltd.) <sup>(22)</sup>	100%	PRC
28.	Jiangsu Fanhua Lianchuang Insurance Agency Co., Ltd. (formerly known as Jiangsu CNinsure Lianchuang Insurance Agency Co., Ltd.) <sup>(22)</sup>	100%	PRC
29.	Zhejiang Fanhua Tongchuang Insurance Agency Co., Ltd. (formerly known as Zhejiang CNinsure Tongchuang Insurance Agency Co., Ltd.) <sup>(22)</sup>	100%	PRC
30.	Liaoning Fanhua Gena Insurance Agency Co., Ltd. (formerly known as Liaoning CNinsure Gena Insurance Agency Co., Ltd.) <sup>(22)</sup>	100%	PRC
31.	Shanghai Fanhua Guosheng Insurance Agency Co., Ltd. (formerly known as Shanghai CNinsure Guosheng Insurance Agency Co., Ltd.) <sup>(22)</sup>	100%	PRC
32.	Jiangxi Fanhua Insurance Agency Co., Ltd. (formerly known as Jiangxi CNinsure Insurance Agency Co., Ltd.) <sup>(22)</sup>	100%	PRC
33.	Jiangmen Fanhua Zhicheng Insurance Agency Co., Ltd. (formerly known as Jiangmen CNinsure Zhicheng Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
34.	Shenyang Fangda Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
35.	Beijing Fanlian Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
36.	Guangzhou Fanhua Yi'an Insurance Agency Co., Ltd. (formerly known as Guangzhou CNinsure Yi'an Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
37.	Dongguan Nanfeng Jiayu Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
38.	Foshan Tuohua Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
39.	Beijing Fanhua Insurance Agency Co., Ltd. (formerly known as Beijing CNinsure Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
40.	Beijing Fanhua Fumin Insurance Agency Co., Ltd. (formerly known as Beijing CNinsure Fumin Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
41.	Fujian Fanhua Guoxin Insurance Agency Co., Ltd. (formerly known as Fujian CNinsure Guoxin Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
42.	Hangzhou Fanhua Zhixin Insurance Agency Co., Ltd. (formerly known as Hangzhou CNinsure Zhixin Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
43.	Tianjin Fanhua Xianghe Insurance Agency Co., Ltd. (formerly known as Tianjin CNinsure Xianghe Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
44.	Changsha Lianyi Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
45.	Henan Fanhua Anlian Insurance Agency Co., Ltd. (formerly known as Henan CNinsure Anlian Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
46.	Ninbo Baolian Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
47.	Wenzhou Huilian Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
48.	Nanjing Yukai Insurance Agency Co., Ltd. <sup>(19)</sup>	100%	PRC
49.	Guangdong Fanhua Nanfeng Insurance Agency Co., Ltd. (formerly known as Guangdong CNinsure Nanfeng Insurance Agency Co., Ltd.) <sup>(19)</sup>	100%	PRC
50.	Shenzhen Fanhua Nanfeng Insurance Agency Co., Ltd. (formerly known as Shenzhen CNinsure Nanfeng Insurance Agency Co., Ltd.) <sup>(23)</sup>	100%	PRC
51.	Jiaxing Lianbao Insurance Agency Co., Ltd. <sup>(24)</sup>	100%	PRC
52.	Fujian Fanhua Xinheng Insurance Agency Co., Ltd. (formerly known as Fujian CNinsure Xinheng Insurance Agency Co., Ltd.) <sup>(12)</sup>	100%	PRC
53.	Hunan Fanhua Insurance Agency Co., Ltd. (formerly known as Hunan CNinsure Insurance Agency Co., Ltd.) <sup>(25)</sup>	55%	PRC
54.	Hebei Fanlian Insurance Agency Co., Ltd. <sup>(26)</sup>	87.5%	PRC

Subsidiaries <sup>(1)</sup>		Percentage Attributable to Our Company	Place of Incorporation
<b>Insurance Brokerage Firms</b>			
55.	Fanhua Bocheng Insurance Brokerage Co., Ltd. (formerly known as CNinsure Bocheng Insurance Brokerage Co., Ltd.) <sup>(7)</sup>	100%	PRC
56.	Fanhua Kafusi Insurance Brokerage Co., Ltd. (formerly known as CNinsure Kafusi Insurance Brokerage Co., Ltd.) <sup>(19)</sup>	100%	PRC
<b>Insurance Claims Adjusting Firms</b>			
57.	Guangdong Fanhua Fangzhong Investment Management Co., Ltd. (formerly known as Guangdong CNinsure Fangzhong Investment Management Co., Ltd.) <sup>(27)</sup>	51%	PRC
58.	Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd. (formerly known as CNinsure Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(28)</sup>	44.7%	PRC
59.	Shanghai Fanhua Teamhead Insurance Surveyors & Loss Adjustors Co., Ltd. (formerly known as Shanghai CNinsure Teamhead Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(29)</sup>	44.7%	PRC
60.	Shenzhen Fanhua Training Co., Ltd. (formerly known as Shenzhen CNinsure Training Co., Ltd.) <sup>(29)</sup>	44.7%	PRC
61.	Shenzhen Fanhua Software Technology Co., Ltd. (formerly known as Shenzhen CNinsure Software Technology Co., Ltd.) <sup>(29)</sup>	44.7%	PRC
62.	Shenzhen Huazhong United Technology Co., Ltd. <sup>(30)</sup>	44.7%	PRC
63.	Guangzhou Suiyuan Insurance Surveyors & Loss Adjustors Co., Ltd. <sup>(7)</sup>	100%	PRC
<b>Others</b>			
64.	Shenzhen InsCom E-commerce Co., Ltd. <sup>(31)</sup>	100%	PRC
65.	Shenzhen Dianlian Information Technology Co., Ltd. <sup>(32)</sup>	100%	PRC
66.	Shenzhen Qunabao Information Technology Co., Ltd. <sup>(7)</sup>	100%	PRC
67.	Shenzhen Bangbang Auto Services Co., Ltd. <sup>(7)</sup>	100%	PRC
68.	Guangdong Fanhua Bluecross Health Management Co., Ltd (formerly known as Guangdong CNinsure Bluecross Health Management Co., Ltd.) <sup>(22)</sup>	100%	PRC
<b>Affiliated Entities</b>			
1.	Fanhua Puyi Investment Management Co., Ltd. (formerly known as CNinsure Puyi Fund Sales Co., Ltd.) <sup>(33)</sup>	15.4%	PRC
2.	Sincere Fame International Limited <sup>(34)</sup>	20.6%	BVI
3.	Shenzhen Chetong Network Co., Ltd. <sup>(35)</sup>	8.9%	PRC
4.	Shanghai Teamhead Automobile Surveyors Co., Ltd. <sup>(36)</sup>	17.9%	PRC

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- (1) The official names of those companies registered in PRC are in Chinese. The English translation is for reference only.
  - (2) 100% of the equity interests in this company are held directly by Fanhua Inc.
  - (3) 100% of the equity interests in this company are held directly by CISG holdings Ltd.
  - (4) 100% of the equity interests in this company are held directly by Minkfair Insurance Management Limited.
  - (5) 100% of the equity interests in this company are held directly by CNinsure Holdings Ltd.
  - (6) We beneficially own 100% equity interests in this Company, of which 7.2%, 10.8% and 82% of the equity interests in this company are held by Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd., Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. and Tibet Zhuli Investment Co. Ltd., respectively.
  - (7) 100% of the equity interests in these companies are held directly by Fanhua Insurance Sales Service Group Company Limited.
  - (8) 100% of the equity interests in this company are held directly by Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.
  - (9) 100% of the equity interests in this company are held directly by Beijing Fanlian Investment Co., Ltd.
  - (10) 100% of the equity interests in this company are held directly by Litian Zhuoyue Software (Beijing) Co., Ltd.
  - (11) We beneficially own 100% equity interests in this company, of which 39.14%, 40.86% and 20% of the equity interests in this company are held by Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd., Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. and Fanhua Insurance Sales Group Company Limited, respectively.
  - (12) We beneficially owned 100% of the equity interests in this company, of which 55% of the equity interests in this company are held directly by Meidiya Investment Co., Ltd. and the remaining 45% by Sichuan Yihe Investment Co., Ltd.
  - (13) 100% of the equity interests in this company are held directly by Inscom Service Limited.
  - (14) 100% of the equity interests in this company are held directly by Inscom Management Limited.
  - (15) 100% of the equity interests in this company are held directly by InsCom Century Limited.
  - (16) 100% of the equity interests in this company are held directly by Inscom Holdings Limited.
  - (17) 100% of the equity interests in this company are held directly by Inscom Group Limited.
  - (18) 100% of the equity interests in this company are held directly by Inscom HK Limited.
  - (19) 100% of the equity interests in each of these companies are held directly by Fanhua Times Insurance Sales & Service Co., Ltd.

- (20) We beneficially own 100% equity interest in this company, of which 99% of the equity interests are held directly by Fanhua Insurance Sales Service Group Company Limited and the remaining 1% by Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.
- (21) 100% of the equity interests in this company are held directly by Shenzhen Xinbao Investment Management Co., Ltd.
- (22) 100% of the equity interests in each of these companies are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
- (23) 100% of the equity interests in this company are held directly by Guangdong Fanhua Nanfeng Insurance Agency Co., Ltd.
- (24) We beneficially owned 100% of the equity interests in this company, of which 70% of the equity interests in this company are held directly by Fanhua Times Insurance Sales & Service Co., Ltd. and the remaining 30% by Meidiya Investment Co., Ltd.
- (25) 55% of the equity interests in this company are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
- (26) 87.5% of the equity interests in this company are held directly by Fanhua Times Insurance Sales & Service Co., Ltd.
- (27) 51% of the equity interests in this company are held directly by Guangdong Meidiya Investment Co., Ltd.
- (28) 44.7% of the equity interests in the company are held directly by Guangdong Meidiya Investment Co., Ltd.
- (29) 100% of the equity interests in each of these companies are held directly by Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd., in which we beneficially own 44.7% of the equity interests.
- (30) 100% of the equity interests in the company are held directly by Shenzhen Fanhua Software Technology Co., Ltd., in which we beneficially own 44.7% of the equity interests.
- (31) 100% of the equity interests in this company are held directly by Fanhua Century Insurance Sales & Service Co., Ltd.
- (32) 100% of the equity interests in this company are held directly by Tibet Zhuli Investment Co., Ltd.
- (33) 15.4% of the equity interests in this company are held directly by Beijing Fanlian Investment Co., Ltd.
- (34) 20.6% of the equity interests in this company are held directly by CISG Holdings Ltd.
- (35) We beneficially own 8.9% equity interests in this company. 19.9% of the equity interests in this company are held directly by Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd., in which we beneficially own 44.7% of the equity interests.
- (36) 40% of the equity interests in this company are held directly by Shanghai Fanhua Teamhead Surveyors & Loss Adjustors Co., Ltd., in which we beneficially own 44.7% of the equity interests.

**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 Fanhua 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 19, 2017

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 Fanhua 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 19, 2017

By: /s/ Peng Ge  
Name: Peng Ge  
Title: Chief Financial Officer



**Certification by the Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Fanhua Inc. (the “Company”) on Form 20-F for the year ended December 31, 2016 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 19, 2017

By: /s/ Chunlin Wang  
Name: Chunlin Wang  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Fanhua Inc. (the “Company”) on Form 20-F for the year ended December 31, 2016 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 19, 2017

By: /s/ Peng Ge  
Name: Peng Ge  
Title: Chief Financial Officer

[Letterhead of Maples and Calder]

**Our ref** MJL/628018-000001/10970180v1  
**Direct tel** +852 3690 7490  
**Email** michael.li@maplesandcalder.com

Fanhua Inc.  
27/F, Pearl River Tower  
No. 15 West Zhujiang Road  
Guangzhou, Guangdong 510623  
People's Republic of China

19 April 2017

Dear Sirs

Re: Fanhua 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, 2016, which will be filed with the United States Securities and Exchange Commission in the month of April 2017.

Yours faithfully

Maples and Calder (Hong Kong) LLP

[Letterhead of Global Law Office]

April 19, 2017

To: Fanhua Inc.

27/F, Pearl River Tower  
No. 15 West Zhujiang Road  
Guangzhou, Guangdong 510623  
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 Fanhua Inc.'s Annual Report on Form 20-F for the year ended December 31, 2016, which will be filed with the Securities and Exchange Commission in April 2017.

Yours faithfully,

/s/ Global Law Office  
Global Law Office

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements on Form S-8 (No. 333-156486 and No. 333-151271) of our reports dated April 19, 2017, relating to (1) the consolidated financial statements of Fanhua Inc., its subsidiaries and variable interest entities (the “Group”) and the financial statement schedule of Fanhua Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the translation of Renminbi amounts into United States dollars amounts for the convenience of the readers in the United States of America), and (2) the effectiveness of the Group's internal control over financial reporting, appearing in this Annual Report on Form 20-F of Fanhua Inc. for the year ended December 31, 2016.

