

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

(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, 2013.  
OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report. ....

Commission file number: 001-33768

**CNINSURE INC.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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Guangzhou, Guangdong 510110  
People's Republic of China

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary shares, par value US\$0.001 per share* 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.

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.

**998,861,526 ordinary shares, par value US\$0.001 per share as of December 31, 2013**

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

U.S. GAAP ☒

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

Other ☐

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

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

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

Yes ☐ No ☐

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## INTRODUCTION

In this annual report, unless the context otherwise requires:

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

## FORWARD-LOOKING STATEMENTS

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

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

You should 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.

## **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 (loss) data for the years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheets data as of December 31, 2012 and 2013 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 (loss) data for the years ended December 31, 2009 and 2010 and the selected consolidated balance sheets data as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements, which are not included in this annual report.

On March 25, 2011, we disposed of our 55% equity interest in Datong International Holding Limited and its subsidiaries, or Datong, which were primarily engaged in the distribution of life insurance products. Following the sale of Datong, we present our financial results for the years ended December 2009, 2010 and 2011 on both a continuing and discontinued basis. Profits and losses related to Datong were presented as discontinued operations while profits and losses for the remaining business were presented as continuing operations. 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,**

	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except shares, per share and per ADS data)					
Consolidated Statement of Income (Loss) Data						
Net revenues:						
Commissions and fees	1,100,842	1,233,297	1,510,886	1,580,234	1,755,545	289,995
Other service fees	761	640	5,789	5,883	1,479	244
Total net revenues	1,101,603	1,233,937	1,516,675	1,586,117	1,757,024	290,239
Operating costs and expenses:						
Commissions and fees	(549,981)	(541,239)	(796,843)	(1,085,809)	(1,293,372)	(213,650)
Selling expenses	(41,442)	(60,055)	(77,802)	(78,449)	(96,461)	(15,934)
General and administrative expenses <sup>(1)</sup>	(164,951)	(233,518)	(333,281)	(356,033)	(349,205)	(57,684)
Impairment loss on goodwill and intangible assets	—	(4,600)	(1,057,522)	—	—	—
Total operating costs and expenses	(756,374)	(839,412)	(2,265,448)	(1,520,291)	(1,739,038)	(287,268)
Income (loss) from operations	345,229	394,525	(748,773)	65,826	17,986	2,971
Other income, net:						
Investment income	18,905	41,244	—	—	8,886	1,468
Interest income	33,203	26,771	52,031	90,323	84,250	13,917
Finance cost	(4)	(5)	—	(2,439)	—	—
Others, net	1,534	351	22,436	6,742	(4,601)	(760)
Changes in fair value of contingent consideration payables	(5,946)	—	—	—	—	—
Income (loss) from continuing operations before income taxes and income of affiliates and discontinued operations	392,921	462,886	(674,306)	160,452	106,521	17,596
Income tax expense	(97,309)	(89,125)	(84,030)	(50,373)	(27,158)	(4,486)
Share of income of affiliates	774	12,904	14,246	14,658	20,621	3,406
Net income (loss) from continuing operations	296,386	386,665	(744,090)	124,737	99,984	16,516
Net income (loss) from discontinued operations, net of tax	(17,372)	29,665	127,553	—	—	—
Net income (loss)	279,014	416,330	(616,537)	124,737	99,984	16,516
Less: Net (loss) income attributable to the noncontrolling interests	(21,827)	(5,978)	(317,163)	(5,773)	4,341	717
Net income (loss) attributable to the Company's shareholders	300,841	422,308	(299,374)	130,510	95,643	15,799
Net income (loss) per share:						
Basic:						
Net income (loss) from continuing operations	0.33	0.41	(0.43)	0.13	0.10	0.02
Net income (loss) from discontinued operations	—	0.03	0.13	—	—	—
Net income (loss)	0.33	0.44	(0.30)	0.13	0.10	0.02
Diluted:						
Net income (loss) from continuing operations	0.32	0.40	(0.43)	0.13	0.10	0.02
Net income (loss) from discontinued operations	—	0.03	0.13	—	—	—
Net income (loss)	0.32	0.43	(0.30)	0.13	0.10	0.02

**For the Year Ended December 31,**

	For the Year Ended December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except shares, per share and per ADS data)					
Net income (loss) per ADS:						
Basic:						
Net income (loss) from continuing operations	6.61	8.20	(8.51)	2.60	1.92	0.32
Net income (loss) from discontinued operations	(0.02)	0.62	2.54	—	—	—
Net income (loss)	6.59	8.82	(5.97)	2.60	1.92	0.32
Diluted:						
Net income (loss) from continuing operations	6.50	7.93	(8.51)	2.60	1.91	0.32
Net income (loss) from discontinued operations	(0.02)	0.60	2.54	—	—	—
Net income (loss)	6.48	8.53	(5.97)	2.60	1.91	0.32

**Shares used in calculating net income (loss) per share:**

Basic	912,497,726	958,029,717	1,002,810,673	1,002,308,275	998,861,526	998,861,526
Diluted	928,312,312	990,318,528	1,002,810,673	1,005,301,969	1,000,570,018	1,000,570,018
Dividends declared per share <sup>(2)</sup>	0.075	0.089	—	—	—	—

(1) Including share-based compensation expenses of RMB7.6 million, RMB22.2 million, RMB57.0 million, RMB66.9 million and RMB45.3 million (US\$7.5 million) for the years ended December 31, 2009, 2010, 2011, 2012 and 2013, respectively;

(2) A dividend of US\$0.22 per ADS was declared on May 21, 2009, payable to our shareholders of record as of the close of business on June 26, 2009. A dividend of US\$0.26 per ADS was declared on April 23, 2010, payable to our shareholders of record as of the close of business on May 20, 2010.

	As of December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	1,457,890	1,924,884	2,222,160	2,525,618	2,288,623	378,054
Total current assets	1,727,499	2,302,425	2,898,414	2,993,900	3,177,801	524,935
Total assets	2,545,965	3,854,456	3,280,996	3,400,789	3,560,730	588,190
Total current liabilities	337,648	288,361	328,309	318,539	339,425	56,069
Total liabilities	359,260	337,393	402,001	392,882	413,968	68,383
Noncontrolling interests	194,897	456,079	124,948	113,527	118,665	19,602
Total equity	2,186,705	3,517,063	2,878,995	3,007,907	3,146,762	519,807
Total liabilities and shareholders' equity	2,545,965	3,854,456	3,280,996	3,400,789	3,560,730	588,190

**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 RMB6.0537 to US\$1.00, the noon buying rate in effect as of December 31, 2013 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 25, 2014, the noon buying rate was RMB6.2534 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>
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
October	6.0943	6.1032	6.1209	6.0815
November	6.0922	6.0929	6.0993	6.0903
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1448	6.0591
March	6.2164	6.1729	6.2273	6.1183
April (through April 25)	6.2534	6.2196	6.2534	6.1966

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

We have devoted significant efforts to developing our e-commerce platform. On January 1, 2012, we launched an insurance comparison website, named Baowang ([www.baoxian.com](http://www.baoxian.com)), which allows customers to search, compare and purchase a wide range of insurance products, including automobile insurance, travel insurance, accident insurance and homeowner insurance from various insurance carriers. In October 2012, we launched CNpad, the workstation of our proprietary sales support system, which enables sales agents to help their clients to 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 the next few years, we intend to continue to devote significant resources to enhancing the technology and content of our insurance comparison website, to building brand awareness and increasing the adoption of CNpad among sales agents in order to enhance their efficiency. However, our efforts to develop our e-commerce platform 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 campaign to build brand recognition among consumers and our ability to attract and retain customers;



- the acceptance of third-party e-commerce platform as an effective channel for underwriters to distribute their insurance products;
- 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 September 20, 2011, the China Insurance Regulatory Commission, or CIRC, promulgated the Measures for Administration of Internet Insurance Business of Insurance Agencies and Insurance Brokerage Companies (for trial implementation), or Trial Measures, effective January 1, 2012, which sets forth the qualification requirements and procedures for insurance intermediaries to operate Internet insurance businesses in China. Since online insurance distribution has emerged only recently in China and is evolving rapidly, the CIRC may implement new laws and regulations to govern this sector from time to time. Although we have obtained necessary approvals and licenses and meet qualification requirements for the operation of the Trial Measures, we cannot assure you that our operation will always be consistent with the changes and further development of regulations applicable to us or we will be able to obtain necessary approvals and licenses as required on a timely basis.

Any failure to successfully identify the risks as part of our expansion into the online 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.

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

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 adjustors to provide claims adjusting services. Because claims adjusting requires technical skills, the technical competence of claims adjustors 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 adjustors, our business could be materially and adversely affected. Competition for sales personnel and claims adjustors 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 adjustors, which would increase operating costs and reduce our profitability.

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

We commenced our insurance intermediary business in 1999 and have expanded our operations substantially in recent years. Our distribution and service networks expanded from one company in one province to 38 insurance agencies, two insurance brokerages, three claims adjusting firms, one online insurance service company, and one automobile service company in 28 provinces as of March 15, 2014. Meanwhile, we have broadened our service offerings from the distribution of only automobile insurance products to cover a wide variety of property and casualty insurance and life insurance products, insurance claims adjusting services, and wealth management products. We anticipate continued growth in the future through multiple means. Our expansion has placed, and will continue to place, substantial demands on our managerial, operational, technological and other resources. To manage and support our continued growth, we must continue to improve our operational, administrative, financial and technological systems, procedures and controls, and expand, train and manage our growing employee and agent base. Furthermore, our management will be required to maintain and expand our relationships with insurance companies, other insurance intermediaries, regulators and other third parties. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations. Any failure to effectively and efficiently manage our expansion could materially and adversely affect our ability to capitalize on new business opportunities, which in turn could have a material adverse effect on our results of operations.