/s/Deloitte Touche Tohmatsu

Hong Kong  
April 19, 2017

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the registration statement No. 333-156486 and No. 333-151271 on Form S-8 of Fanhua Inc. of our report dated April 19, 2017, with respect to the consolidated statement of financial position of Sincere Fame International Limited and its subsidiaries as of December 31, 2016, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, which report appears in the annual report on Form 20-F of Fanhua Inc. for the year ended December 31, 2016.

Our report dated April 19, 2017 contains an explanatory paragraph that states that the accompanying consolidated statements of financial position of Sincere Fame International Limited and its subsidiaries as of December 31, 2015 and January 1, 2015 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year ended December 31, 2015 were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

/s/ KPMG Huazhen LLP

Guangzhou, China  
April 19, 2017

**Sincere Fame International Limited**

Consolidated Financial Statements  
for the Year ended December 31, 2016

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## Independent Auditors' Report on consolidated financial statements

The Board of Directors  
Sincere Fame International Limited:

We have audited the accompanying consolidated financial statements of Sincere Fame International Limited and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Independent Auditors' Report on consolidated financial statements (continued)

### **Opinion**

In our opinion, the 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sincere Fame International Limited and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Other Matter**

The accompanying consolidated statements of financial position of Sincere Fame International Limited and its subsidiaries as of December 31, 2015 and January 1, 2015 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year ended December 31, 2015 were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

/s/ KPMG Huazhen LLP

Guangzhou, China  
April 19, 2017

Consolidated statement of financial position as at December 31  
(Expressed in Renminbi unless otherwise stated)

	<u>Note</u>	<u>2016</u>	<u>2015</u> unaudited	<u>January 1,</u> 2015 unaudited
<b>Assets</b>				
Property, plant and equipment	11	18,680,463	9,145,446	3,126,945
Intangible assets and goodwill	12	2,999,817	24,264,315	25,381,458
Interest in associate	14	-	3,219,847	2,987,652
Available-for-sale financial assets	15	132,685,781	663,254,634	221,591,888
Loans and advances to customers	16	7,142,529,218	2,368,014,070	1,220,340,622
Deferred tax assets	17(b)	55,613,958	24,248,372	10,990,112
Trade and other receivables	18	215,471,052	109,788,478	54,320,133
Cash and cash equivalents	19	233,138,588	260,081,796	158,567,016
<b>Total assets</b>		<u>7,801,118,877</u>	<u>3,462,016,958</u>	<u>1,697,305,826</u>
<b>Equity</b>				
Share capital	20(a)	80,973,634	80,973,634	80,973,634
Reserves	20	<u>1,038,389,405</u>	<u>997,729,535</u>	<u>684,506,165</u>
<b>Total equity</b>		<u>1,119,363,039</u>	<u>1,078,703,169</u>	<u>765,479,799</u>
<b>Liabilities</b>				
Interest-bearing borrowings	21	1,094,585,401	708,653,665	437,966,718
Accruals and other payables	22	5,487,974,708	1,568,981,082	453,615,487
Current taxation	17(a)	96,578,805	36,064,216	37,339,589
Deferred tax liabilities	17(b)	2,616,924	69,614,826	2,904,233
<b>Total liabilities</b>		<u>6,681,755,838</u>	<u>2,383,313,789</u>	<u>931,826,027</u>
<b>Total liabilities and equity</b>		<u>7,801,118,877</u>	<u>3,462,016,958</u>	<u>1,697,305,826</u>

The notes on pages 10 to 74 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended December 31  
(Expressed in Renminbi unless otherwise stated)

	<u>Note</u>	<u>2016</u>	<u>2015</u> unaudited
Interest income		1,243,545,829	522,271,037
Interest expense		(442,661,324)	(170,740,726)
<b>Net interest income</b>	<b>4</b>	<b>800,884,505</b>	<b>351,530,311</b>
Asset management income		75,615,448	32,587,388
Asset management expense		(3,887,977)	(818,794)
<b>Net asset management income</b>	<b>5</b>	<b>71,727,471</b>	<b>31,768,594</b>
Mortgage agency service income		12,373,044	38,516,162
Mortgage agency service expense		-	(567,057)
<b>Net mortgage agency income</b>		<b>12,373,044</b>	<b>37,949,105</b>
Other revenue and net income	<b>6</b>	<b>15,104,820</b>	<b>6,045,257</b>
<b>Operating income</b>		<b>900,089,840</b>	<b>427,293,267</b>
Operating expenses	<b>7</b>	<b>(441,697,929)</b>	<b>(230,993,895)</b>
<b>Operating profit before impairment</b>		<b>458,391,911</b>	<b>196,299,372</b>
Impairment losses on			
- Loans and advances to customers		(106,035,336)	(20,813,153)
- Available-for-sale financial assets		(37,962,696)	(13,307,305)
- Trade and other receivables		(5,326,708)	(6,886,871)
- Goodwill		(20,279,026)	-
<b>Impairment losses</b>	<b>8</b>	<b>(169,603,766)</b>	<b>(41,007,329)</b>
<b>Share of profits of associates</b>	<b>14</b>	<b>47,122</b>	<b>232,195</b>
<b>Profit before taxation</b>		<b>288,835,267</b>	<b>155,524,238</b>
Income tax expense	<b>9</b>	<b>(52,716,807)</b>	<b>(24,842,040)</b>
<b>Profit for the year</b>		<b>236,118,460</b>	<b>130,682,198</b>

The notes on pages 10 to 74 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended December 31 (continued)  
(Expressed in Renminbi unless otherwise stated)

	<u>Note</u>	<u>2016</u>	<u>2015</u> unaudited
<b>Profit for the year</b>		236,118,460	130,682,198
<b>Other comprehensive income for the year</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Fair value reserve (available-for-sale financial assets)			
- Change in fair value	10	(194,680,052)	192,927,022
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")	10	(778,538)	(10,385,850)
<b>Total comprehensive income for the year</b>		<u>40,659,870</u>	<u>313,223,370</u>

The notes on pages 10 to 74 form part of these financial statements.

Consolidated statement of changes in equity  
(Expressed in Renminbi unless otherwise stated)

	Note	Share capital 20(a)	Capital reserve 20(b)	Surplus reserve 20(c)	Regulatory reserve 20(d)	Fair value reserve 20(e)	Exchange reserve 20(f)	Equity-settled share-based payment 20(g)	Retained earnings	Total equity
Balance at January 1, 2015		80,973,634	289,025,865	49,767,634	21,651,372	4,457,799	6,790,324	16,435,975	296,377,196	765,479,799
Profit for the year		-	-	-	-	-	-	-	130,682,198	130,682,198
Other comprehensive income		-	-	-	-	192,927,022	(10,385,850)	-	-	182,541,172
Total comprehensive income		-	-	-	-	192,927,022	(10,385,850)	-	130,682,198	313,223,370
Surplus reserve appropriation		-	-	17,069,378	-	-	-	-	(17,069,378)	-
Regulatory reserve appropriation		-	-	-	26,091,592	-	-	-	(26,091,592)	-
Balance at December 31, 2015		<u>80,973,634</u>	<u>289,025,865</u>	<u>66,837,012</u>	<u>47,742,964</u>	<u>197,384,821</u>	<u>(3,595,526)</u>	<u>16,435,975</u>	<u>383,898,424</u>	<u>1,078,703,169</u>
Balance at January 1, 2016		80,973,634	289,025,865	66,837,012	47,742,964	197,384,821	(3,595,526)	16,435,975	383,898,424	1,078,703,169
Profit for the year		-	-	-	-	-	-	-	236,118,460	236,118,460
Other comprehensive income		-	-	-	-	(194,680,052)	(778,538)	-	-	(195,458,590)
Total comprehensive income		-	-	-	-	(194,680,052)	(778,538)	-	236,118,460	40,659,870
Surplus reserve appropriation		-	-	22,403,237	-	-	-	-	(22,403,237)	-
Regulatory reserve appropriation		-	-	-	65,654,300	-	-	-	(65,654,300)	-
Balance at December 31, 2016		<u>80,973,634</u>	<u>289,025,865</u>	<u>89,240,249</u>	<u>113,397,264</u>	<u>2,704,769</u>	<u>(4,374,064)</u>	<u>16,435,975</u>	<u>531,959,347</u>	<u>1,119,363,039</u>

The notes on pages 10 to 74 form part of these financial statements.

Consolidated statement of cash flows for the year ended December 31  
(Expressed in Renminbi unless otherwise stated)

	<u>Note</u>	<u>2016</u>	<u>2015</u> unaudited
<b>Operating activities</b>			
Profit before tax		288,835,267	155,524,238
<b>Adjustment for:</b>			
Depreciation	11	5,603,024	2,061,529
Amortization	12	992,452	1,117,143
Impairment losses on loans and advances to customers	8	106,035,336	20,813,153
Net interest income	4	(800,884,505)	(351,530,311)
Impairment losses on trade and other receivables	8	5,326,708	6,886,871
Impairment losses on available-for-sale financial assets	8	37,962,696	13,307,305
Impairment loss on goodwill	8	20,279,026	-
Net loss on disposal of property, plant and equipment	6	61,085	6,001
Share of profit from associates	14	(47,122)	(232,195)
Foreign exchange gain	6	(2,717,820)	(2,116,575)
<b>Changes in working capital:</b>			
Increase in loans and advances to customers		(4,880,550,484)	(1,168,486,600)
Increase in other operating assets		(48,048,149)	(26,404,883)
(Decrease)/increase in other operating liabilities		(90,929,455)	60,613,366
<b>Cash used in operating activities</b>		(5,358,081,941)	(1,288,440,958)
Interest received		1,194,584,697	486,320,705
Interest paid		(416,084,616)	(137,205,551)
PRC income tax paid	17(a)	(25,672,356)	(36,974,088)
<b>Net cash used in operating activities</b>		(4,605,254,216)	(976,299,892)

The notes on pages 10 to 74 form part of these financial statements.

Consolidated statement of cash flows  
for the year ended December 31 (continued)  
*(Expressed in Renminbi unless otherwise stated)*

	<u>Note</u>	<u>2016</u>	<u>2015</u> unaudited
<b>Investing activities</b>			
Investment income from asset management service		63,628,908	31,002,300
Proceeds from disposal of available-for-sale financial assets		349,651,127	103,291,316
Proceeds from liquidation of associate		3,266,969	-
Proceeds from disposal of property, plant and equipment and intangible assets		17,215	1,541
Payment on investing in available-for-sale financial assets		(116,618,373)	(284,025,338)
Payment on acquisition of property, plant and equipment and intangible assets		(15,223,321)	(8,087,573)
<b>Net cash generated from/(used in) investing activities</b>		<u>284,722,525</u>	<u>(157,817,754)</u>

The notes on pages 10 to 74 form part of these financial statements.

Consolidated statement of cash flows  
for the year ended December 31 (continued)  
(Expressed in Renminbi unless otherwise stated)

	<u>Note</u>	<u>2016</u>	<u>2015</u> unaudited
<b>Financing activities</b>			
Borrowings from third parties		770,910,461	428,392,824
Proceeds from payables to interest holders of consolidated structured entities		5,133,370,000	1,220,240,000
Repayment to related parties		-	(174,849,469)
Repayment to third parties		(390,453,000)	(1,100,000)
Repayment to payables to interest holders of consolidated structured entities		<u>(1,222,740,000)</u>	<u>(239,140,000)</u>
<b>Net cash generated from financing activities</b>		<u>4,291,087,461</u>	<u>1,233,543,355</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(29,444,230)</u>	<u>99,425,709</u>
Cash and cash equivalents at January 1		260,081,796	158,567,016
<b>Effect of exchange rate change on cash and cash equivalents</b>		<u>2,501,022</u>	<u>2,089,071</u>
Cash and cash equivalents at December 31	19	<u><u>233,138,588</u></u>	<u><u>260,081,796</u></u>

The notes on pages 10 to 74 form part of these financial statements.



Notes to the consolidated financial statements  
(Expressed in Renminbi unless otherwise stated)

**1 Reporting entity**

Sincere Fame International Limited (the 'Company') is a company domiciled in the British Virgin Islands and has its principal place of business in the People's Republic of China ("PRC"). The Company's registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in providing micro credit services for individuals, loan lending agency and asset management services.

The Company was incorporated in the British Virgin Islands on October 6, 2006, and issued initially 100,000 shares on November 15, 2006. On July 15, 2009, shares were transferred within shareholders of the Company. Upon completion of such shareholding changes, the issued shares of the Company remained the same.

On November 1, 2009, CISG Holdings Limited and Gold Source Co., Ltd. subscribed for 27,143 and 4,762 ordinary shares respectively in the Company. Upon completion of this, the issued shares of the Company was 131,905.

On January 1, 2010, 17,562 ordinary shares were allotted and issued by the Company to Day Joy Holdings Limited. Upon completion of such share issuance, the issued shares of the Company was 149,467.

On July 15, 2010, new shares were allotted and issued by the Company to its existing shareholders. Upon completion of such share issuance, the issued shares of the Company was 218,535.

On January 24, 2011, the Company divided the existing issued shares, a total of 218,535 ordinary shares of US\$0.10 each into 2,185,350 ordinary shares of US\$0.01 each. On the same day, the Company allotted and issued new shares to its existing shareholders in accordance with the ratio of 1:637. Upon completion of such share allotment, the issued shares of the Company was 1,394,253,300.

On August 1, 2011, the Company repurchased and cancelled all the shares held by Day Joy Holdings Limited due to outstanding payment of the consideration for the subscription of such shares. Upon completion of such share subscriptions and share repurchase, the issued shares of the Company was 1,230,434,040 of US\$0.01 each.

**2 Basis of accounting**

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards (“IASs”) and related interpretations, issued by the International Accounting Standards Board (“IASB”). A summary of the significant accounting policies adopted by the Group is set out below.

In previous periods these financial statements were prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Although HKFRSs have been fully converged with IFRSs in all material respects since January 1, 2005, these financial statements are the first issued financial statements in which the Group makes an explicit and unreserved statement of compliance with IFRSs. Therefore, in preparing these financial statements management has given due consideration to the requirements of IFRS 1, First-time Adoption of International Financial Reporting Standards. For this purpose the date of the Group’s transition to IFRSs was determined to be January 1, 2015, being the beginning of the earliest period for which the Group presents full comparative information in these financial statements.

With due regard to the Group’s accounting policies in previous periods and the requirements of IFRS 1, management has concluded that no adjustments were required nor elections were made to the amounts reported under HKFRSs as at the date of transition to IFRSs or in respect of the year ended December 31, 2016 due to the convergence between IFRSs and HKFRSs.

The consolidated financial statements were authorized for issue by the Group’s board of directors on April 19, 2017.

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value.

**(c) Functional and presentation currency**

Items included in consolidated financial statements of each of the Group’s entities are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (“functional currency”). These consolidated financial statements are presented in Renminbi (“RMB”).

**2 Basis of accounting (continued)**

**(d) Use of estimates and judgements**

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in Note 28.

**3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**(a) Changes in accounting policies**

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**(b) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

**(ii) Non-controlling interests ("NCI")**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**3 Significant accounting policies (continued)**

**(iii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(c) Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 3(h)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment loss for the year are recognized in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(i)).

**3 Significant accounting policies (continued)**

**(d) Goodwill**

Goodwill represents the excess of

- (i) The aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) The net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 3(h)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(e) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 3(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Office and other equipment	1 - 5 years
- Leasehold improvements	1 - 6 years
- Motor vehicles	3 - 8 years

**3 Significant accounting policies (continued)**

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(f) Intangible assets (other than goodwill)**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 3(r)). Capitalized development costs are stated at cost less accumulated amortization and impairment losses (see Note 3(h)). Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 3(h)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

- Software	1 - 5 years
- Cooperation agreements	5 years
- Trademarks	Indefinite

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

**3 Significant accounting policies (continued)**

**(g) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification of assets leased to the Group**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

**(ii) Operating lease charges**

Where the Group has the use of assets held under operating lease, payments made under the lease are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(h) Impairment losses on non-financial assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- Property, plant and equipment
- Intangible assets and goodwill
- Investments in subsidiaries and associates in the Group's statement of financial position.

**3 Significant accounting policies (continued)**

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) to sell, or value in use, (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.



**3 Significant accounting policies (continued)**

**(i) Financial Instruments**

**(i) Recognition and measurement of financial assets and financial liabilities**

A financial asset or financial liability is recognized in the statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition: receivables and available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

- Loans and receivables

Loans and receivables are non-derivative assets held for trading held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- Those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- Those designated at fair value through profit or loss upon initiation recognition or as available-for-sale; or
- Those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers and financial assets classified as receivables. Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets held for trading that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

**3 Significant accounting policies (continued)**

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognized directly in profit or loss, are recognized in capital reserve through other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity is removed from equity and recognized in profit or loss. Dividend income from these equity instruments is recognized in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognized in profit or loss (see Note 3(p)).

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices. If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

The Group calibrates the valuation technique and tests it for validity periodically.

(iii) Impairment losses on financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the years to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

**3 Significant accounting policies (continued)**

Objective evidence that financial assets are impaired includes, but not limited to:

- Significant financial difficulty of the borrower or issuer;
  - A breach of contract, such as a default or delinquency in interest or principal payments;
  - Becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
  - Disappearance of an active market for financial assets because of financial difficulties;
  - Significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument; or
  - A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

*Individual assessment*

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows discounted at the original effective interest rate. The impairment losses are recognized in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, regardless of whether the collateral would be withdrawn.

**3 Significant accounting policies (continued)**

*Collective assessment*

Loans and receivables which are assessed collectively for impairment include homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

For homogeneous groups of loans and receivables that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and judgement on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates. Impairment losses recognized on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

Collective assessment covers those loans and receivables that were impaired at the end of the years but which will not be individually identified as such until sometime in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets.

**3 Significant accounting policies (continued)**

*Impairment reversal and loan write-off*

If, in a subsequent period, the amount of the impairment losses on loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal is recognized in the profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognized.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognized in the profit or loss through impairment losses.

*Rescheduled loans*

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

- Available-for-sale financial assets

For available-for-sale financial asset, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

**3 Significant accounting policies (continued)**

**(iv) Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.

**(j) Interest-bearing borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(k) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(l) Employee benefits**

Salaries, annual bonuses, paid annual leave and contributions to retirement scheme and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the Group's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organization. The contributions are capitalised as part of the cost of assets or charged to profit or loss on an accrual basis.

**3 Significant accounting policies (continued)**

**(m) Share-based payment**

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into accounts the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Group's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

**(n) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

**3 Significant accounting policies (continued)**

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- In the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - The same taxable entity; or



**3 Significant accounting policies (continued)**

-Different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(o) Provisions and contingent liabilities**

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(p) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

**(i) Interest income**

Interest income for financial assets is recognized in profit or loss based on effective interest method. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest basis.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the years. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognized using the rate of interest used to discount future cash flows.

**3 Significant accounting policies (continued)**

(ii) Asset management income and mortgage agency service income

Asset management income and mortgage agency service income are recognized on an accrual basis in accordance with the terms of the relevant agreements.

(iii) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction based on the services performed to date as a percentage of the total services to be performed.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that it is probable be recoverable.

(iv) Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(v) Other income

Other income is recognised on an accrual basis.

**(q) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

**(r) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

**3 Significant accounting policies (continued)**

**(s) *Fiduciary activities***

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

**(t) *Related parties***

(a) A person, or a close member of that person’s family, is related to the Group if that person:

- (i) Has control or joint control over the Group;
- (ii) Has significant influence over the Group; or
- (iii) Is a member of the key management personnel of the Group or the Group’s parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third entity.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**3 Significant accounting policies (continued)**

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(u) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**4 Net interest income**

	<u>2016</u> RMB	<u>2015</u> RMB unaudited
<b>Interest income arising from:</b>		
- Cash at bank	1,417,305	1,153,512
- Loans and advances to customers	1,242,128,524	521,117,525
<b>Total interest income</b>	<b><u>1,243,545,829</u></b>	<b><u>522,271,037</u></b>
<b>Interest expense arising from:</b>		
- Payables to interest holders of consolidated structured entities	(368,843,788)	(130,348,671)
- Interest-bearing borrowings	(73,817,536)	(40,392,055)
<b>Total interest expense</b>	<b><u>(442,661,324)</u></b>	<b><u>(170,740,726)</u></b>
<b>Net interest income</b>	<b><u>800,884,505</u></b>	<b><u>351,530,311</u></b>

**5 Net asset management income**

	2016 RMB	2015 RMB unaudited
<b>Asset management income:</b>		
Asset management service fees	9,628,621	4,783,365
Net gain arising from investment securities	65,986,827	27,804,023
<b>Total asset management income</b>	<b>75,615,448</b>	<b>32,587,388</b>
<b>Asset management expense:</b>		
Asset management expense	(3,887,977)	(818,794)
<b>Total asset management expense</b>	<b>(3,887,977)</b>	<b>(818,794)</b>
<b>Net asset management income</b>	<b>71,727,471</b>	<b>31,768,594</b>

**6 Other revenue and net income**

	2016 RMB	2015 RMB unaudited
Labour outsourcing services income	12,035,445	7,754,392
Register services income	238,500	403,000
Foreign exchange gain	2,717,820	2,116,575
Net loss on disposal of property, plant and equipment	(61,085)	(6,001)
Others	174,140	(4,222,709)
<b>Total</b>	<b>15,104,820</b>	<b>6,045,257</b>

**7 Operating expenses**

	<u>Note</u>	<u>2016</u> <u>RMB</u>	<u>2015</u> <u>RMB</u> unaudited
Staff cost		287,473,913	132,847,598
Cost for labour outsourcing services		11,751,906	6,890,248
Business tax and surcharges		26,336,151	34,855,557
Non-deductible input value-added tax		21,081,339	-
Rental and property management expenses		24,404,690	13,633,676
Advertising and promotion expenses		16,383,290	8,615,190
Office expense		14,453,830	7,829,789
Entertainment and travelling expenses		11,767,688	7,653,791
Research and development expenses		8,507,265	6,936,113
Consulting fees		5,736,437	2,949,049
Depreciation of property, plant and equipment	11	5,603,024	2,061,529
Amortization of intangible assets	12(a)	992,452	1,117,143
Communication expenses		2,530,162	2,030,256
Others		4,675,782	3,573,956
<b>Total</b>		<b><u>441,697,929</u></b>	<b><u>230,993,895</u></b>

**8 Impairment losses**

	<u>Note</u>	<u>2016</u> <u>RMB</u>	<u>2015</u> <u>RMB</u> unaudited
Loans and advances to customers	16(a)	106,035,336	20,813,153
Available-for-sale financial assets	15(a)	37,962,696	13,307,305
Goodwill	12(b)	20,279,026	-
Trade and other receivables	18(b)	5,326,708	6,886,871
<b>Total</b>		<b><u>169,603,766</u></b>	<b><u>41,007,329</u></b>

**9 Income tax expense in the consolidated statement of profit or loss**

**(a) Taxation in the consolidated statement of profit or loss**

	2016 RMB	2015 RMB unaudited
<b>Current tax</b>		
Provision for PRC income tax for the year	86,186,945	35,698,715
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(33,470,138)	(10,856,675)
<b>Total</b>	<b>52,716,807</b>	<b>24,842,040</b>

**(b) Reconciliation between tax expense and accounting profit at applicable tax rates**

	2016 RMB	2015 RMB unaudited
Profit before taxation	288,835,267	155,524,238
National tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	92,176,701	41,635,467
Effect of tax concessions	(61,421,155)	(16,819,869)
Effect of unrecognized tax losses and temporary differences	15,781,513	2,430,103
Effect of non-deductible expenses	666,186	385,014
Effect of non-deductible impairment loss	5,069,756	-
Effect of tax filing differences	471,536	(3,084,699)
Others	(27,730)	296,024
<b>Income tax expense</b>	<b>52,716,807</b>	<b>24,842,040</b>

- (i) Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in the British Virgin Islands.
- (ii) No provision for Hong Kong Profits Tax has been made for the subsidiary located in Hong Kong as the subsidiary has not derived any income subject to Hong Kong Profits Tax during the years.
- (iii) According to the PRC Corporate Income Tax ("CIT") Law that was effective from January 1, 2008, the Group's PRC subsidiaries are subject to PRC income tax at the statutory tax rate of 25%, unless otherwise specified.
- (iv) Guangzhou Chengze Information Technology Co., Ltd. ("Chengze") and Guangzhou Heze Information Technology Co., Ltd. ("Heze") were qualified as an eligible software enterprise, which entitled them to a tax holiday of a two-year full exemption followed by a three-year 50% exemption since 2010 and 2012, respectively. The income tax rate for Chengze is 25% for the year ended December 31, 2016 (2015: 25%). The income tax rate for Heze is 12.5% for the year ended December 31, 2016 (2015: 12.5%). Another subsidiary Shenzhen Taotaojin Internet Financial Services Company Limited ("Taotaojin") was qualified as an eligible software enterprise, which entitled them to a tax holiday of a two-year full exemption followed by a three-year 50% exemption since 2015. The income tax rate for Taotaojin is 0% for the year ended December 31, 2016 (2015: 0%).