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

In light of the industry changes and various challenges we faced in the past few years, we have been implementing a strategic transformation plan. As part of this plan, we focused our efforts mainly on the following areas:

- building an integrated e-commerce platform, including CNpad, our mobile integrated sales support system for sales agents, and Baowang, our comparison website for end-customers;
- adjusting the growth strategy of our life insurance business by developing the capability to offer comprehensive financial services and products, expanding market presence in major cities and establishing a professional and high-caliber sales team; and
- improving operational efficiency by simplifying our organizational structure, encouraging the sharing of administrative resources and strengthening cooperation among our various business units.

The success of our strategic transformation may depend on a number of factors, some of which are beyond our control, including but not limited to:

- our ability to attract and retain elite sales teams to our comprehensive financial services platform;
- new regulatory developments that may impose additional licensing or other requirements on us;
- Chinese consumers becoming more sophisticated and accustomed to purchasing insurance policies online;
- insurance carriers better incorporating technology in order to integrate with our system, as well as their acceptance of third-party e-commerce platforms as an effective product distribution channel;
- our ability to effectively launch marketing campaigns to promote Baowang, our comparison website, and build brand awareness as the market environment becomes more mature; and
- the effectiveness of our ability to promote CNpad, our proprietary mobile integrated sales support system, among sales agents, which should enable us, as first mover, to establish a leading market position in this technology.

We have implemented some of the items under this strategic transformation plan, including launching Baowang, our price comparison website in early 2012, introducing and promoting the application of CNpad by our sales agents since October 2012, establishing CNinsure Insurance Sales Service Group Company Limited, or the CNinsure Group Company, in October 2012 and completing an organizational integration in 2013. Although our strategic transformation plan has progressed in line with our expectations so far, we cannot guarantee that this plan will be successful over the long-run. If we are unable to identify and overcome challenges during the strategic transformation period, our growth, business prospects and financial performance could be adversely affected.

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

Since our initial public offering in October 2007, we have significantly expanded our operations through a number of acquisitions. We expect some portion of our future growth to come from acquisitions of high-quality independent insurance agencies, brokerages and claims adjusting firms. There is no assurance that we can successfully identify suitable acquisition candidates. 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 other insurance agencies, brokerages and claims adjusting firms, our ability to integrate an acquired entity and its operations is subject to a number of factors. These factors include difficulties in the integration of acquired operations and retention of personnel, especially the sales agents who are not employees of the acquired company, entry into unfamiliar markets, unanticipated problems or legal liabilities, 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.

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

When we acquire a business, a substantial portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the fair value of purchase price and any controlling interest over the net identifiable tangible assets acquired. As of December 31, 2013, goodwill represented RMB78.6 million (US\$13.0 million), or 2.6% of our total shareholders' equity, and other net intangible assets represented RMB29.1 million (US\$4.8 million), or 0.9% of our total shareholders' equity. Our management performs impairment assessment annually, and we recognized an impairment loss of RMB1.1 billion, nil and nil in goodwill and intangible assets in 2011, 2012 and 2013, respectively. Under current accounting standards, if we determine that goodwill or intangible assets are further impaired, we will be required to write down the value of such assets and recognize corresponding impairment charges. As we implement our growth strategy through acquisitions, goodwill and intangible assets may comprise an increasingly larger percentage of our shareholders' equity. As such, any write-down related to such goodwill and intangible assets may adversely and materially affect our shareholders' equity and financial results.

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

We are engaged in the insurance agency, brokerage and claims adjusting business and derive revenues primarily from commissions and fees paid by the insurance companies whose policies our customers purchase and to whom we provide claims adjusting services. The commission and fee rates are set by insurance companies and are based on the premiums that the insurance companies charge or the amount recovered from insurance companies. Commission and fee rates and premiums can change based on the prevailing economic, regulatory, taxation-related and competitive factors that affect insurance companies. These factors, which are not within our control, include the ability of insurance companies to place new business, underwriting and non-underwriting profits of insurance companies, consumer demand for insurance products, the availability of comparable products from other insurance companies at a lower cost, the availability of alternative insurance products such as government benefits and self-insurance plans, as well as the tax deductibility of commissions and fees and the consumers themselves. In addition, premium rates for certain insurance products, such as the mandatory automobile liability insurance that each automobile owner in the PRC is legally required to purchase, are tightly regulated by CIRC.

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

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

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

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

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

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

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

For the year ended December 31, 2013, our top five insurance company partners were PICC Property and Casualty Company Limited, or PICC P&C, Ping An Property & Casualty Insurance Company of China, Ltd., or Ping An, China Pacific Property Insurance Co., Ltd., or CPIC, Taiping General Insurance Company Limited, or Taiping and Alltrust Property Insurance Company Ltd, or Alltrust. Among them, PICC P&C, Ping An and CPIC each accounted for more than 10% of our total net revenues in 2013, with PICC P&C accounting for 19.8%, Ping An accounting for 14.2%, and CPIC accounting for 11.7% of our total net revenues. The termination of our contracts with insurance companies that in aggregate account for a significant portion of our business, or changes to material terms of these contracts, could adversely affect our business and operating results.

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

We currently operate through our majority-owned and affiliated insurance agencies, brokerages and claims adjusting firms located in 28 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. Unsatisfactory performance by these managers could hinder our ability to grow and could have a material adverse effect on our business.

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

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

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

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

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

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

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

***The wealth management products that we refer to our customers involve various risks and our failure to identify or fully appreciate such risks will negatively affect our reputation, client relationships, operations and prospects.***

We started to offer referral services for certain wealth management products in 2012. These products involve various risks, including default risks, interest risks, liquidity risks and other risks. Our success in recommending these products depends, in part, on our successful identification and full appreciation of risks associated with such products. Although we enforce and implement strict risk management policies and procedures, our risk management policies and procedures may not be fully effective in mitigating the risk exposure of our clients in various market environments or against all types of risks. If we fail to identify and disclose the risks associated with the products we recommend to our clients, or fail to disclose such risks to our clients, and as a result our clients suffer financial loss or other damages resulting from their purchase of the wealth management products resulting from our wealth management and product recommendations, our reputation, client relationships, business and prospects will be adversely affected.

***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.

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

All of our personnel who engage in insurance agency, brokering and claims adjusting activities are required under relevant PRC regulations to obtain a qualification certificate from the CIRC and a “Qualification Certificate” from the insurance company or insurance intermediary company to which he or she belongs. See “Item 4. Information on the Company—B. Business Overview—Regulation.” In addition, we understand that the CIRC requires that every individual agent or broker carry the qualification certificate issued by the insurance company or insurance intermediary company to which he or she belongs and other credentials showing specified information when conducting agency and brokerage business. Under the relevant PRC regulations, such as the Measures on the Supervision and Administration of Insurance Salespersons, and the Measures on the Supervision and Administration of insurance brokers and claims adjusters issued by the CIRC in January 2013, an insurance agency, brokerage or claims adjusting firm that retains unqualified personnel to engage in insurance intermediary activities may be imposed a fine ranging from RMB20,000 to RMB100,000 per agency by the CIRC. As of March 15, 2014, approximately 86% of our sales professionals had received a qualification certificate. If more local CIRC agencies were to strictly enforce these regulations in the future, and if a substantial portion of our sales force remains unqualified, our business may be adversely affected. Moreover, we may be subject to fines and other administrative proceedings for the failure of our insurance professionals to obtain the necessary CIRC qualification certificate. Such fines or administrative proceedings could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

China's insurance regulatory regime is undergoing significant changes. Some of these changes and the further development of regulations applicable to us may result in additional restrictions on our activities or more intensive competition in this industry. For example, pursuant to the Decision on Revising the Regulatory Provisions on Professional Insurance Agencies and the Decision on Revising the Regulatory Provisions on promulgated on April 27, 2013, the minimum registered capital requirements for insurance agencies and brokerages increased substantially. See "Item 4. Information on the Company—B. Business Overview—Regulation." This increase reduced the amount of cash available for other business purposes. In addition, according to the Insurance Law amended on February 28, 2009, sole-proprietor insurance agencies are now allowed. According to the Opinions on Improving Sales Agent Management System and Opinions on Encouraging and Supporting the Healthy Development of Private Investment issued by the CIRC on September 20, 2010 and June 15, 2012, respectively, insurance companies are encouraged to establish exclusive sales agencies or insurance sales companies and all types of capital, including foreign capital and capital from the private sectors are encouraged to invest in large scale insurance agencies and insurance sales companies. Furthermore, the CIRC promulgated the Circular on Supporting the Specialized Operation of Automobile Companies' Insurance Intermediary Business which encouraged automobile companies to establish insurance agencies or insurance brokerage companies, or to outsource their insurance business to professional insurance agencies or brokerage companies. These changes may lead to greater competition among insurance agencies. Furthermore, according to the Draft to Solicit Opinions on the Administration of Professional Insurance Intermediary Business of Life Insurance Companies, insurance companies may not be allowed to cooperate with any professional insurance intermediary company which has represented more than three life insurance companies. If the provision were to be officially promulgated, our life insurance business operations and growth outlook could be materially and adversely affected.