**10 Other comprehensive income**

**(a) Tax effects relating to each component of other comprehensive income**

	2016			2015 (unaudited)		
	<i>Before tax</i>	<i>Tax</i>	<i>Net of tax</i>	<i>Before tax</i>	<i>Tax</i>	<i>Net of tax</i>
	<i>amount</i>	<i>benefit</i>	<i>amount</i>	<i>amount</i>	<i>benefit</i>	<i>amount</i>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Exchange differences on translation of financial statements of entities outside the PRC	(778,538)	-	(778,538)	(10,385,850)	-	(10,385,850)
Available-for-sale securities:						
Net movement in fair value reserve	(259,573,403)	64,893,351	(194,680,052)	257,236,029	(64,309,007)	192,927,022
Other comprehensive income	<u>(260,351,941)</u>	<u>64,893,351</u>	<u>(195,458,590)</u>	<u>246,850,179</u>	<u>(64,309,007)</u>	<u>182,541,172</u>



11 **Property, plant and equipment**

	<i>Office and other equipment RMB</i>	<i>Leasehold improvements RMB</i>	<i>Motor vehicles RMB</i>	<i>Total RMB</i>
<b>Cost:</b>				
As at January 1, 2014	7,903,066	4,794,192	1,369,785	14,067,043
Additions	651,378	466,244	474,615	1,592,237
Disposals	(410,014)	(22,874)	-	(432,888)
As at December 31, 2014	<u>8,144,430</u>	<u>5,237,562</u>	<u>1,844,400</u>	<u>15,226,392</u>
As at January 1, 2015	8,144,430	5,237,562	1,844,400	15,226,392
Additions	4,058,294	3,724,676	304,603	8,087,573
Disposals	(77,879)	(925)	-	(78,804)
As at December 31, 2015	<u>12,124,845</u>	<u>8,961,313</u>	<u>2,149,003</u>	<u>23,235,161</u>
As at January 1, 2016	12,124,845	8,961,313	2,149,003	23,235,161
Additions	6,931,788	8,278,403	6,150	15,216,341
Disposals	(374,208)	(240,361)	(81,103)	(695,672)
As at December 31, 2016	<u>18,682,425</u>	<u>16,999,355</u>	<u>2,074,050</u>	<u>37,755,830</u>
<b>Accumulated depreciation:</b>				
As at January 1, 2014	(6,905,690)	(3,548,833)	(547,047)	(11,001,570)
Charge for the year	(560,590)	(688,507)	(264,482)	(1,513,579)
Written back on disposals	392,828	22,874	-	415,702
As at December 31, 2014	<u>(7,073,452)</u>	<u>(4,214,466)</u>	<u>(811,529)</u>	<u>(12,099,447)</u>
As at January 1, 2015	(7,073,452)	(4,214,466)	(811,529)	(12,099,447)
Charge for the year	(856,387)	(896,623)	(308,519)	(2,061,529)
Written back on disposals	71,261	-	-	71,261
As at December 31, 2015	<u>(7,858,578)</u>	<u>(5,111,089)</u>	<u>(1,120,048)</u>	<u>(14,089,715)</u>
As at January 1, 2016	(7,858,578)	(5,111,089)	(1,120,048)	(14,089,715)
Charge for the year	(2,427,730)	(2,843,973)	(331,321)	(5,603,024)
Written back on disposals	341,081	223,321	52,970	617,372
As at December 31, 2016	<u>(9,945,227)</u>	<u>(7,731,741)</u>	<u>(1,398,399)</u>	<u>(19,075,367)</u>
<b>Net book value:</b>				
As at December 31, 2014	<u>1,070,978</u>	<u>1,023,096</u>	<u>1,032,871</u>	<u>3,126,945</u>
As at December 31, 2015	<u>4,266,267</u>	<u>3,850,224</u>	<u>1,028,955</u>	<u>9,145,446</u>
As at December 31, 2016	<u>8,737,198</u>	<u>9,267,614</u>	<u>675,651</u>	<u>18,680,463</u>

12 Intangible assets and goodwill

	<i>Note</i>	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Intangible assets	(a)	2,999,817	3,985,289	5,102,432
Goodwill	(b)	-	20,279,026	20,279,026
Total		<b>2,999,817</b>	<b>24,264,315</b>	<b>25,381,458</b>

(a) Intangible assets

	Software RMB	Cooperation agreement RMB	Trademarks RMB	Total RMB
<b>Cost:</b>				
As at January 1, 2014	7,161,075	5,030,000	2,970,000	15,161,075
Additions	118,543	-	-	118,543
As at December 31, 2014	<u>7,279,618</u>	<u>5,030,000</u>	<u>2,970,000</u>	<u>15,279,618</u>
As at January 1, 2015	7,279,618	5,030,000	2,970,000	15,279,618
As at December 31, 2015	<u>7,279,618</u>	<u>5,030,000</u>	<u>2,970,000</u>	<u>15,279,618</u>
As at January 1, 2016	7,279,618	5,030,000	2,970,000	15,279,618
Additions	6,980	-	-	6,980
As at December 31, 2016	<u>7,286,598</u>	<u>5,030,000</u>	<u>2,970,000</u>	<u>15,286,598</u>
<b>Accumulated amortization:</b>				
As at January 1, 2014	(3,988,862)	(5,030,000)	-	(9,018,862)
Charge for the year	(1,158,324)	-	-	(1,158,324)
As at December 31, 2014	<u>(5,147,186)</u>	<u>(5,030,000)</u>	<u>-</u>	<u>(10,177,186)</u>
As at January 1, 2015	(5,147,186)	(5,030,000)	-	(10,177,186)
Charge for the year	(1,117,143)	-	-	(1,117,143)
As at December 31, 2015	<u>(6,264,329)</u>	<u>(5,030,000)</u>	<u>-</u>	<u>(11,294,329)</u>
As at January 1, 2016	(6,264,329)	(5,030,000)	-	(11,294,329)
Charge for the year	(992,452)	-	-	(992,452)
As at December 31, 2016	<u>(7,256,781)</u>	<u>(5,030,000)</u>	<u>-</u>	<u>(12,286,781)</u>
<b>Net book value:</b>				
As at December 31, 2014	<u>2,132,432</u>	<u>-</u>	<u>2,970,000</u>	<u>5,102,432</u>
As at December 31, 2015	<u>1,015,289</u>	<u>-</u>	<u>2,970,000</u>	<u>3,985,289</u>
As at December 31, 2016	<u>29,817</u>	<u>-</u>	<u>2,970,000</u>	<u>2,999,817</u>

12 Intangible assets and goodwill (continued)

(b) Goodwill

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
<b>Cost:</b>			
Balance at the beginning and the end of the year	79,495,583	79,495,583	79,495,583
<b>Impairment losses:</b>			
Balance at the beginning of the year	(59,216,557)	(59,216,557)	(59,216,557)
Charge for the year	(20,279,026)	-	-
Balance at the end of the year	(79,495,583)	(59,216,557)	(59,216,557)
<b>Carrying amounts:</b>			
At the end of the year	-	20,279,026	20,279,026
At the beginning of the year	20,279,026	20,279,026	20,279,026

On August 31, 2006, the Group acquired a 55% stake in Guangzhou Anyu Mortgage Consulting Co., Limited ("Guangzhou Anyu"). On the acquisition date, the fair value of Guangzhou Anyu's identifiable net assets was RMB42.36 million, 55% of which the Group accounted for was RMB23.3 million. An amount of RMB20.28 million was recognized as goodwill, representing the excess of the consideration transferred over the Group's proportionate share of the fair value of identifiable net assets. On May 25, 2009, the Group acquired the remaining 45% shares in Guangzhou Anyu for RMB27.47 million. Guangzhou Anyu was incorporated in the PRC in 2003 and was primarily engaged in the business of providing mortgage agency services and loans at the time of acquisition.

(i) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified as follows:

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Micro credit and mortgage agency services	-	20,279,026	20,279,026

## 12 Intangible assets and goodwill (continued)

The recoverable amount of the CGU is calculated using Dividend Discount Model (DDM). The projected cash flow for the next year is based on financial budgets approved by management. Cash flows beyond next year are estimated using a weighted average growth rate of 3%, which is consistent with the forecasts in industry research reports. The growth rate does not exceed the long-term average growth rates for the business in which the CGU operates. The projected cash flows are then discounted using a discount rate of 21% as of December 31, 2016 (2015: 21%; 2014: 21%). The discount rate is pre-tax and reflects specific risks relating to the relevant segments.

In 2016, the key management of Guangzhou Anyu has left the company. Guangzhou Anyu's business model has changed from providing loans to referring micro-credit business to other entities of the Group, resulting in an expected reduction in the operating profits and cash flows in the future. Therefore, the Group recognized a goodwill impairment loss of RMB20,279,026 (2015: nil). The goodwill was fully impaired as of December 31, 2016.

## 13 Investment in subsidiaries

Name of company (i)	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
China Financial Services Group Limited 香港泛华金融服务集团有限公司	Hong Kong August 28, 2000	HKD100,000,000	HKD100,000,000	100%	-	Investment Holding
Fanhua Chuang Li Information Technology (Shenzhen) Co., Ltd. 泛华创利信息技术(深圳)有限公司	the PRC December 21, 1999	HKD400,000,000	HKD400,000,000	-	100%	Investment Holding
Shenzhen Fanhua United Investment Group Co., Ltd. 深圳泛华联合投资集团有限公司	the PRC August 9, 2006	RMB250,000,000	RMB250,000,000	-	100%	Investment Holding
Shenzhen Fanyingjie Asset Management Co., Ltd. 深圳泛盈捷资产管理有限公司	the PRC December 12, 2007	RMB30,000,000	RMB30,000,000	-	100%	Asset Management
Guangzhou Anyu Mortgage Consulting Co., Ltd. 广州安宇按揭咨询有限公司	the PRC January 23, 2003	RMB2,220,000	RMB2,220,000	-	100%	Micro credit and mortgage agency services
Zhengzhou Lirui Financial Advisory Co., Ltd. 郑州利瑞财务咨询有限公司	the PRC December 17, 2009	RMB500,000	RMB500,000	-	100%	Financial consultancy
Chongqing Fengjie Financial Advisory Co., Ltd. 重庆丰捷财务咨询有限公司	the PRC June 13, 2010	RMB500,000	RMB500,000	-	100%	Financial consultancy
Guangzhou Chengze Information Technology Co., Ltd. 广州诚泽信息科技有限公司	the PRC December 11, 2006	RMB3,000,000	RMB3,000,000	-	100%	Software development and maintenance
Qidong Fanhua Financial Management Co., Ltd. 启东泛华财务管理有限公司	the PRC December 11, 2006	RMB300,000	RMB300,000	-	100%	Asset Management

**13 Investment in subsidiaries (continued)**

Name of company (i)	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shenzhen Fanyingjie Equity Investment and Fund Management Co., Ltd. 深圳泛盈捷股权投资基金管理有限公司	the PRC June 20, 2011	RMB20,000,000	RMB20,000,000	-	100%	Asset Management
Chongqing Liangjiang New Area Fanhua Micro-credit Co., Ltd. 重庆市两江新区泛华小额贷款有限公司	the PRC December 26, 2011	USD30,000,000	USD30,000,000	-	100%	Micro credit and mortgage agency services
Shenzhen Fanhua Micro-credit Co., Ltd. 深圳泛华小额贷款有限公司	the PRC March 15, 2012	RMB100,000,000	RMB100,000,000	-	100%	Micro credit and mortgage agency services
Guangzhou Chengyu Fanhua Labor Dispatch Co., Ltd. 广州诚誉泛华劳务派遣有限公司	the PRC May 21, 2012	RMB2,000,000	RMB2,000,000	-	100%	Labour outsourcing services
Shenzhen Fanhua Fund Management Services Co., Ltd. 深圳泛华基金管理服务有限公司	the PRC June 8, 2012	RMB5,000,000	RMB5,000,000	-	100%	Company register service
Beijing Fanhua Micro-credit Company Limited 北京泛华小额贷款有限公司	the PRC August 10, 2012	RMB100,000,000	RMB100,000,000	-	100%	Micro credit and mortgage agency services
Guangzhou Heze Information Technology Co., Ltd. 广州和泽信息科技有限公司	the PRC September 16, 2010	RMB3,000,000	RMB3,000,000	-	100%	Software development and maintenance
Beijing Lianxin Chuanghui Information Technology Co., Ltd. 北京联鑫创辉信息技术有限公司	the PRC February 2, 2012	HKD10,000,000	HKD10,000,000	-	100%	Software development and maintenance
Shenzhen Fanlian Investment Co., Ltd. 深圳泛联投资有限公司	the PRC November 26, 2012	RMB30,000,000	RMB30,000,000	-	100%	Investment Holding
Fanhua Financial Leasing (Shenzhen) Co., Ltd. 泛华融资租赁 (深圳) 有限公司	the PRC September 4, 2012	USD10,000,000	USD10,000,000	-	100%	Financial leasing
Shenzhen Fanhua Chengyu Finance Service Co., Ltd. 深圳泛华诚誉金融配套服务有限公司	the PRC March 15, 2012	RMB10,000,000	RMB10,000,000	-	100%	Labour outsourcing services

**13 Investment in subsidiaries (continued)**

Name of company (i)	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shenzhen Taotaojin Internet Financial Services Company Limited 深圳淘淘金互联网金融服务有限公司	the PRC August 7, 2014	RMB50,000,000	RMB50,000,000	-	100%	Investment Holding
Fanhua Wealth Management (Shenzhen) Co., Ltd. 泛华财富管理(深圳)有限公司	the PRC March 28, 2016	RMB20,000,000	RMB20,000,000	-	100%	Asset Management
Hangzhou Shenzhen Fanlian Investment Co., Ltd. 杭州深泛联投资管理有限公司	the PRC December 14, 2015	RMB1,000,000	-	-	100%	Asset Management
Fanhua Asset Management (Shenzhen) Co., Ltd. 泛华资产管理(深圳)有限公司	the PRC March 30, 2016	RMB10,000,000	-	-	100%	Asset Management
Shenzhen Yingjiejin Asset Management Co., Ltd. 深圳盈捷金资产管理有限公司	the PRC December 2, 2014	RMB5,100,000	-	-	100%	Asset Management
Guangzhou Taotaojin Technology Co., Ltd. 广州淘淘金科技有限公司	the PRC November 21, 2016	RMB10,000,000	-	-	100%	Software development and maintenance
Beijing Fanhua Qilin Capital Management Co., Ltd. 北京泛华麒麟资本管理有限公司	the PRC December 26, 2016	RMB100,000,000	-	-	100%	Asset Management
Shenzhen Anying Fengli Investment Partnership (Limited Partnership) 深圳安盈丰利投资合伙企业(有限合伙) (ii)	the PRC March 14, 2012	RMB3,600,000	RMB200,000	-	6%	Asset Management
Tianjin Yingjie Investment Partnership (Limited Partnership) 天津盈捷投资合伙企业(有限合伙) (ii) (iii)	the PRC March 16, 2011	RMB38,400,000	-	-	26%	Asset Management
Tianjin Yingjieying Investment Partnership (Limited Partnership) 天津盈捷赢投资合伙企业(有限合伙) (ii) (iii)	the PRC May 11, 2011	RMB62,000,000	-	-	16%	Asset Management
Tianjin Lianxin Investment Partnership (Limited Partnership) 天津联鑫投资合伙企业(有限合伙) (ii) (iii)	the PRC August 18, 2011	RMB29,600,000	-	-	35%	Asset Management
Tianjin Yingxiu Investment Partnership (Limited Partnership) 天津赢绣投资合伙企业(有限合伙) (ii) (iii)	the PRC August 22, 2011	RMB28,800,000	-	-	17%	Asset Management

**13 Investment in subsidiaries (continued)**

Name of company (i)	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Tianjin Fanjie Investment Partnership (Limited Partnership) 天津泛捷投资合伙企业 (有限合伙) (ii) (iii)	the PRC August 22, 2011	RMB33,700,000	-	-	15%	Asset Management
No.5 Jinghua Structure Fund 菁华5号信托计划 (iv)	the PRC December 19, 2014	RMB6,547,168,471	RMB6,547,168,471	-	23%	Micro credit
No.6 Jinghua Structure Fund 菁华6号信托计划 (iv)	the PRC September 9, 2014	RMB95,061,049	RMB95,061,049	-	62%	Micro credit
Bohai Baichuanhui Structure Fund 渤海百川汇信托计划 (iv)	the PRC September 12, 2016	RMB112,500,000	RMB112,500,000	-	20%	Micro credit

- (i) The official names of those companies are in Chinese. The English translation is for reference only.
- (ii) The management is appointed by the Group, and all the key operation decisions are made by the Group. The Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Therefore, the entity is regarded as a subsidiary of the Group.
- (iii) The entities have no operation and the profit has been distributed to the partners according to the partnership agreements. However, the deregistration of business certificates has not been completed as at December 31, 2016.
- (iv) Capital of all the three structure funds are used for granting loans to customers, which are managed by the Group. The Group is general partner of the funds, promising the expected returns for limited partners, and provide guarantee on the loans to customers under the fund. Therefore, the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Therefore, the entity is regarded as subsidiary of the Group.

**14 Interest in associate**

The Group had interests in an associate named Fujian Jianyin Channel Equity Investment Management Co., Ltd. (福建建银海峡股权投资管理有限公司). The Group owned 30% of the equity interests; and determined that it has significant influence because it has representation on the board of the investee. The associate was liquidated in 2016.

The following table analyses, in aggregate, the carrying amount and share of profit of the associate.

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Carrying amount of interests in associate	-	3,219,847	2,987,652
Share of:			
- Profit from continuing operations	<u>47,122</u>	<u>232,195</u>	<u>1,245</u>

**15 Available-for-sale financial assets**

	Note	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
<b>Carrying amount:</b>				
Investment management products managed by securities companies		112,865,781	644,681,938	156,887,895
Investment fund		-	-	51,398,993
Equity investments		71,090,001	31,880,001	13,305,000
Subtotal		<u>183,955,782</u>	<u>676,561,939</u>	<u>221,591,888</u>
Less: Impairment losses	(a)	(51,270,001)	(13,307,305)	-
Total		<u><b>132,685,781</b></u>	<u><b>663,254,634</b></u>	<u><b>221,591,888</b></u>

**(a) Movement of impairment losses**

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Balance at January 1	13,307,305	-	-
Charge for the year	37,962,696	13,307,305	-
Balance at December 31	<u><b>51,270,001</b></u>	<u><b>13,307,305</b></u>	<u><b>-</b></u>



**16 Loans and advances to customers**

	<i>Note</i>	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Gross loans and advances to customers		7,281,885,329	2,401,334,845	1,232,848,244
Less: Impairment losses				
- Individually assessed		(55,180,661)	(20,804,475)	(7,638,026)
- Collectively assessed		(84,175,450)	(12,516,300)	(4,869,596)
Subtotal	(a)	(139,356,111)	(33,320,775)	(12,507,622)
Net loans and advances to customers		<u>7,142,529,218</u>	<u>2,368,014,070</u>	<u>1,220,340,622</u>

**(a) Movements of impairment losses**

	<i>Note</i>	2016 Allowances for loans and advances which are collectively assessed RMB	2016 Allowances for impaired loans and advances which are individually assessed RMB	Total RMB
As at January 1		12,516,300	20,804,475	33,320,775
Charge for the year	8	75,813,844	47,123,053	122,936,897
Recoveries		(4,154,694)	(12,746,867)	(16,901,561)
As at December 31		<u>84,175,450</u>	<u>55,180,661</u>	<u>139,356,111</u>

16 Loans and advances to customers (continued)

		2015 (unaudited)		
		<i>Allowances for loans and advances which are collectively assessed</i>	<i>Allowances for impaired loans and advances which are individually assessed</i>	<i>Total</i>
	<i>Note</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
As at January 1		4,869,596	7,638,026	12,507,622
Charge for the year	8	9,293,786	16,831,171	26,124,957
Recoveries		(1,647,082)	(3,664,722)	(5,311,804)
As at December 31		<b>12,516,300</b>	<b>20,804,475</b>	<b>33,320,775</b>

		2014 (unaudited)		
		<i>Allowances for loans and advances which are collectively assessed</i>	<i>Allowances for impaired loans and advances which are individually assessed</i>	<i>Total</i>
	<i>Note</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
As at January 1		2,002,350	6,763,733	8,766,083
Charge for the year	8	4,362,060	7,031,233	11,393,293
Write-offs		-	(3,273,580)	(3,273,580)
Recoveries		(1,494,814)	(2,883,360)	(4,378,174)
As at December 31		<b>4,869,596</b>	<b>7,638,026</b>	<b>12,507,622</b>

**17 Income tax expense in the consolidated statement of financial position**

**(a) Current tax liabilities**

	<i>Note</i>	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
At the beginning of the year		36,064,216	37,339,589	37,626,639
Provision for PRC income tax for the year	9(a)	86,186,945	35,698,715	35,846,630
PRC income tax paid		(25,672,356)	(36,974,088)	(36,133,680)
At the end of the year		<b>96,578,805</b>	<b>36,064,216</b>	<b>37,339,589</b>

**17 Income tax expense in the consolidated statement of financial position (continued)**

**(b) Deferred tax assets and liabilities recognized:**

(i) The components of deferred tax assets/ (liabilities) recognized in the consolidated statement of financial position and the movements during the years are as follows:

	<i>Impairment provision</i>	<i>Amortisation of intangible assets</i>	<i>Depreciation of property, plant and equipment</i>	<i>Accrued payroll</i>	<i>Other accrued expenses</i>	<i>Fair value change in available-for-sale financial assets</i>	<i>Total deferred tax assets</i>	<i>Amortisation of intangible assets</i>	<i>Fair value change in available-for-sale financial assets</i>	<i>Total deferred tax liabilities</i>
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At January 1, 2014	2,191,521	1,722,894	430,689	2,108,326	1,255,014	3,285,037	10,993,481	(742,500)	(314,384)	(1,056,884)
Recognized in profit or loss	3,975,168	311,487	397,522	3,237,893	165,887	675,801	8,763,758	-	(2,161,734)	(2,161,734)
Recognized in reserve	(1,912,939)	(215,157)	(250,654)	(2,108,326)	(995,014)	(3,285,037)	(8,767,127)	-	314,385	314,385
At December 31, 2014	<u>4,253,750</u>	<u>1,819,224</u>	<u>577,557</u>	<u>3,237,893</u>	<u>425,887</u>	<u>675,801</u>	<u>10,990,112</u>	<u>(742,500)</u>	<u>(2,161,733)</u>	<u>(2,904,233)</u>
At January 1, 2015	4,253,750	1,819,224	577,557	3,237,893	425,887	675,801	10,990,112	(742,500)	(2,161,733)	(2,904,233)
Recognized in profit or loss	8,546,863	9,914	(101,210)	2,291,896	109,212	-	10,856,675	-	-	-
Recognized in reserve	-	-	-	-	-	2,401,585	2,401,585	-	(66,710,593)	(66,710,593)
At December 31, 2015	<u>12,800,613</u>	<u>1,829,138</u>	<u>476,347</u>	<u>5,529,789</u>	<u>535,099</u>	<u>3,077,386</u>	<u>24,248,372</u>	<u>(742,500)</u>	<u>(68,872,326)</u>	<u>(69,614,826)</u>
At January 1, 2016	12,800,613	1,829,138	476,347	5,529,789	535,099	3,077,386	24,248,372	(742,500)	(68,872,326)	(69,614,826)
Recognized in profit or loss	37,269,525	(152,964)	1,546,827	(5,529,789)	336,539	-	33,470,138	-	-	-
Recognized in reserve	-	-	-	-	-	(2,104,552)	(2,104,552)	-	66,997,902	66,997,902
At December 31, 2016	<u>50,070,138</u>	<u>1,676,174</u>	<u>2,023,174</u>	<u>-</u>	<u>871,638</u>	<u>972,834</u>	<u>55,613,958</u>	<u>(742,500)</u>	<u>(1,874,424)</u>	<u>(2,616,924)</u>

**17 Income tax expense in the consolidated statement of financial position (continued)**

(ii) Reconciliation to the consolidated statement of financial position

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Deferred tax assets recognized on the consolidated statement of financial position	<u>55,613,958</u>	<u>24,248,372</u>	<u>10,990,112</u>
Deferred tax liabilities recognized on the consolidated statement of financial position	<u>(2,616,924)</u>	<u>(69,614,826)</u>	<u>(2,904,233)</u>

(c) *Deferred tax assets not recognized:*

	Note	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Tax losses	(i)	86,140,716	23,014,664	13,294,252
Goodwill impairment loss	(ii)	20,279,026	-	-
Total		<u>106,419,742</u>	<u>23,014,664</u>	<u>13,294,252</u>

(i) Tax losses

In accordance with the accounting policy set out in Note 3(n), the Group has not recognized deferred tax assets in respect of unused tax losses of RMB86,140,716 at December 31, 2016 (2015: RMB23,014,664; 2014: RMB13,294,252) as it is not probable that those losses and temporary difference can be utilized in the foreseeable future. According to current tax law, the Group can use these deductible losses for tax deduction if the Group gets enough taxable income in the next five years.