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

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

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

We are subject to reporting obligations under U.S. securities laws. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules adopted by the Securities and Exchange Commission, 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. These requirements first applied to our annual report on Form 20-F for the fiscal year ended on December 31, 2008.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2013. See "Item 15. Controls and Procedures." However, there is no assurance that we will be able to maintain effective internal controls over financial reporting in the future. If we fail to do so, we may not be able to produce reliable financial reports and prevent fraud. Moreover, if we are not able to conclude that we have effective internal controls over financial reporting, investors may lose confidence in the reliability of our financial statements, which would negatively impact the trading price of our ADSs. Our reporting obligations as a public company, including our efforts to comply with Section 404 of the Sarbanes-Oxley Act, will continue to place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

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

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



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

We have been expanding into complementary business areas to leverage our existing sales network, customer resources and operating platform so as to better serve our customers' needs for insurance protection, financing and wealth management. For example, in October 2009, we acquired 20.6% equity interest in Sincere Fame International Limited, or Sincere Fame, which owns 100% of the equity interest in China Financial Services Group Limited, or CFSG, a consumer financial services provider. This investment marked our expansion into the consumer financial services sector. In November 2010 we formed a joint venture, named CNinsure Puyi Investment Management Co., Ltd., or Puyi Investment, (renamed as CNinsure Puyi Fund Sales Co. Ltd., also known as Fanhua Puyi Funds Sales, or Puyi Fund Sales, after obtaining the license to distribute mutual funds in March 2013) in which we beneficially own 19.5% of the equity interests. See "Item 4. Information on the Company—C. Organizational Structure—Changes in Corporate Structure" for information on the restructuring of Puyi Fund Sales. Puyi Fund Sales is a financing platform for mutual funds and trust companies. We plan to continue our expansion in these areas. However, our efforts to develop these new businesses may not be successful or yield the benefits that we anticipate due to our limited experience in distributing non-insurance related financial services and products. In addition, our expansion may subject us to risks associated with operating in the consumer financial services and wealth management sectors in China, including but not limited to, changes in monetary or industry policies and other economic measures that may affect our cooperation with financial institutions and their product supply, as well as competition from other consumer credit brokerage companies and other financial services companies that offer wealth management products. Currently, changes in regulations for the consumer credit brokerage and wealth management sectors may impose burdensome approval, licensing or other requirements on CFSG and its affiliated subsidiaries, and Puyi Fund Sales. Any failure to successfully identify, execute and integrate acquisitions, investments, joint ventures and alliances as part of our expansion into the consumer financial services sector may have a material adverse impact on our growth, business prospects and results of operations, which could lead to a decline in the price of our ADSs.

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

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

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

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

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

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

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

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

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

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

#### **Risks Related to Our Corporate Structure**

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

Historically, PRC laws and regulations have restricted foreign investment in and ownership of insurance intermediary companies. 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. Accordingly, in October 2011 we commenced a restructuring of our Company which resulted in us obtaining direct controlling equity ownership in a majority of our insurance intermediary companies and we are currently converting our subsidiaries into branches. See “Item 4. Information on the Company—C. Organizational Structure.”

However, there remains uncertainty regarding the interpretation and implementation of the relevant regulations and the timing of the restructuring process. In addition, restrictions by PRC laws and regulations on foreign investments in and ownership of Internet businesses still exists. Therefore, we conduct small part of our operations in China through contractual arrangements among our PRC subsidiaries and consolidated affiliated entities (namely Sichuan Yihe Investment Co., Ltd., or Yihe Investment, and Shenzhen Xinbao Investment Management Co., Ltd., or Xinbao Investment, and their subsidiaries). The subsidiaries of our consolidated affiliated entities hold the licenses and permits necessary to conduct our insurance intermediary business in China.

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

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

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

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

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

In addition, if any of these actions results in our inability to direct the activities of our consolidated variable interest entities and their subsidiaries that most significantly impact their economic performance, and/or such actions prevent us from receiving the economic benefits from our consolidated variable interest entities, we may not be able to consolidate the financial results of these variable interest entities into our consolidated financial statements in accordance with U.S. GAAP.

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

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

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

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

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

As of March 15, 2014, two individual shareholders, Mr. Qiuping Lai and Mr. Peng Ge, collectively held 10% of the equity interest in Meidiya Investment Co., Ltd., or Meidiya Investment, and 80% in Yihe Investment, respectively, and two individual shareholders, Mr. Chunlin Wang and Mr. Yuan Tian, collectively held 100% of the equity interest in Xinbao Investment. Conflicts of interest may arise between the dual roles of Mr. Qiuping Lai, Mr. Peng Ge, Mr. Chunlin Wang and Mr. Yuan Tian as a shareholder of our consolidated affiliated entities and as an executive officer of our company. We do not have existing arrangements to address these potential conflicts of interest and cannot assure you that when conflicts arise, those individuals will act in the best interest of our company or that conflicts will be resolved in our favor.

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

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

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

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

Any loans we make to any of our directly-held PRC subsidiaries (which are treated as foreign-invested enterprises under PRC law), CNinsure Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (formerly known as Haidileji Enterprise Image Planning (Shenzhen) Co., Ltd. and also known as Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd.), or Zhonglian Enterprise, CNinsure Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (formerly known as Yiqiman Enterprise Management Consulting (Shenzhen) Co., Ltd. and also known as Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.), or Xinlian Information, and Ying Si Kang Information Technology (Shenzhen) Co., Ltd., or Ying Si Kang Information, cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or the SAFE, or its local counterparts. Under applicable PRC law, the Chinese regulators must approve the amount of a foreign-invested enterprise's registered capital, which represents shareholders' equity investments over a defined period of time, and the foreign-invested enterprise's total investment, which represents the total of the company's registered capital plus permitted loans. The registered capital/total investment ratio cannot be lower than the minimum statutory requirement and the excess of the total investment over the registered capital represents the maximum amount of borrowings that a foreign-invested enterprise is permitted to have under PRC law. Our directly-held PRC subsidiaries were allowed to incur a total of HK\$300 million (US\$38.7 million) in foreign debts as of March 15, 2014. If we were to provide loans to our directly-held PRC subsidiaries in excess of the above amount, we would have to apply to the relevant government authorities for an increase in their permitted total investment amounts. The various applications could be time-consuming and their outcomes would be uncertain. Concurrently with the loans, we might have to make capital contributions to these subsidiaries in order to maintain the statutory minimum registered capital/total investment ratio, and such capital contributions involve uncertainties of their own, as discussed below. Furthermore, even if we make loans to our directly-held PRC subsidiaries that do not exceed their current maximum amount of borrowings, we will have to register each loan with the SAFE or its local counterpart within 15 days after the signing of the relevant loan agreement. Subject to the conditions stipulated by the SAFE, the SAFE or its local counterpart will issue a registration certificate of foreign debts to us within 20 days after reviewing and accepting our application. In practice, it may take longer to complete such SAFE registration process.

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

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

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

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

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

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

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

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

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

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

Although since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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

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

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

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

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

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

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

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

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

We have been advised by our PRC counsel, 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 and service, license and other fees paid to our subsidiaries by our consolidated affiliated entities for our cash requirements, including any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year as reported in its PRC statutory financial statements, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. In addition, each of our PRC subsidiaries that are considered foreign-invested enterprises is required to further set aside a portion of its after-tax profits as reported in its PRC statutory financial statements to fund the employee welfare fund at the discretion of its board. These reserves are not distributable as cash dividends. As of December 31, 2013, the total retained earnings of our PRC subsidiaries available for dividend distributions were RMB1.9 billion (US\$310.9 million). Furthermore, if our subsidiaries and consolidated affiliated entities in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect our subsidiaries' ability to pay dividends and other distributions to us. Any limitation on the ability of our subsidiaries and consolidated affiliated entities to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

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

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. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Exchange—Foreign Exchange Registration of Offshore Investment by PRC Residents."

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

On December 25, 2006, the People's Bank of China, 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 RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has caused the value of the RMB to appreciate by more than 26.9% against the value of the U.S. dollar in the last eight years. However, under the current global financial and economic conditions, it is impossible to predict with any certainty how the RMB will move vis-à-vis the U.S. dollar in the near future.

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

***The approval of the China Securities Regulatory Commission, or the CSRC, may have been required in connection with our initial public offering in October 2007 under a PRC regulation adopted in August 2006. Based on 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.***

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006 and was revised by the PRC Ministry of Commerce on June 22, 2009. These regulations purport, among other things, to require offshore special purpose vehicles, or SPVs, formed for overseas listing purposes and controlled by PRC companies or individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings.

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

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

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

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

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

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

On June 29, 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. On September 18, 2008, the State Council adopted the implementing rules for the Labor Contract Law, which became effective upon adoption. 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 will become 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 15, 2014, our executive officers, directors and principal shareholders beneficially owned approximately 56.0% 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 wholly owned subsidiaries and consolidated affiliated entities in China. Most of our directors and officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult for you to effect service of process within the United States or elsewhere outside China upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and some or all of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or our officers and directors predicated upon the civil liability provisions of the securities laws of the United States or any state. Our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. It is also uncertain whether the Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or our officers and directors predicated upon the securities laws of the United States or any state.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2013 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors, actions by noncontrolling shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, because Cayman Islands law has no legislation specifically dedicated to the rights of investors in securities, and thus no statutorily defined private causes of action specific to investors in securities such as those found under the Securities Act or the Securities Exchange Act of 1934 in the United States, it provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

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

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

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States) (the “PCAOB”), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the Peoples' Republic of China and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditors are not currently inspected fully by the PCAOB.