(ii) Goodwill impairment loss

In accordance with the accounting policy set out in Note 3(n), the Group has not recognized deferred tax assets in respect of goodwill impairment loss of RMB20,279,026 as at December 31, 2016 (2015: nil; 2014: nil). The goodwill was recognized initially on the acquisition of Guangzhou Anyu. As it is not probable that the Group will dispose of the company, this loss cannot be utilized in the foreseeable future.

**18 Trade and other receivables**

	<i>Note</i>	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Interest receivables		120,433,765	71,472,633	35,522,301
Other trade receivables		10,258,654	11,768,850	11,971,095
Less: Impairment losses	(b)	(15,470,310)	(10,390,242)	(6,976,219)
Trade receivables		115,222,109	72,851,241	40,517,177
Deposits		51,592,458	10,660,214	2,446,843
Advances to employees		16,306,520	6,899,250	4,566,287
Receivables for release of loans		10,868,038	8,376,493	610,886
Prepayments		5,007,153	1,097,854	1,138,590
Other receivables		16,474,774	9,903,426	5,040,350
Total		<b>215,471,052</b>	<b>109,788,478</b>	<b>54,320,133</b>

**(a) Aging analysis**

The aging analysis of trade receivables, based on the invoice date and net of impairment losses of the Group is as follows:

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Within 1 month	113,690,745	68,078,485	33,041,094
Over 1 month but less than 3 months	2,314,632	1,008,645	2,973,515
Over 3 months but less than 1 year	2,597,568	2,581,608	4,938,364
More than 1 year	12,089,474	11,572,745	6,540,423
Total	<b>130,692,419</b>	<b>83,241,483</b>	<b>47,493,396</b>

**18 Trade and other receivables (continued)**

**(b) Movements of impairment losses**

The movement in the impairment losses on trade receivables during the years is as follows:

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
At the beginning of the year	10,390,242	6,976,219	5,742,421
Charge for the year	5,332,042	6,971,886	1,246,848
Written-offs	(246,640)	(3,472,848)	-
Recoveries	(5,334)	(85,015)	(13,050)
At the end of the year	<u><u>15,470,310</u></u>	<u><u>10,390,242</u></u>	<u><u>6,976,219</u></u>

**19 Cash and cash equivalents**

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Demand deposits and term deposits with banks with original maturity less than three months	232,391,435	259,806,107	158,310,858
Cash on hand	747,153	275,689	256,158
Cash and bank deposits in the consolidated statement of financial position	<u><u>233,138,588</u></u>	<u><u>260,081,796</u></u>	<u><u>158,567,016</u></u>

**20 Share capital and reserves**

**(a) Share capital**

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Ordinary shares, issued and fully paid:			
In issue at January 1	80,973,634	80,973,634	80,973,634
In issue at December 31	<u>80,973,634</u>	<u>80,973,634</u>	<u>80,973,634</u>

As set out in Note 1, the Company was incorporated in the British Virgin Islands on October 6, 2006. Upon completion of ordinary shares issuance, allotment and repurchase, the issued shares of the Company was 1,230,434,040 of US\$0.01 each as at August 1, 2011. No change has been made to the issued shares since August 1, 2011.

**(b) Capital reserve**

The capital reserve represents (1) the difference between the nominal value of share capital and the paid-up capital of the Company; (2) the difference between the purchase price and the proportionate share of the identifiable net assets of Guangzhou Anyu when the Group acquired its remaining shares to take full ownership.

**(c) Surplus reserve**

In accordance with the Company's PRC subsidiaries' articles of associate, the subsidiaries are required to appropriate 10% of their net profits, upon approval by board of directors.

**(d) Regulatory reserve**

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Group is required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of its gross risk-bearing assets.

**(e) Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for sale securities held at the end of the reporting period and are dealt with in accordance with the accounting policies in Note 3(i).



**20 Share capital and reserves (continued)**

**(f) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policies set out in Note 3(q).

**(g) Equity-settled share-based payment arrangements**

**(i) Description of equity-settled share-based payment arrangements**

At December 31, 2016, the Group had the following equity-settled share-based payment arrangements.

On November 1, 2009, the Company granted options to its directors and employees to purchase up to 25,678 ordinary shares of the Company. Pursuant to the option agreements entered into between the Company and the option grantees, the options shall vest over a five-year period from 2010 to 2014. The number of options that the grantees are entitled to in each year will be calculated based on the key performance indicator scores of the grantees in the respective prior year and continued employment is not regarded as vesting condition. Accordingly, 60%, 10%, 10%, 10% and 10% of the award options shall vest on January 1, each of the years 2010 to 2014, respectively.

On January 24, 2011, the Company divided the existing issued shares, US\$0.10 each share into US\$0.01 each share. On the same day, the Company allotted and issued new shares to its existing shareholders in accordance with the ratio of 1:637. Upon completion of such share split and share allotment, the number of such share options was adjusted from 25,678 to 163,825,640. Accordingly, the exercise price was adjusted from RMB3,190 to RMB0.5. The expiration date of such options was December 31, 2016 originally, and extended to December 31, 2018 in 2016.

**20 Share capital and reserves (continued)**

(ii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

*Share awards  
 granted on  
 November 1,  
 2009*

**Fair value of share options and assumptions**

Fair value of share options at measurement date	640.1
Share price	1,506
Exercise price	3,190
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	71%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	7.17
Expected dividend yield	0.0%
Risk-free interest rate (based on Exchange Fund Notes)	3.5%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

**21 Interest-bearing borrowings**

	<i>Note</i>	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Borrowings from				
- Related parties	(i)	-	-	174,849,469
- Asset management partnerships	(ii)	450,000,000	-	-
- The peer-to-peer lending platform of the Group's subsidiary	(iii)	602,850,285	267,939,824	-
- Investors of asset management plans	(iv)	-	390,453,000	231,100,000
Interest payable to				
- Related parties	(i)	32,494,914	36,508,260	28,106,194
- Asset management partnerships	(ii)	3,889,315	-	-
- The peer-to-peer lending platform of the Group's subsidiary	(iii)	5,350,887	1,275,456	-
- Investors of asset management plans	(iv)	-	12,477,125	3,911,055
<b>Total</b>		<b><u>1,094,585,401</u></b>	<b><u>708,653,665</u></b>	<b><u>437,966,718</u></b>

- (i) The Group's related parties, Fanhua Inc. and its subsidiaries, agreed to grant a revolving loan with a maximum amount of US\$50,000,000 (equivalent to RMB317,990,000 as per the agreement) to the Group. The amounts are unsecured and bear interest at 7.3% and are repayable on demand. As of December 31, 2016, the amount of principal payable due to Fanhua Inc. and its subsidiaries are nil (2015: nil; 2014: RMB174,849,469), and RMB32,494,914 (2015: RMB36,508,260; 2014: RMB28,106,194) interest payable.
- (ii) The borrowings from asset management partnerships are from Beijing Shanzheng Longhua Capital Management Partnership (Limited Partnership) with principal RMB150 million, and Shenzhen Zhongzhidixun Investment Partnership (Limited Partnership) with principal RMB300 million. The interest-bearing borrowings bear interest at 11% and 8% per year, respectively.
- (iii) The third parties invest on peer-to-peer lending platform of the Group's subsidiary, interest rate range is from 5.3% to 10% per year.
- (iv) The third parties invest on Ping'an Huitong asset management plan and Wanjia Gongying asset management plan, bearing interest at 9% and 11.5% per year, respectively.

**22 Accruals and other payables**

	<i>Note</i>	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Payables to interest holders of consolidated structured entities	(i)	5,169,370,000	1,258,740,000	277,640,000
Interest payable		61,566,829	26,464,396	44,534,229
Customer pledged deposits		77,807,696	117,394,191	11,172,813
Accrued staff cost		51,329,948	23,222,277	12,910,238
Other tax payables		51,236,294	27,756,263	9,030,024
Amounts due to related parties		-	-	1,500,000
Amounts due to third parties		23,848,850	13,518,799	18,686,699
Payable to banks as mortgage agency	(ii)	15,173,806	65,276,128	23,903,216
Receipt in advance		1,077,372	16,409,930	18,867,631
Others		36,563,913	20,199,098	35,370,637
<b>Total</b>		<b><u>5,487,974,708</u></b>	<b><u>1,568,981,082</u></b>	<b><u>453,615,487</u></b>

- (i) The financial liabilities arising from the consolidated structured entities with underlying investments in loans and advances to customers are classified as other payables and accruals in these consolidated financial statements. It is because, the Group has an obligation to pay other investors upon maturity dates of the structured entities based on the net book value and related terms of those consolidated structured funds.
- (ii) The amount mainly represents payable to the original bank for settling the loan and releasing collateral on behalf of customers of mortgage agency services.
- (iii) All of other trade and other payables (including interest payable to related parties) are expected to be settled or recognized as income within one year or are repayable on demand.

**23 Segment reporting**

The principal activity of the Group is micro credit business. The Group has similar economic characteristic and is similar in respect of the business nature, products, customer type and services. Therefore the Group does not disclose segmental report based on the information used internally by the chief operating decision maker for purpose of assessing performance and making resource allocation decisions.

**24 Financial risk management and fair values of financial instruments**

**(i) Capital management**

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure, to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the years.

Particularly for credit loan operation, the Group monitors regularly the residual balance of outstanding credit loans for single customers and multiples of the total credit loans in relation to share capital of companies in the Group credit loan business, so as to keep the capital risk within an acceptable limit. The decision to manage the share capital of companies in the Group to meet the needs of developing credit loan business rests with the directors.

**(ii) Exposure to risk**

Exposure to credit, market and liquidity risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

**24 Financial risk management and fair values of financial instruments (continued)**

**(a) Credit risk**

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under loans the Group provided. Credit risk is primarily attributable to the loan business of the Group, loans and advances to customers and trade and other receivables.

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods.

Credit risk arising from loans and advances to customers

To identify, evaluate, monitor and manage credit risk, the Group designs the risk management structure, credit policies and processes required for effective credit risk management which have been implemented across the Group upon approval of the Board. The Board is responsible for formulating the credit policies, management framework and marketing strategies from time to time, analysing the development of micro credit and mortgage agency services businesses and the level of risk management, and approving loans with amounts exceeding the authorized limit of the senior management in accordance with relevant rules, regulations and monetary policies in the PRC and the Group's business strategy.

The Group carries out pre-approval, review and credit approval of loans by professionals for credit risk arising from micro credit business. During the post-transaction monitoring process, the Group conducts a visit of customers regularly after disbursement of loans, and conducts on-site inspection when the Group considers it is necessary. The review focuses on the status of the collateral.

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to acceptable risks for different industries and geographical regions. The Group monitors the risk status of these customers regularly.

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are classified as non-impaired and impaired based on the different risk level. When one or more event demonstrates there is objective evidence of impairment and causes losses, corresponding loans are considered to be classified as impaired. The allowance for impairment losses on impaired loans are collectively or individually assessed as appropriate.

The Group applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realizable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The Group also takes into account the length of time for which payments of principal and interest on a loan are overdue.

**24 Financial risk management and fair values of financial instruments (continued)**

In accordance with accounting policies and regulations, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognized in the income statement.

(i) Breakdown of total credit extended by the Group by type of collateral:

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Collateralised loans	7,281,459,545	2,383,995,115	1,224,363,998
Unsecured loans	425,784	17,339,730	8,484,246
<b>Gross loans and advances to customers</b>	<b>7,281,885,329</b>	<b>2,401,334,845</b>	<b>1,232,848,244</b>
<b>Less: Impairment losses</b>			
Individually assessed	(55,180,661)	(20,804,475)	(7,638,026)
Collectively assessed	(84,175,450)	(12,516,300)	(4,869,596)
<b>Subtotal</b>	<b>(139,356,111)</b>	<b>(33,320,775)</b>	<b>(12,507,622)</b>
<b>Net loans and advances to customers</b>	<b>7,142,529,218</b>	<b>2,368,014,070</b>	<b>1,220,340,622</b>

(ii) The credit quality of loans and advances to customers:

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
<b>Gross loans and advances to customers</b>			
Neither overdue nor impaired	6,955,872,213	2,136,903,426	1,035,777,576
Overdue but not impaired	222,969,993	159,950,942	159,945,351
Impaired	103,043,123	104,480,477	37,125,317
<b>Less: Impairment losses</b>			
Neither overdue nor impaired	(56,434,034)	(5,801,058)	(1,666,005)
Overdue but not impaired	(27,741,416)	(6,715,241)	(3,203,591)
Impaired	(55,180,661)	(20,804,476)	(7,638,026)
<b>Net balance</b>			
Neither overdue nor impaired	6,899,438,179	2,131,102,368	1,034,111,571
Overdue but not impaired	195,228,577	153,235,701	156,741,760
Impaired	47,862,462	83,676,001	29,487,291
<b>Net loans and advances to customers</b>	<b>7,142,529,218</b>	<b>2,368,014,070</b>	<b>1,220,340,622</b>

24 Financial risk management and fair values of financial instruments (continued)

(iii) Analysed by geographical sector

	<i>December 31, 2016</i>	
	<i>Loan balance</i>	<i>Percentage</i>
	<u>RMB</u>	
Pearl River Delta	2,072,300,414	28%
Yangtze River Delta	2,719,591,352	37%
Bohai Rim	1,598,296,773	22%
Others	891,696,790	13%
Total	<u>7,281,885,329</u>	
<b>Less: Impairment losses</b>		
Individually assessed	(55,180,661)	
Collectively assessed	(84,175,450)	
Total	<u>(139,356,111)</u>	
<b>Net loans and advances to customers</b>	<u><b>7,142,529,218</b></u>	
<i>December 31, 2015 (unaudited)</i>		
	<i>Loan balance</i>	<i>Percentage</i>
	<u>RMB</u>	
Pearl River Delta	667,162,550	28%
Yangtze River Delta	834,386,817	35%
Bohai Rim	372,453,406	16%
Others	527,332,072	21%
Total	<u>2,401,334,845</u>	
<b>Less: Impairment losses</b>		
Individually assessed	(20,804,475)	
Collectively assessed	(12,516,300)	
Total	<u>(33,320,775)</u>	
<b>Net loans and advances to customers</b>	<u><b>2,368,014,070</b></u>	
<i>January 1, 2015 (unaudited)</i>		
	<i>Loan balance</i>	<i>Percentage</i>
	<u>RMB</u>	
Pearl River Delta	242,180,815	20%
Yangtze River Delta	499,050,132	40%
Bohai Rim	119,640,773	10%
Others	371,976,524	30%
Total	<u>1,232,848,244</u>	
<b>Less: Impairment losses</b>		
Individually assessed	(7,638,026)	
Collectively assessed	(4,869,596)	
Total	<u>(12,507,622)</u>	
<b>Net loans and advances to customers</b>	<u><b>1,220,340,622</b></u>	



**24 Financial risk management and fair values of financial instruments (continued)**

(iv) Overdue loans analyzed by type of collateral and overdue period

<i>December 31, 2016</i>					
	<i>Overdue within three months RMB</i>	<i>Overdue between three months and one year RMB</i>	<i>Overdue between one year and three years RMB</i>	<i>Overdue more than three years RMB</i>	<i>Total RMB</i>
Loans secured by tangible other than monetary assets	222,969,993	43,432,017	52,629,523	6,555,799	325,587,332
Unsecured loans	-	-	-	425,784	425,784
<b>Total</b>	<b>222,969,993</b>	<b>43,432,017</b>	<b>52,629,523</b>	<b>6,981,583</b>	<b>326,013,116</b>
<i>December 31, 2015 (unaudited)</i>					
	<i>Overdue within three months RMB</i>	<i>Overdue between three months and one year RMB</i>	<i>Overdue between one year and three years RMB</i>	<i>Overdue more than three years RMB</i>	<i>Total RMB</i>
Loans secured by tangible other than monetary assets	153,919,842	69,387,881	21,948,217	2,207,749	247,463,689
Unsecured loans	6,031,100	7,882,284	2,157,100	897,246	16,967,730
<b>Total</b>	<b>159,950,942</b>	<b>77,270,165</b>	<b>24,105,317</b>	<b>3,104,995</b>	<b>264,431,419</b>
<i>January 1, 2015 (unaudited)</i>					
	<i>Overdue within three months RMB</i>	<i>Overdue between three months and one year RMB</i>	<i>Overdue between one year and three years RMB</i>	<i>Overdue more than three years RMB</i>	<i>Total RMB</i>
Loans secured by tangible other than monetary assets	159,945,351	24,716,878	9,142,625	-	193,804,854
Unsecured loans	-	-	2,440,030	825,784	3,265,814
<b>Total</b>	<b>159,945,351</b>	<b>24,716,878</b>	<b>11,582,655</b>	<b>825,784</b>	<b>197,070,668</b>

**24 Financial risk management and fair values of financial instruments (continued)**

(v) Fair value of collateral and other credit enhancement held against financial assets

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Fair value of collateral held against financial assets that are:			
Neither overdue nor impaired	24,303,909,300	7,864,531,882	3,848,747,982
Overdue but not impaired	696,857,840	629,246,700	537,199,100
Impaired	402,539,900	314,298,700	119,929,346
<b>Total</b>	<b>25,403,307,040</b>	<b>8,808,077,282</b>	<b>4,505,876,428</b>

Other credit risks

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from loans and advances to customers and trade and other receivables are set out in Note 16 and Note 18, respectively.

**(b) Market risk**

Market risk arises when the adverse changes in market prices (interest rates, exchange rates, as well as equity prices and other prices) lead to losses from the Group's on-balance sheet and off-balance sheet businesses. The Group's market risk mainly arises from currency risk and interest rate risk.

**(i) Currency risk**

The Group's businesses are principally conducted in RMB, and the recognised assets or liabilities are mainly denominated in the functional currency of the Group entity to which they relate at the end of the reporting period. Accordingly, the directors considered the Group's exposure to foreign currency risk is not significant during the year.

**24 Financial risk management and fair values of financial instruments (continued)**

(ii) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively. The Group determines the appropriate weightings of the fixed and floating rate interest bearing instruments based on the current market conditions and performs regular reviews and monitoring to achieve an appropriate mix of fixed and floating rate exposure.

- Interest rate profile

As at December 31, the Group held the following interest-bearing financial instruments:

	<i>Note</i>	<i>2016</i> RMB	<i>2015</i> RMB unaudited	<i>January 1,</i> <i>2015</i> RMB unaudited
<b>Fixed interest rate</b>				
Asset				
- Loans and advances to customers	16	7,142,529,218	2,368,014,070	1,220,340,622
Liabilities				
- Interest-bearing borrowings	21	(1,094,585,401)	(708,653,665)	(437,966,718)
- Accruals and other payables	22 (i)	(5,169,370,000)	(1,258,740,000)	(277,640,000)
Net		<b>878,573,817</b>	<b>400,620,405</b>	<b>504,733,904</b>
Variable interest rate				
Asset				
- Demand deposits and term deposits with banks with original maturity less than three months	19	232,391,435	259,806,107	158,310,858
Net		<b>232,391,435</b>	<b>259,806,107</b>	<b>158,310,858</b>

- Sensitivity analysis

As of December 31, 2016, 2015 and January 1, 2015, we estimated that a general increase/decrease of 25 basis points in the interest rates, with all other variables held constant, would have increased or reduced our profit before tax by approximately RMB475,041, RMB545,768 and RMB319,230 respectively.

The sensitivity analysis above indicates the instantaneous change in our profit before tax that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by us which expose us to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by us at the end of the reporting period, the impact on our profit before tax is estimated as an annualized impact on interest expense or income of such a change in interest rates.

**24 Financial risk management and fair values of financial instruments (continued)**

**(c) Liquidity risk**

**(i) Maturity analysis**

*The following tables provide an analysis of liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the years*

<i>December 31, 2016</i>							
	<i>Carrying amount RMB</i>	<i>Repayable on demand RMB</i>	<i>Within 3 months RMB</i>	<i>Between 3 months and 1 year RMB</i>	<i>Between 1 and 5 years RMB</i>	<i>Over 5 years RMB</i>	<i>Undated RMB</i>
Accruals and other payables	5,487,974,708	147,915,179	909,188,407	3,927,231,122	503,640,000	-	-
Interest-bearing borrowings	1,094,585,401	36,384,230	221,509,860	836,691,311	-	-	-
<b>Total</b>	<b>6,582,560,109</b>	<b>184,299,409</b>	<b>1,130,698,267</b>	<b>4,763,922,433</b>	<b>503,640,000</b>	<b>-</b>	<b>-</b>
<i>December 31, 2015 (unaudited)</i>							
	<i>Carrying amount RMB</i>	<i>Repayable on demand RMB</i>	<i>Within 3 months RMB</i>	<i>Between 3 months and 1 year RMB</i>	<i>Between 1 and 5 years RMB</i>	<i>Over 5 years RMB</i>	<i>Undated RMB</i>
Accruals and other payables	1,568,981,082	217,471,746	392,117,473	923,391,863	36,000,000	-	-
Interest-bearing borrowings	708,653,665	36,508,260	217,361,353	449,851,199	4,932,853	-	-
<b>Total</b>	<b>2,277,634,747</b>	<b>253,980,006</b>	<b>609,478,826</b>	<b>1,373,243,062</b>	<b>40,932,853</b>	<b>-</b>	<b>-</b>
<i>January 1, 2015 (unaudited)</i>							
	<i>Carrying amount RMB</i>	<i>Repayable on demand RMB</i>	<i>Within 3 months RMB</i>	<i>Between 3 months and 1 year RMB</i>	<i>Between 1 and 5 years RMB</i>	<i>Over 5 years RMB</i>	<i>Undated RMB</i>
Accruals and other payables	453,615,487	124,083,206	51,892,281	219,140,000	58,500,000	-	-
Interest-bearing borrowings	437,966,718	202,955,663	3,911,055	-	231,100,000	-	-
<b>Total</b>	<b>891,582,205</b>	<b>327,038,869</b>	<b>55,803,336</b>	<b>219,140,000</b>	<b>289,600,000</b>	<b>-</b>	<b>-</b>

**24 Financial risk management and fair values of financial instruments (continued)**

(ii) Contractual undiscounted cash flow

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. The following tables show the remaining contractual maturities at the end of the each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

<i>December 31, 2016</i>								
	<i>Carrying amount</i> RMB	<i>Contractual undiscounted cash outflows</i> RMB	<i>Repayable on demand</i> RMB	<i>Within 3 months</i> RMB	<i>Between 3 months and 1 year</i> RMB	<i>Between 1 and 5 years</i> RMB	<i>Over 5 years</i> RMB	<i>Undated</i> RMB
Accruals and other payables	5,487,974,708	5,823,970,010	147,915,180	969,516,968	4,159,638,973	546,898,889	-	-
Interest-bearing borrowings	1,094,585,401	1,156,809,689	36,384,229	225,833,040	894,592,420	-	-	-
<b>Total</b>	<b><u>6,582,560,109</u></b>	<b><u>6,980,779,699</u></b>	<b><u>184,299,409</u></b>	<b><u>1,195,350,008</u></b>	<b><u>5,054,231,393</u></b>	<b><u>546,898,889</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<i>December 31, 2015 (unaudited)</i>								
	<i>Carrying amount</i> RMB	<i>Contractual undiscounted cash outflows</i> RMB	<i>Repayable on demand</i> RMB	<i>Within 3 months</i> RMB	<i>Between 3 months and 1 year</i> RMB	<i>Between 1 and 5 years</i> RMB	<i>Over 5 years</i> RMB	<i>Undated</i> RMB
Accruals and other payables	1,568,981,082	1,843,509,773	217,471,746	436,199,479	1,153,680,740	36,157,808	-	-
Interest-bearing borrowings	708,653,665	734,546,429	36,508,260	221,683,071	471,307,557	5,047,541	-	-
<b>Total</b>	<b><u>2,277,634,747</u></b>	<b><u>2,578,056,202</u></b>	<b><u>253,980,006</u></b>	<b><u>657,882,550</u></b>	<b><u>1,624,988,297</u></b>	<b><u>41,205,349</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<i>January 1, 2015 (unaudited)</i>								
	<i>Carrying amount</i> RMB	<i>Contractual undiscounted cash outflows</i> RMB	<i>Repayable on demand</i> RMB	<i>Within 3 months</i> RMB	<i>Between 3 months and 1 year</i> RMB	<i>Between 1 and 5 years</i> RMB	<i>Over 5 years</i> RMB	<i>Undated</i> RMB
Accruals and other payables	453,615,487	489,081,805	122,583,206	59,765,086	242,578,979	64,154,534	-	-
Interest-bearing borrowings	437,966,718	437,966,718	202,955,663	3,911,055	-	231,100,000	-	-
<b>Total</b>	<b><u>891,582,205</u></b>	<b><u>927,048,523</u></b>	<b><u>325,538,869</u></b>	<b><u>63,676,141</u></b>	<b><u>242,578,979</u></b>	<b><u>295,254,534</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

**24 Financial risk management and fair values of financial instruments (continued)**

**(d) Fair values**

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at January 1, 2015, December 31, 2015 and 2016.