Inspections of other accounting firms that the PCAOB has conducted outside China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements, which could lead to a decline in the price of our ADSs.

***Proceedings instituted by the SEC against five Mainland China-based accounting firms, including the affiliate of our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.***

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Mainland Chinese affiliates of the “big four” accounting firms, (including the Mainland affiliate of our auditors) and also against Dahua (the former BDO affiliate in China). The Rule 102(e) proceedings initiated by the SEC relate to these firms’ failure to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes- Oxley Act of 2002, as the auditors located in Mainland China are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the China Securities Regulatory Commission. The issues raised by the proceedings affect equally all audit firms based in Mainland China and all China based businesses with securities listed in the United States.

In January 2014, the administrative judge reached an Initial Decision that the “big four” accounting firms in Mainland China should be barred from practicing before the Commission for six months. Although the principal auditor of our financial statements is Deloitte Touche Tohmatsu in Hong Kong, which is not subject to the proceedings or the Initial Decision, our auditors use their Mainland China affiliate to assist in the auditing of the Mainland China components of our operations.

However, it is currently impossible to determine the ultimate outcome of this matter as the accounting firms have filed a petition for review of the Initial Decision and pending that review the effect of the Initial Decision is suspended. It will, therefore, be for the Commissioners of the SEC to make a legally binding order specifying the sanctions if any to be placed on these audit firms. Once such an order was made, the accounting firms would have a further right to appeal to the US Federal courts, and the effect of the order might be further suspended pending the outcome of that appeal. Depending upon the final outcome, listed companies in the United States with major Mainland China operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which may result in their delisting. Moreover, any negative news about the proceedings against these audit firms may erode investor confidence in China-based, United States listed companies and the market price of our ADSs may be adversely affected.

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

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

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

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

***We were a passive foreign investment company for the taxable year ended December 31, 2013, which could result in adverse United States federal income tax consequences to U.S. Holders of our ADSs or ordinary shares.***

Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we believe we were a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2013. In addition, it is likely that one or more of our subsidiaries were also PFICs for such year. A non-U.S. corporation will be a PFIC for any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ADSs or ordinary shares, our PFIC status will depend in large part on the market price of the ADSs or ordinary shares, which may fluctuate significantly. Because we believe we were a PFIC for the taxable year ended December 31, 2013, certain adverse U.S. federal income tax consequences could apply to U.S. Holders (as defined in “Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation”) of our ADSs or ordinary shares with respect to any “excess distribution” received from us and any gain from a sale or other disposition of the ADSs or ordinary shares. See “Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company.”

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

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

Our founders, Mr. Yinan Hu and Mr. Qiuping Lai, formed two PRC companies, Guangzhou Nanyun Car Rental Services Co., Ltd. and Guangdong Nanfeng Automobile Association Co., Ltd., initially to provide automobile-related services, such as car rental and emergency services. In 1999, we began distributing automobile insurance products and automobile loans on an ancillary basis. In 2001, our founders transferred their interests in the two PRC companies to China United Financial Services Holdings Limited (then known as China Automobile Association Holdings Limited), or China United Financial Services, a British Virgin Islands company, as part of a series of transactions in which Cathay Capital Group, a private equity group, made an investment in China United Financial Services by subscribing for 40% of the equity interests.

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

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

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

In December 2005, an entity affiliated with CDH Growth Capital Holdings Company Limited, or CDH Growth Capital Holdings, a private equity firm, subscribed for approximately 26.4% of the equity interests in CISG Holdings, through CDH China Holdings Management Company Limited.

We commenced our life insurance business by acquiring controlling interests in three insurance agencies in Sichuan, Hebei and Fujian and further expanded our operations by establishing four insurance agencies in Shandong, Hunan, Shenzhen and Shanghai in 2006. We established one insurance agency in Fujian and one insurance brokerage in Guangdong in early 2007.

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

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

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

Since 2008, we have further extended our distribution and service network by establishing six insurance agencies and acquiring controlling interests in 15 insurance agencies (excluding Datong and its subsidiaries). We have also further expanded our product and service portfolio. In 2008, we began offering claims adjusting services by acquiring controlling interest in four of the 20 largest claims adjusting firms in China, as announced by the Professional Insurance Intermediary Market Report published by the CIRC. In 2010, we acquired a majority equity interest in InsCom Holdings Limited, or InsCom Holdings, to build our e-commerce platform. In 2012, we started to offer wealth management products to our customers on a referral basis.

As of March 15, 2014, we, through our PRC subsidiaries and our consolidated affiliated entities, directly or indirectly, own majority interests of 38 agencies, two brokerage companies, three claims adjusting firms, one online insurance service company and one automobile service company in the PRC. We also own a 20.6% equity interest in a financial services company and a 19.5% equity interest in a wealth management service company.

See “C. Organizational Structure” for more information on our corporate structure changes.

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

## **B. Business Overview**

We are a leading independent insurance intermediary company operating in China. With 53,034 sales professionals, 1,401 claims adjusters and 492 sales and service outlets operating in 28 provinces as of March 15, 2014, our distribution and service network reaches some of the most economically developed regions and affluent cities in China, such as Beijing, Shanghai, Guangzhou and Shenzhen.

As an insurance intermediary company, we do not assume underwriting risks. Instead, we distribute to customers in China a wide variety of property, casualty and life insurance products underwritten by domestic and foreign insurance companies operating in China and provide insurance claims adjusting services, such as damage assessments, surveys, authentications and loss estimations. We primarily distribute insurance products to customers through our sales agents. We also operate an insurance comparison website which allows customers to directly compare and purchase insurance products online.

We are compensated for our insurance distribution and claim 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. We also offer wealth management products which are primarily fixed income products to our customers on a referral basis, for which we received referral commissions and fees from the wealth management product provider. Such referral commissions and fees are calculated based on the value of wealth management products purchased by the customers.

We also provide insurance-related value-added services, such as 24-hour emergency services in select cities and assistance with claim settlement, to the individuals and institutions that purchase insurance products through us.

As of March 15, 2014, we had one affiliated online insurance service company, one automobile service company and 43 affiliated insurance intermediary companies in the PRC, of which 38 are insurance agencies including three with national operating licenses, two are insurance brokerages and three are insurance adjusting firms. We also own 20.6% of the equity interests in 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 and 19.5% of the equity interest in a wealth management service company.

The professional insurance intermediary sector in China is highly fragmented. We believe this offers substantial opportunities for further growth and consolidation. We intend to take advantage of these opportunities to increase our market share by aggressively expanding our distribution network through selective acquisitions and recruitment of experienced sales agents, developing our e-commerce insurance platform and broadening our product portfolio.

## **Strategic Transformation Plan**

In view of the challenges and market opportunities lying ahead as China’s insurance industry undergoes structural changes, we have been implementing a strategic transformation plan since 2011 to strengthen our long-term competitiveness and focus on the factors that will drive sustainable growth. The plan aims to transform CNinsure from a labor-driven company into a brand-powered and technology-driven company and to achieve quality growth instead of quantity growth in the long run. As part of this plan, we have focused our efforts on:

- building a customer-centric integrated e-commerce platform, including Baowang ([www.baoxian.com](http://www.baoxian.com)), our insurance comparison website, and CNpad, our proprietary mobile sales support system;



- adjusting the growth strategy of our life insurance business by developing the capability to offer comprehensive financial services and products, expanding market presence in major cities and establishing a professional and high-caliber sales team; and
- improving operational efficiency by simplifying our organizational structure, encouraging the sharing of administrative resources and strengthening cooperation among our various business units.

We have implemented some of the items under this strategic transformation plan, including launching Baowang, our price comparison website in early 2012, introducing and promoting the adoption of CNpad, a workstation of the mobile integrated sales support system, since October 2012, establishing CNinsure Group Company in October 2012 and completing an organizational integration in 2013. While implementing this plan, we experienced a slowdown in growth but we believe that our strategic transformation plan will allow us to be successful over the long-term.

## **Products and Services**

We market and sell two broad categories of insurance products: property and casualty insurance products and life insurance products, both primarily focused on meeting the insurance needs of individuals. The insurance products we sell are underwritten by some of the leading insurance companies in China. We provide insurance claims adjusting services to both insurance companies and the insured. We also provide value-added services to our customers in conjunction with distributing automobile insurance products. In addition, we offer wealth management services and products by referring customers to Puyi Fund Sales, a wealth management service company in which we have a minority interest.

### ***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. Total net revenues from property and casualty insurance reporting unit accounted for 68.7% and 72.0% of our total net revenue in 2012 and 2013, respectively. The property and casualty insurance products we distribute can be further classified into the following categories:

- *Automobile Insurance.* Automobile insurance is the largest segment of property and casualty insurance in the PRC in terms of gross written premiums. We distribute both standard automobile insurance policies and supplemental policies, which we refer to as riders. The standard automobile insurance policies we sell generally have a term of one year and cover damages caused to the insured vehicle by collision and other traffic accidents, falling or flying objects, fire, explosion and natural disasters. We also sell standard third-party liability insurance policies, which cover bodily injury and property damage caused by an accident involving an insured vehicle to a person not in the insured vehicle. The riders we distribute cover additional losses, such as liability to passengers, losses arising from vehicle theft and robbery, broken glass and vehicle body scratches.
- *Individual Accident Insurance.* The individual accident insurance products we distribute generally provide a guaranteed benefit during the coverage period, which usually is one year or a shorter period, in the event of death or disability of the insured as a result of an accident, or a reimbursement of medical expenses to the insured in connection with an accident. These products typically require only a single premium payment for each coverage period. Because most of the individual accident insurance products we distribute are underwritten by property and casualty insurance companies, we classify individual accident insurance products as property and casualty insurance products.
- *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.
- *Commercial Property Insurance.* The commercial property insurance products we distribute include basic, comprehensive and all risk policies. Basic commercial property insurance policies generally cover damage to the insured property caused by fire, explosion and thunder and lightning. Comprehensive commercial property insurance policies generally cover damage to the insured property caused by fire, explosion and certain natural disasters. All risk commercial property insurance policies cover all causes of damage to the insured property not specifically excluded from the policies.
- *Homeowner Insurance.* The homeowner insurance products we distribute 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.
- *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.

The property and casualty insurance products we distributed in 2013 were primarily underwritten by PICC P&C, CPIC, Ping An, Alltrust and Taiping.

#### **Life Insurance Products**

The life insurance products we distribute can be broadly classified into the categories set forth below. Due to constant product innovation by insurance companies, some of the insurance products we distribute combine features of one or more of the categories listed below. Total net revenues from life insurance reporting unit accounted for 17.2% and 13.1% of our total net revenues in 2012 and 2013, respectively.

- *Individual Whole Life Insurance.* The individual whole life insurance products we distribute provide insurance for the insured person's entire life in exchange for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years, or until the insured reaches a certain age. The face amount of the policy or, for some policies, the face amount plus accumulated interests is paid upon the death of the insured.

- *Individual Term Life Insurance.* The individual term life insurance products we distribute provide insurance for the insured for a specified time period or until the attainment of a certain age, in return for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years. Term life insurance policies generally expire without value if the insured survives the coverage period.
- *Individual Endowment Life Insurance.* The individual endowment products we distribute generally provide 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.
- *Universal Insurance.* We distribute certain universal insurance products that provide not only insurance coverage but also a minimum guaranteed return on the amount the insured puts into an individual investment account. In return, the insured makes periodic payment of premiums over a pre-determined period, generally ranging from five to 25 years.
- *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.
- *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 medicare 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.
- *Group Life Insurance.* We distribute several group life insurance products, including group health insurance. These group products generally have a policy period of one year and require a single premium payment.

In addition to the periodic premium payment schedules described above, most of the individual life insurance products we distribute also allow the insured to choose to make a single, lump-sum premium payment at the beginning of the policy term. If a periodic payment schedule is adopted by the insured, a life insurance policy can generate periodic payment of fixed premiums to the insurance company for a specified period of time. This means that once we sell a life insurance policy with a periodic premium payment schedule, we will be able to derive commission and fee income from that policy for an extended period of time, sometimes up to 25 years. Because of this attractive feature and the expected sustained growth of life insurance sales in China, we have focused significant resources since 2006 on developing our capability to distribute individual life insurance products with periodic payment schedules. We expect that sales of life insurance products will continue to become an important source of our revenue in the next several years. The life insurance products we distributed in 2013 were primarily underwritten by AVIVA-COFCO Life Insurance Co., Ltd., Great Wall Life Insurance Co., Ltd., Sinatay Life Insurance Co., Ltd., Taikang Life Insurance Co., Ltd. and AEGON-CNOOC Life Insurance Co., Ltd.

In addition, we also offer certain wealth management products to our customers on a referral basis. Commission and fees we received from referring these products are recorded as net revenues from life insurance products.

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

Total net revenues derived from our claims adjusting services accounted for 13.7% and 14.8%, of our total net revenue in 2012 and 2013, 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 are compensated primarily by insurance companies for our claims adjusting services, which we provide on behalf of insurance companies. The fees we receive are calculated based on the types of insurance involved. For services provided in connection with property and casualty insurance (other than marine cargo insurance and automobile insurance), our fees are calculated as a percentage of the recovered amount from insurance companies plus travel expenses. For services provided in connection with marine cargo insurance, our fees are charged primarily on an hourly basis and, in some cases, as a percentage of the amount recovered from insurance companies. For automobile insurance, our fees are generally fixed on a per case basis and the amounts collected are based on the types of services provided. In some cases, our fees are charged based on the number of claim adjusters engaged in the adjusting service. We primarily provided claims adjusting services to Ping An, PICC P&C, CPIC, and Huatai Property Insurance Co., Ltd. and Dinghe Property Insurance Co., Ltd. in 2013.

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

### ***Other Services***

Other services contributed 0.4% and 0.1% of our total net revenue in 2012 and 2013, respectively, which mainly represented service fees derived from the provision of IT services provided to a subsidiary of CFSG.

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

## Scalable Unified Operating Platform

In accordance with our growth strategy, we are constantly striving to expand and upgrade our unified operating platform. Our operating platform makes selling easier for sales agents, facilitates standardized business and financial management, enhances risk control and increases operational efficiency. Key components of our operating platform are as follows:

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

In October 2012, we launched CNpad, the workstation of our proprietary mobile integrated sales support system. CNpad, a web-based tablet with build-in applications, enables our sales agents to help their clients to compare insurance policies from different insurance carriers across price, services and policy benefits and to apply for and complete the purchase of the policy that best suits their clients' needs anywhere and anytime. CNpad also provides our sales agents a wide range of functions and after sales support tools, such as order status tracking, commission account lookup, image management, customer relationship management and point redemption webshop. We believe that CNpad will enable our sales agents to manage their business more efficiently and to market products to customers more effectively.

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

## 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 a distribution and service network that, as of March 15, 2014, consisted of 38 insurance agencies, two insurance brokerages, three claims adjusting firms, one online insurance service company, and one automobile service company, with 492 sales and service outlets, 52,860 registered sales agents, 174 in-house sales representatives, 1,401 in-house claims adjustors and 16 in-house insurance brokers. Our distribution and service network covers 28 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 15, 2014, broken down by provinces:

Province	Number of Sales and Service Outlets	Number of Sales Agents	Number of Sales Agents	Number of In- house Adjustors	Number of In- house Brokers
Hebe	64	11,011	—	72	—
Shandong	40	10,082	4	12	—
Guangdong	77	7,400	129	256	—
Henan	16	5,200	—	5	—
Beijing	25	4,505	—	107	16
Liaoning	43	4,068	—	65	—
Hunan	19	2,923	5	31	—
Sichuan	64	2,324	—	83	—
Fujian	34	2,004	—	24	—
Shaanxi	5	807	8	41	—
Hubei	18	794	—	66	—
Tianjin	5	748	8	43	—
Zhejiang	28	712	17	50	—
Shanghai	11	154	3	145	—
Jiangsu	12	108	—	114	—
Jiangxi	7	20	—	30	—
Yunan	3	—	—	65	—
Hainan	2	—	—	5	—
Guangxi	4	—	—	47	—
Anhui	2	—	—	13	—
Chongqin	3	—	—	5	—
Inner Mongolia	1	—	—	7	—
Gansu	1	—	—	7	—
Shanxi	1	—	—	8	—
Xinjiang	1	—	—	4	—
Guizhou	3	—	—	41	—
Jilin	2	—	—	54	—
Qinghai	1	—	—	1	—
<b>Total</b>	<b>492</b>	<b>52,860</b>	<b>174</b>	<b>1,401</b>	<b>16</b>

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

#### Customers

We sell automobile insurance, individual accident insurance and homeowner insurance products primarily to individual customers. We sell commercial property insurance, cargo insurance, hull insurance, liability insurance and construction insurance products to institutional customers. Customers for the life insurance products we distribute are primarily individuals under 50 years of age. For the year ended December 31, 2013, no single customer of insurance products accounted for more than 3% of our net revenues.

Since our establishment in 1998, we have been building a database of more than one million individuals, who originally were members of our automobile association. Using information contained in this database, our sales agents contact potential customers with our target demographics on a regular basis. As of December 31, 2013, we had approximately 2.4 million individual customers, 1.9 million of whom bought property and casualty insurance products from us and 523,000 of whom bought life insurance products from us. We also had approximately 206,000 institutional customers, most of whom purchased commercial property and casualty insurance products through us or received risk management advice from us. By providing certain value-added services to these customers at no additional charge, we seek to build a loyal customer base that generates referrals and cross-selling opportunities.

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

### Insurance Company Partners

As of March 15, 2014, we had established business relationships with 70 insurance companies and two reinsurance company in the PRC. In the Chinese insurance market, local branches of insurance companies generally have the authority to enter into contracts in their own names with insurance intermediaries. Historically, we have entered into and maintained business relationships with insurance companies at the local level. That is, our insurance agencies, brokerages and claims adjusting firms enter into contracts with different local branches of an insurance company that are located within their respective regions. The termination of a business relationship between one of our insurance agencies, brokerages or claims adjusting firms and a local branch of an insurance company generally would have no significant impact on the business relationships between our other insurance agencies, brokerages and claims adjusting firms and the other branches of the same insurance company. Since 2007, we have also sought to establish business relationships with insurance companies at the corporate headquarters level in order to leverage the combined sales volumes of our various affiliated insurance agencies and brokerages located in different parts of the country. As of March 15, 2014, we had outstanding contracts with 13 life insurance companies and 17 property and casualty insurance companies at the corporate headquarters level for the distribution of insurance products and outsourcing of claims adjusting services.