**(i) Fair value hierarchy**

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 7, *Financial Instruments: Disclosures*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

<i>December 31, 2016</i>				
	<i>Fair value</i> RMB	<i>Level 1</i> RMB	<i>Level 2</i> RMB	<i>Level 3</i> RMB
Investment management products managed by securities companies	62,865,781	-	62,865,781	-
Equity investments	69,820,000	30,010,000	-	39,810,000
Total	<b>132,685,781</b>	<b>30,010,000</b>	<b>62,865,781</b>	<b>39,810,000</b>

<i>December 31, 2015 (unaudited)</i>				
	<i>Fair value</i> RMB	<i>Level 1</i> RMB	<i>Level 2</i> RMB	<i>Level 3</i> RMB
Investment management products managed by securities companies	631,374,633	-	578,859,829	52,514,804
Equity investments	31,880,001	-	-	31,880,001
Total	<b>663,254,634</b>	<b>-</b>	<b>578,859,829</b>	<b>84,394,805</b>

24 Financial risk management and fair values of financial instruments (continued)

	January 1, 2015 (unaudited)			
	Fair value RMB	Level 1 RMB	Level 2 RMB	Level 3 RMB
Investment management products managed by securities companies	156,887,895	-	54,377,342	102,510,553
Investment fund	51,398,993	-	51,398,993	-
Equity investments	13,305,000	-	-	13,305,000
<b>Total</b>	<b>221,591,888</b>	<b>-</b>	<b>105,776,335</b>	<b>115,815,553</b>

During the years ended December 31, 2014, 2015 and 2016, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
At the beginning of the year	84,394,805	115,815,553	50,390,789
Net unrealised gains or losses recognised in other comprehensive income during the year	(6,350,530)	6,183,135	167,395
Payment for purchases	12,348,948	28,994,738	316,904,738
Proceeds from sales	(12,620,527)	(53,291,316)	(251,647,369)
Impairment losses	(37,962,696)	(13,307,305)	-
<b>At the end of the year</b>	<b>39,810,000</b>	<b>84,394,805</b>	<b>115,815,553</b>

(ii) Valuation techniques and significant unobservable inputs

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Financial instruments valued with significant unobservable inputs are primarily certain investment management products managed by securities companies and equity securities. The fair value of investment management products managed by securities companies is determined by maximizing the use of observable market data where it is available and rely as little as possible on entity specific estimates. The fair value of equity securities is determined using the price ratios of comparable listed companies adjusted for lack of marketability discount and discounted cash flow analysis, respectively. The fair value measurement is negatively correlated to the discount for lack of marketability.

**25 Interests in structured entities**

**(a) *Interests in structured entities consolidated by the Group***

Structured entities consolidated by the Group mainly stand for the structure funds and the asset management scheme as set out in Note 22(i) where the Group involves as manager or investment consultant and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the structure funds and the asset management scheme and whether the Group has the ability to affect those returns through its power over the structured funds and the asset management scheme to a level of such significance and that it indicates that the Group is a principal.

As at December 31 2016, payables to interest holders of consolidated structured entities represented capital injection received from structured funds named No.5 and No.6 of Jinghua and Bohai Baichuanghui, as well as capital injection received from asset management plan named No. 3 An Xin, which was settled in 2016. As at December 31, 2016, the total assets of the consolidated structured entities is RMB7,368,535,524 (2015: RMB2,279,057,186; 2014: RMB578,932,985), and the carrying amount of interests held by the Group in the consolidated structured entities is RMB1,585,359,520 (2015: RMB834,656,409; 2014: RMB281,000,000).

**(b) *Interests in structured entities sponsored by the Group but not consolidated***

Structured entities for which the Group served as general partner or manager, therefore has power over them during the reporting periods are asset management schemes. Except for the structured entities that the Group has consolidated as set out in Note 25(a), the Group's exposure to the variable returns in the structured entities in which the Group has interest are not significant. The Group therefore did not consolidate these structured entities.

As at December 31, 2016, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB92,000,000 (2015: RMB489,950,000; 2014: RMB457,600,000). As at December 31, 2016, the carrying amount of interests held by the Group in these unconsolidated structured entities are RMB36,374,261 (2015: RMB568,762,569; 2014: RMB52,488,921).

During the years ended December 31, 2016, income derived from these unconsolidated structured entities held by the Group amounted to RMB65,891,580 (2015: RMB1,411,179; 2014: RMB27,152,787).

**(c) *Interests in structured entities sponsored by third party institutions***

The Group holds an interest in some investment management products and Limited Partnership ("the investments") sponsored by third party institutions and the Group does not consolidate the investments. The nature and purpose of the investments are to generate investment consulting revenue and investment income from those products, plans and funds, also generate management fee and dividend from Limited Partnership as a General Partner.



**25 Interests in structured entities (continued)**

The following table sets out an analysis of the carrying amounts of interests held by the Group as at January 1, and December 31, 2015 and 2016 in the investments sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognized:

	<i>December 31, 2016</i>	
	<i>Carrying amount of available-for- sale financial assets RMB</i>	<i>Maximum loss exposure RMB</i>
Investment management products managed by securities companies	26,501,520	26,501,520
Limited Partnership	29,800,000	29,800,000
<b>Total</b>	<b>56,301,520</b>	<b>56,301,520</b>
	<i>December 31, 2015 (unaudited)</i>	
	<i>Carrying amount of available-for- sale financial assets RMB</i>	<i>Maximum loss exposure RMB</i>
Investment management products managed by securities companies	63,192,064	63,192,064
Limited Partnership	20,100,000	20,100,000
<b>Total</b>	<b>83,292,064</b>	<b>83,292,064</b>

**25 Interests in structured entities (continued)**

	<u>January 1, 2015 (unaudited)</u>	
	<i>Carrying amount of available-for- sale financial assets</i>	<i>Maximum loss exposure</i>
	<u>RMB</u>	<u>RMB</u>
Investment management products managed by securities companies	107,478,974	107,478,974
<b>Total</b>	<b><u>107,478,974</u></b>	<b><u>107,478,974</u></b>

The maximum exposures to loss in the above investment management products managed by securities companies and Limited Partnership are the carrying values of the assets held by the Group at the reporting date.

**26 Commitments**

**(a) Operating leases commitment**

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<u>2016</u>	<u>2015</u>	<u>January 1,</u>
	<u>RMB</u>	<u>RMB</u>	<u>2015</u>
		unaudited	unaudited
Within 1 year	27,431,156	13,162,401	8,557,642
Within 2 years	19,046,461	7,654,155	6,432,982
Within 3 years	11,029,486	5,093,739	2,927,849
More than 3 years	6,655,667	11,320,816	12,872,180
<b>Total</b>	<b><u>64,162,770</u></b>	<b><u>37,231,111</u></b>	<b><u>30,790,653</u></b>

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1-3 years, at the end of which period all terms are renegotiated. The leases do not include contingent rentals.

**27 Material related party transactions**

**(a) Name and relationship with related parties**

During the years, transactions with the following parties are considered as related parties:

<u>Name of related party</u>	<u>Relationship</u>
CISG Holdings Limited	one of the shareholders
Fanhua Inc. and its subsidiaries	one of the owners beneficially owns 100% equity interests of CISG Holdings Limited
Litian Zhuoyue Software (Beijing) Co., Ltd. 力天卓越软件(北京)有限公司*	one of Fanhua Inc.'s subsidiaries

\* The official name of the company is in Chinese. The English translation is for reference only.

**(b) Key management personnel remuneration**

Remuneration for key management personnel is as follows:

	<u>2016</u> RMB	<u>2015</u> RMB unaudited
Salaries allowances and other benefits	<u>1,502,077</u>	<u>1,469,192</u>

**(c) Related party transactions**

At each of the end of each reporting period, the Group had the following transactions with related parties and all the transactions were conducted with Fanhua Inc. and its subsidiaries:

	<u>2016</u> RMB	<u>2015</u> RMB unaudited
Interest expense	-	8,402,065
Total	<u>-</u>	<u>8,402,065</u>

**27 Material related party transactions (continued)**

**(d) Balances with related parties**

At each of the end of each reporting period, the Group had the following balances with related parties:

Payables to related parties

	Note	2016 RMB	2015 RMB unaudited	January 1, 2015 RMB unaudited
Fanhua Inc. and its subsidiaries	i	32,494,914	36,508,260	202,955,663
Litian Zhuoyue Software (Beijing) Co., Ltd.		-	-	1,500,000
<b>Total</b>		<b><u>32,494,914</u></b>	<b><u>36,508,260</u></b>	<b><u>204,455,663</u></b>

- (i) All the outstanding balances with the related parties, Fanhua Inc. and its subsidiaries, are priced on an arm's length basis. The balances are interest-bearing borrowings granted by the related parties, of which the principals were settled in 2015 and the interests are repayable on demand. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by the related parties, Fanhua Inc. and its subsidiaries. No guarantees have been given or received.

As set out in Note 21(i), the Group paid the interest of US\$578,042 to Fanhua Inc. and its subsidiaries in 2016.

**28 Accounting judgement and estimates**

In the process of applying the Group's accounting policies, the key sources of estimation uncertainty are as follows:

**(a) Impairment losses on loans and advances to customers**

The Group reviews the portfolios of loans and advances to customers periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan to customer. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

**28      Accounting judgement and estimates (continued)**

The impairment loss for a loans and advances to customers that is individually assessed for impairment is the net decrease in the estimated discounted future cash flows. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and judgements based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

**(b)      *Impairment losses on trade and other receivables***

As described in Note 3(i), trade and other receivables that are measured at amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognized in prior years is reversed or additional impairment charge is required.

**(c)      *Deferred tax assets***

Deferred tax assets arising from deductible temporary differences are recognized to the extent that it is probable that future taxable income will be available against which deductible temporary differences and tax losses can be utilised. The outcome of their actual utilization may be different.

**(d)      *Fair value of financial assets***

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow analysis. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustments if necessary.

**28      Accounting judgement and estimates (continued)**

**(e)      *Impairment losses on available-for-sale financial assets***

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investments. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performances of related industry.

**(f)      *Impairment losses on goodwill***

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

**(g)      *Determination of consolidation of structured entities***

The Group acts as manager to a number of investment funds and segregated asset management plans. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest is in each case not significant and the decision makers establish market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations.

## 29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the years

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to IAS 7, <i>Disclosure initiative</i>	January 1, 2017
Amendments to IAS 12, <i>Income taxes - Recognition of deferred tax assets for unrealised losses</i>	January 1, 2017
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
IFRS 16 <i>Leases</i>	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the IFRS 9 and IFRS 15 which may have an impact on the Group's financial performance and financial position.

### **IFRS 9, *Financial Instruments***

The main changes to the requirements of IAS 39 are summarised below.

#### *Classification and measurement of financial assets and financial liabilities*

IFRS 9 includes three principal classification categories for financial assets: measured at: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). A financial asset is classified as being subsequently measured at amortised cost if the asset is held within a business model whose objective is to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (the "SPPI criterion"). A financial asset is classified as being subsequently measured at FVOCI if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. All other financial assets are classified as being subsequently measured at FVTPL. In addition, an entity may, at initial recognition, irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. At initial recognition of an equity investment that is not held for trading, an entity may irrevocably elect to present in other comprehensive income (OCI) subsequent changes in its fair value.

**29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the years (continued)**

For the classification and measurement, IFRS 9 introduces a new requirement that the gain or loss on a financial liability designated at fair value through profit or loss that is attributable to changes in the entity's own credit risk is recognised in other comprehensive income; the remaining amount of change in fair value is recognised in profit or loss ("own credit risk requirements").

*Impairment*

The new impairment requirements in IFRS 9 replace the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new model applies to financial assets that are debt instruments not measured at FVTPL (including loans, lease and trade receivables, debt securities), financial guarantees within the scope of IFRS 9, and loan commitments issued that are not accounted for at FVTPL; contract assets arising under IFRS 15 are also subject to the impairment requirements in IFRS 9. The impairment requirements do not apply to investments in equity instruments. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. In other words, under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognized.

Since the Group is in the process of making an assessment on overall impact of IFRS 9, and given the nature of the Group's operations, the Standard is expected to have an impact on the Group's financial statements, including the classification categories and the measurement of financial assets, the measurement of financial liabilities, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk, including trade and other receivables. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Until a detailed review of the impact of adopting IFRS 9 is performed, the Group cannot provide a reasonable estimate that quantifies the impact on its financial statements nor can it yet conclude whether that impact will be significant or not. It is expected that adopting IFRS 9 will require changes to systems and processes to collect necessary data.



**29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the years (continued)**

**IFRS 15, *Revenue from contracts with customers***

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Some of these apply to interim financial reports prepared under IAS 34 as well as to annual financial statements. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

Application of IFRS 15 in the future may have a material impact on amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

**IFRS 16, *Leases***

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 Leases and the related interpretations including IFRIC 4 Determining whether an arrangement contains a lease.

With respect to IFRS 16, given the Group has not completed its assessment of its full impact on the Group, its possible impact on the Group's results of operations and financial position has not been quantified.