In 2013, our top five insurance company partners, after aggregating the business conducted between our insurance agencies, brokerages and claims adjusting firms and the various local branches of the insurance companies, were PICC P&C, Ping An, CPIC, Taiping, and Alltrust Property. Among them, PICC P&C, Ping An and CPIC each accounted for more than 10% of our total net revenues from commissions and fees in 2013, with PICC P&C accounting for 19.8%, Ping An accounting for 14.2% and CPIC accounting for 11.7%.

### 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 5.3% of the total insurance premiums generated in China in the first quarter of 2013, 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, we offer diversified products to our sales agents and clients, and we have built a unified operating platform. With increasing consolidation expected in the insurance intermediary sector in the coming years, we expect competition within this sector to intensify.
- *Insurance companies.* The distribution of individual life insurance products in China historically has been dominated by insurance companies, which usually use both in-house sales forces and exclusive sales agents to distribute their own products. In addition, in recent years several major insurance companies have been increasing the use of telemarketing 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 insurance comparison website offers a broad range of insurance products underwritten by multiple insurance companies, product comparisons between prices, services and policy benefits and good after-sale services that are backed by our call center and nation-wide service network.

- *Other business entities.* In recent years, business entities that distribute insurance products as an ancillary business, primarily commercial banks and postal offices, have been playing an increasingly important role in the distribution of insurance products, especially life insurance products. However, the insurance products distributed by these entities are mostly confined to those related to their main lines of business, such as investment-related life insurance products. We believe that we can compete effectively with these business entities because we offer our customers a broader variety of products.

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

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 15, 2014, we had 17 registered trademarks in China, including our corporate logo. Our main website is [www.cninsure.net](http://www.cninsure.net). Our insurance comparison website is located at [www.baoxian.com](http://www.baoxian.com).

## **Regulation**

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

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

#### *Initial Development of Regulatory Framework*

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

- Licensing of insurance companies and insurance intermediaries, such as agencies and brokerages. The 1995 Insurance Law established requirements for minimum registered capital levels, form of organization, qualification of senior management and adequacy of the information systems for insurance companies and insurance agencies and brokerages.



- Separation of property and casualty insurance businesses and life insurance businesses. The 1995 Insurance Law classified insurance between property, casualty, liability and credit insurance businesses, on the one hand, and life, accident and health insurance businesses on the other, and prohibited insurance companies from engaging in both types of businesses.
- Regulation of market conduct by participants. The 1995 Insurance Law prohibited fraudulent and other unlawful conduct by insurance companies, agencies and brokerages.
- Substantive regulation of insurance products. The 1995 Insurance Law gave insurance regulators the authority to approve the basic policy terms and premium rates for major insurance products.
- Financial condition and performance of insurance companies. The 1995 Insurance Law established reserve and solvency standards for insurance companies, imposed restrictions on investment powers and established mandatory reinsurance requirements, and put in place a reporting regime to facilitate monitoring by insurance regulators.
- Supervisory and enforcement powers of the principal regulatory authority. The principal regulatory authority, then the 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 significantly amended in 2002 and the amended insurance law, which we refer to as the 2002 Insurance Law, became effective on January 1, 2003. The major amendments to the 1995 Insurance Law include:

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

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

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

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

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

#### *The CIRC*

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

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

### *Regulation of Insurance Agencies*

The principal regulation governing insurance agencies is the Provisions on the Supervision of Professional Insurance Agencies promulgated by the CIRC on September 18, 2009 and effective on October 1, 2009, which replaced the Provisions on the Administration of Insurance Agencies issued by the CIRC on December 1, 2004 and effective on January 1, 2005. According to the regulation, the establishment of an insurance agency is subject to minimum registered capital requirement and other requirements and to the approval of the CIRC. The term “insurance agency” refers to an entity that meets the qualification requirements specified by the CIRC, has obtained the license to conduct an insurance agency business with the approval of the CIRC, engages in the insurance business by and within the authorization of, and which collects commissions from, insurance companies. An insurance agency may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company. According to the CIRC’s Decision on Revising the Regulatory Provisions on Professional Insurance Agencies, or the 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 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 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. Division of or merger with an insurance agency or change of organizational form thereof shall be subject to approval by the CIRC. An insurance agency shall submit a written report to the CIRC for approval within five days from the date of occurrence of any of the following matters: (i) change of name or a branch’s name; (ii) change of domicile or a branch’s business premises; (iii) change of names of sponsors or major shareholders; (iv) change of major shareholders; (v) change of registered capital; (vi) major changes to equity structure; (vii) amendment to the articles of association; or (viii) divestment of a branch. 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 and possess the “Qualification Certificate” required 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 Regulatory Provisions on Insurance Brokerages promulgated by the CIRC on September 18, 2009 and effective on October 1, 2009, which replaced the Provisions on the Administration of Insurance Brokerages issued by the CIRC on December 15, 2004 and effective on January 1, 2005. According to this regulation, the establishment of an insurance brokerage is subject to the approval of the CIRC. The term “insurance brokerage” refers to an entity engaging in the insurance brokering business that meets the qualification requirements specified by the CIRC and has obtained the license to operate an insurance brokering business with the approval of the CIRC. Insurance brokering business includes both direct insurance brokering, which refers to brokering activities on behalf of insurance applicants or the insured in their dealings with the insurance companies, and reinsurance brokering, which refers to brokering activities on behalf of insurance companies in their dealings with reinsurance companies. An insurance brokerage may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company. According to the Decision on Revising the Regulatory Provisions on the Supervision of Insurance Brokerages, or the 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 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 Decision, has a registered capital of not more than RMB 50 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 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. Division of or merger with an insurance brokerage or change of organizational form thereof shall be subject to approval by the CIRC. An insurance brokerage shall submit a written report to the CIRC within five days from the date of occurrence of any of the following matters: (i) change of name or a branch's name; (ii) change of domicile or a branch's business premises; (iii) change of names of sponsors or major shareholders; (vi) change of major shareholders; (v) change of registered capital; (vi) major changes to equity structure; (vii) amendment to the articles of association; or (viii) divestment of a branch. Personnel of an insurance brokerage and its branches who engage in any of the insurance brokering businesses described above must comply with the qualification requirements prescribed by the CIRC and obtain a qualification certificate for insurance brokering practitioners. The senior managers of an insurance brokerage must meet specific qualification requirements set forth in the Provisions on the Supervision of Insurance Brokerages. Appointment of the senior managers of an insurance brokerage is subject to review and approval by the CIRC.

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

The principal regulations governing insurance adjusting firms are the Regulatory Provisions on Insurance Claims Adjusting Firms issued by the CIRC on September 18, 2009 and effective on October 1, 2009, which replaced the Provisions on the Administration of Insurance Claims Adjusting Firms promulgated on November 16, 2001 and effective on January 1, 2002, and the Decision on Revising the Regulatory Provisions on Insurance Claims Adjusting Firms issued by the CIRC on September 29, 2013 and effective on December 1, 2013. According to the regulation, the term “insurance adjusting firm” refers to an entity that is established in accordance with applicable laws and regulations and with the approval of the CIRC and engages in the assessment, survey, authentication, loss estimation and adjustment of the insured subject matters upon the entrustment of the parties concerned. An insurance adjusting firm may take any of the following forms: (i) a limited liability company; (ii) a joint stock limited company; or (iii) a partnership. An insurance adjusting firm must have a registered capital or capital contribution of at least RMB2 million. The registered capital must be paid up in cash.

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

- inspecting, appraising the value of and assessing the risks of the subject matter before it is insured;

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

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

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

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

#### *Regulation of Insurance Salespersons*

The principal regulation governing individual insurance salespersons is the 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. In order to engage in insurance sales activities as an insurance salesperson, a person first must pass the qualification examination organized by the CIRC to obtain a “Qualification Certificate”. The person must have a college degree or above to be qualified for the examination. In addition to the qualification certificate, 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.

#### *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. In order to engage in the insurance brokerage activities as an insurance brokers, or to engage in the insurance adjustment activities as an claims adjustors, a person first must pass the qualification examination organized by the CIRC for the insurance brokers or for the insurance claims adjustors to obtain a “Qualification Certificate of Insurance Brokers” or a “Qualification Certificate of Claims Adjustors”. The person must have a college degree or above to be qualified for the examination. In addition to the qualification certificate, 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.

#### *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 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 75, issued on October 21, 2005, prior to establishing or assuming control of an overseas SPV for the purpose of overseas equity financing (including convertible debts financing) with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, shall complete certain overseas investment foreign exchange registration procedures with the relevant local SAFE branch. An amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that SPV upon either (i) the injection of equity interests or assets of an onshore enterprise to that SPV or (ii) the completion of any overseas fund-raising by such SPV. An amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the SPV, such as (i) an increase or decrease in its capital, (ii) a transfer or swap of shares, (iii) a merger or division, (iv) a long-term equity or debt investment or (v) the creation of any security interests.

Under SAFE Circular 75, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity, or otherwise adversely affect us. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

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. Our PRC counsel, Global Law Office, fundamentally identifies with the advice given by our then PRC counsel, Commerce & Finance Law Offices, on the application of the then PRC laws and regulations as well as the procedures announced on September 21, 2006 at the time of our initial public offering. Based on advice of our PRC counsel, we did not seek CSRC’s approval for our initial public offering. Any requirement to obtain prior CSRC approval and a failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.”

## ***Regulations on Tax***

### *PRC Enterprise Income Tax*

The PRC EIT is calculated base on the taxable income determined under the PRC accounting standards and regulations, as well as the EIT law. On March 16, 2007, the National People’s Congress of China enacted the EIT Law, a new EIT law which became effective on January 1, 2008. On December 6, 2007, the State Council promulgated the Implementation Rules which also became effective on January 1, 2008. On December 26, 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the EIT Law, or the Transition Preferential Policy Circular, which became effective simultaneously with the EIT Law. The EIT Law imposes a uniform EIT rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain exceptions. Under the EIT Law, as further clarified by the Implementation Rules, the Transition Preferential Policy Circular and other related regulations, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them in the following manners: (i) in the case of preferential tax rates, for a five-year period starting from January 1, 2008, during which the tax rate will gradually increase to 25%; or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make a profit, its term for preferential treatment will be deemed to start from 2008. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC Enterprise Income Tax Law may increase the enterprise income tax rate applicable to some of our PRC subsidiaries and consolidated affiliated entities, which could have a material adverse effect on our result of operations.”

Under the 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*

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. A total of seven of our entities that engage in consulting and information technology services meet the VAT Reform requirements, and have started to pay value-added tax since the respectively effective days. Total Value-added taxes paid by us in 2013 were RMB12.0 million (US\$2.0 million).

#### *Dividend Withholding Tax*

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

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

## C. Organizational Structure

### Changes in Corporate Structure

Historically, PRC laws and regulations restricted foreign investment in and ownership of insurance intermediary companies. Accordingly, we conducted our business in China through contractual arrangements among our PRC subsidiaries, three PRC affiliated entities, namely Meidiya Investment, Yihe Investment and Xinbao Investment, their shareholders and subsidiaries.

Prior to March 2009, three individual shareholders, Mr. Jianguo Cui, Mr. Zhenyu Wang and Mr. Qiuping Lai held 24.7%, 26.4% and 48.9%, respectively, of the equity interests in each of Meidiya Investment and Yihe Investment. Mr. Cui and Mr. Zhenyu Wang were designated by two of our shareholders, Cathay Auto Services Limited and CDH Inservice Limited, or CDH Inservice, respectively, and Mr. Lai is our president and co-founder. In March 2009, Mr. Cui and Mr. Zhenyu Wang transferred all of their equity interests in Meidiya Investment and Yihe Investment to Mr. Peng Ge, our chief financial officer. Following these transfers, Mr. Lai and Mr. Ge, both of whom are PRC citizens, held 48.9% and 51.1%, respectively, of the equity interests in each of Meidiya Investment and Yihe Investment. We then entered into a new set of contractual arrangements with Mr. Ge to replace the previous agreements entered into with Mr. Cui and Mr. Zhenyu Wang.

In July 2010, CISG Holdings, our wholly owned subsidiary, acquired an interest in InsCom Holdings, a company in which we currently hold a 65.1% interest.

In October 2010, Nanfeng Investment, our wholly-owned PRC subsidiary, invested RMB5.0 million in Yihe Investment and in February 2011 invested RMB1.5 million in Meidiya Investment. Following these investments, Mr. Lai, Mr. Ge and Nanfeng Investment held 39.1%, 40.9% and 20.0%, respectively, of the equity interests in each of Yihe Investment and Meidiya Investment.

Prior to April 26, 2011, two individual shareholders, Mr. Chunlin Wang, our chief executive officer, and Mr. Yuan Tian, vice president of our e-commerce insurance unit, held 95% and 5%, respectively, of the equity interests in Xinbao Investment. In April 2011, Ying Si Kang Information, a wholly-owned PRC subsidiary of InsCom Holdings, Mr. Chunlin Wang and Mr. Tian contributed RMB2.0 million, RMB7.5 million and RMB0.5 million, respectively, to increase the registered capital of Xinbao Investment. After this capital injection, Ying Si Kang Information, Mr. Chunlin Wang and Mr. Tian held 20%, 75% and 5%, respectively, of the equity interests in Xinbao Investment.

As part of the ongoing restructuring of our e-commerce operations, in March 2013, Ying Si Kang Information withdrew its capital contribution in Xinbao investment. As a result, Mr. Chunlin Wang and Mr. Tian now holds 93.75% and 6.25%, respectively, of the equity interests in Xinbao investment.

In order to simplify our corporate structure, enhance effective allocation of our resources and strengthen our corporate governance, we commenced a corporate restructuring, both onshore and offshore in October 2011.

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

In February 2012, Nanfeng Investment subscribed for RMB52.5 million of Meidiya Investment's share capital, increasing its shareholding in Meidiya Investment from 20% to 90%, and diluting the interests of Mr. Lai and Mr. Ge from 39.1% and 40.9% to 5.1% and 4.9%, respectively.

In October 2012, we obtained license approval from the CIRC to establish an insurance sales service group company and renamed Nanfeng Investment as "CNinsure Insurance Sales Service Group Company Limited", which will serve as the holding company of our PRC operating entities.

At different times since May 2012, Meidiya and Yihe Investment have transferred their equity interests in five of our subsidiaries, including CNinsure Lianxing Insurance Sales Co., Ltd. (also known as Fanhua Lianxing Insurance Sales Co., Ltd.), or CNinsure Lianxing, and CNinsure Times Insurance Sales & Service Co., Ltd., or CNinsure Times (formerly known as Guangzhou CNinsure Insurance Agency Co., Ltd.), both of which have national operating licenses, to CNinsure Group Company. Meidiya and Yihe Investment have also transferred their equity interests in 19 of our affiliated entities to CNinsure Lianxing and CNinsure Times.

At various times since November 2012, we acquired the remaining minority equity interests in our subsidiaries, including Jiangmen CNinsure Zhicheng Insurance Agency Co., Ltd. (also known as Jiangmen Fanhua Zhicheng Insurance Agency Co., Ltd.), Fujian CNinsure Guoxin Insurance Agency Co., Ltd. (also known as Fujian Fanhua Guoxin Insurance Agency Co., Ltd.), Hangzhou CNinsure Zhixin Insurance Agency Co., Ltd. (also known as Hangzhou Fanhua Zhixin Insurance Agency Co., Ltd.), Shandong CNinsure Xintai Insurance Agency Co., Ltd. (also known as Shandong Fanhua Xintai Insurance Agency Co., Ltd.), CNinsure Anxin Investment Co., Ltd. (also known as Fanhua Anxin Investment Co., Ltd.) and Sichuan CNinsure Xintai Insurance Agency Co., Ltd. (also known as Sichuan Fanhua Xintai Insurance Agency Co., Ltd.), increasing our shareholdings in each of these companies to 100%.

In June 2012, Nanfeng Investment transferred its 19.5% equity interest in Puyi Investment to Yihe Investment. Subsequently, in October 2012, Yihe Investment sold its 19.5% equity interest in Puyi Investment to Guangdong Jintaiping Asset Management Service Co., Ltd., or Jintaiping, increasing Jintaiping's shareholdings in Puyi Investment from 80.52% to 100%. In November 2012, Yihe Investment acquired a 19.5% equity interest in Jintaiping, which owned all of the equity interests in Puyi Investment. Puyi Investment was renamed Puyi Fund Sales, after obtaining a license to distribute mutual funds in March 2013. On December 2, 2013, Jintaiping transferred its 19.5% equity interest in Puyi Fund Sales to Yihe Investment. On the same date, we disposed of all our equity interest in Jintaiping and our 55% equity interest in CNinsure Puyi Asset Management, leaving Yihe Investment with a 19.5% of the equity interests in Puyi Fund Sales.

We are in the process of converting certain of our subsidiaries and affiliates into branches of CNinsure Lianxing and CNinsure Times. Upon completion of the necessary procedures, the licenses of those subsidiaries will be terminated and they will continue their operations as branches of CNinsure Lianxing and CNinsure Times.

The corporate restructuring is still an ongoing process. As a result of these equity transfers, as of March 15, 2014, we, through CNinsure Group Company, have a controlling equity ownership in 34 insurance agencies, three insurance claims adjusting firms, two insurance brokerage companies, while through contractual arrangements with Yihe Investment and Xinbao Investment, we control four additional insurance agencies, one e-commerce insurance intermediary company and two investment companies.

### ***Corporate Structure***

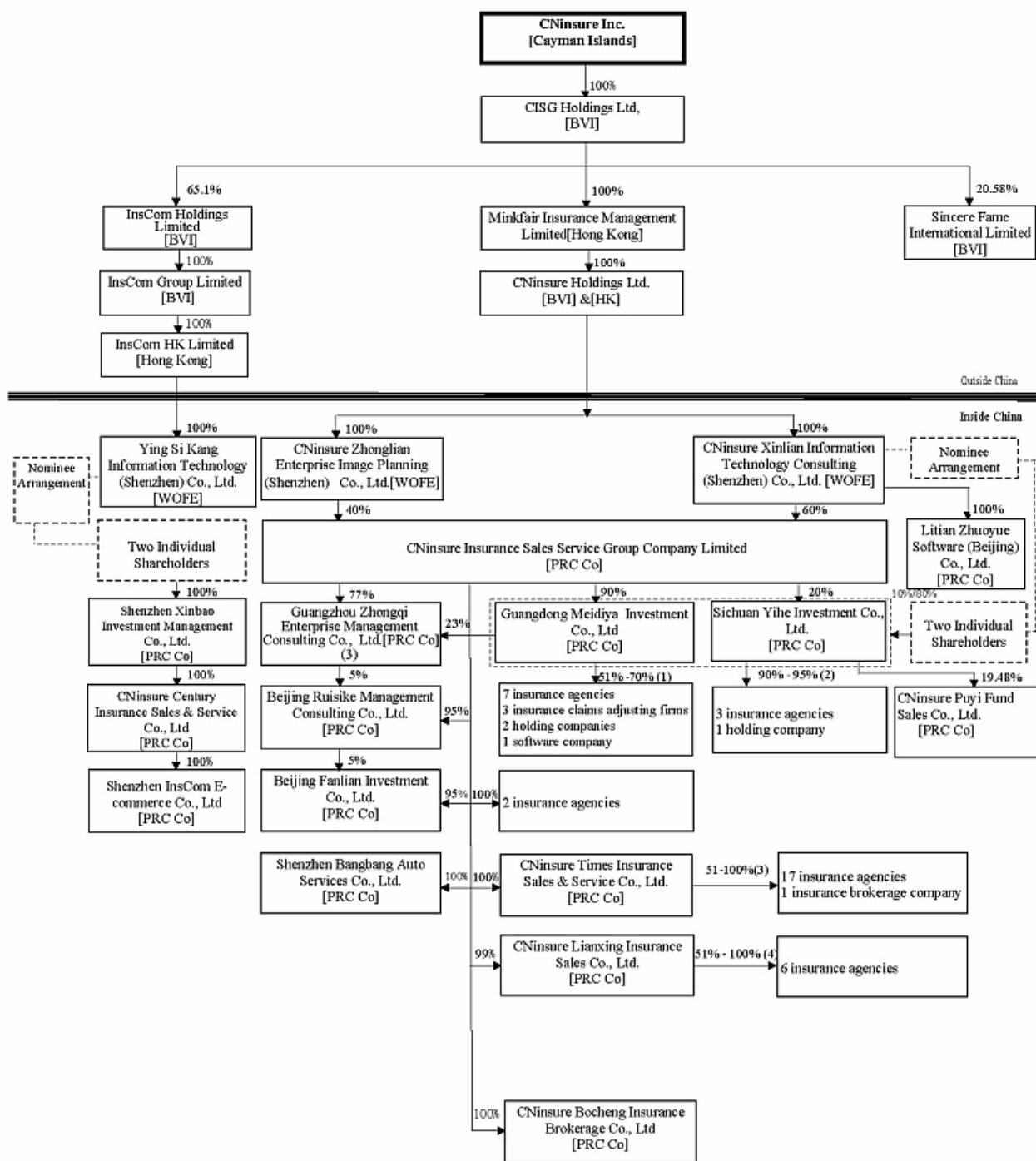
Most of the noncontrolling shareholders of the insurance intermediary companies majority-owned by CNinsure Group Company are the founders of those companies, entrepreneurial agents with whom we jointly set up the company or a venture capital firm that invests in start-up insurance agency companies. Some of those noncontrolling shareholders are in charge of the day-to-day operations of these companies. The direct and indirect subsidiaries of CNinsure Group Company, Yihe Investment and Xinbao Investment hold the licenses and permits necessary to conduct our insurance intermediary business in China. We have controlling equity ownership in those insurance intermediary companies in which CNinsure Group Company owns a majority of the interest, enabling us to exercise effective operational control over them.

However, as our corporate restructuring remains an ongoing process and because of restrictions under PRC laws and regulations on foreign investment in Internet businesses, we rely on contractual arrangements to control and derive economic benefit from Yihe Investment, Xinbao Investment and their subsidiaries.

Our contractual arrangements with Yihe Investment, Xinbao Investment, their shareholders and their subsidiaries, which include loan agreements, equity pledge agreements, powers of attorney, exclusive purchase option agreements, consulting and service agreements, and IT platform service agreements, enable us to:

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

The following diagram illustrates our corporate structure as of March 15, 2014:



--- Nominee arrangements among Xinlian Information, Zhonglian Enterprise, Ying Si Kang Information and the shareholders of Yihe Investment, Meidiya Investment and Xinbao Investment

--- Contractual arrangements between our wholly-owned subsidiaries and each of the insurance agencies, brokerages and claims adjusting firms

→ Equity Interest

(1) Direct or indirect ownership attributable to Meidiya Investment.

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

(3) Direct or indirect ownership attributable to CNinsure Times

(4) Direct or indirect ownership attributable to CNinsure Lianxing

For a complete list of our subsidiaries and consolidated affiliated entities as of March 15, 2014, see Exhibit 8.1 to this annual report. The following is a summary of the key terms of our contractual arrangements with Yihe Investment, Xinbao Investment, their shareholders and their subsidiaries.

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

**Loan Agreements.** Each of the original individual shareholders of Yihe Investment, being Mr. Lai, Mr. Zhenyu Wang and Mr. Cui, entered into a loan agreement on December 20, 2005 with our subsidiary Xinlian Information, or the Xinlian Loan, for a zero interest loan from Xinlian Information. On February 27, 2009, in connection with the transfer of their respective equity interests in Yihe Investment to Mr. Ge, both Mr. Cui and Mr. Zhenyu Wang transferred all of their rights and obligations under the Xinlian Loan to Mr. Ge. As a result, the principal loan amounts to Mr. Lai and Mr. Ge were RMB9.8 million and RMB10.2 million, respectively, equal to their respective capital contributions to Yihe Investment.

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

The Xinlian Loan contains a number of covenants that restrict the actions the individual shareholder can take or cause Yihe Investment to take, and also requires the individual shareholder to take or cause Yihe Investment to take specific actions. For example, the individual shareholder must:

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

Each of the individual shareholders of Xinbao Investment, being Mr. Chunlin Wang and Mr. Tian, entered into loan agreements on December 3, 2010 with our subsidiary Ying Si Kang Information, or the Ying Si Kang Loans, in which we indirectly hold a 65.1% equity interest. In connection with a capital injection in Xinbao Investment in April 2011, the Ying Si Kang Loans were amended and the principal amounts lent to Mr. Chunlin Wang and Mr. Tian increased to RMB7,500,000 and RMB500,000, respectively, equal to their respective capital contributions to Xinbao Investment. The terms of the Ying Si Kang Loans are similar to those in the Xinlian Loans described above.

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

Mr. Chunlin Wang and Mr. Yuan Tian entered into separate equity pledge agreements on December 3, 2010, pledging their respective equity interests in Xinbao Investment to Ying Si Kang Information. The agreements, which were amended in April 2011, secure the obligations under the Ying Si Kang Loans and are similar to the equity pledge agreements securing the obligations under the Xinlian Loan described above. In December 2013, a supplemental agreement in connection with the equity pledge agreements and exclusive purchase option agreements were entered into with Ying Si Kang Information, Xinbao Investment and each individual shareholder to reflect the change of the shareholding structure following Ying Si Kang Information’s withdrawal of its capital contribution in Xinbao Investment in March 2013.

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

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

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

**Exclusive Purchase Option Agreements.** Pursuant to exclusive purchase option agreements entered into by Mr. Lai on December 20, 2005 and by Mr. Ge on March 31, 2009, each individual shareholder irrevocably granted Xinlian Information an exclusive option to purchase part or all of his equity interests in Yihe Investment, when and to the extent permitted by PRC law. The purchase price to be paid by Xinlian Information will be equal to the amount of the individual shareholder’s actual capital contribution to Yihe Investment, unless PRC law requires otherwise. As of December 31, 2013, the actual capital contributions to Yihe Investment by Mr. Lai and Mr. Ge were RMB9.8 million and RMB10.2 million, respectively. If PRC law requires appraisals of the equity interests or has other restrictions on the transfer price, the purchase price will be the minimum price permitted under applicable PRC law. Under current PRC law, if a foreign-invested enterprise, such as Xinlian Information, intends to acquire the equity interests of a domestic enterprise, such as Yihe Investment, the transfer price must be based on an appraisal conducted by a qualified domestic asset appraisal institution using internationally recognized appraisal methodology, and it is prohibited from transferring any equities at a price clearly lower than the appraisal amount.

Mr. Chunlin Wang and Mr. Tian entered into separate exclusive purchase option agreements on December 3, 2010 to irrevocably grant Ying Si Kang Information an exclusive option to purchase part or all of his equity interests in Xinbao Investment, when and to the extent permitted by PRC law. These agreements, which were amended in April 2011, are similar to the exclusive purchase option agreements described in the paragraph above. The actual capital contributions to Xinbao Investment by Mr. Chunlin Wang and Mr. Tian under these agreements were RMB7,500,000 and RMB500,000, respectively. In December 2013, a supplemental agreement in connection with the equity pledge agreements and exclusive purchase option agreements were entered into with Ying Si Kang Information, Xinbao Investment and each individual shareholder to reflect the change of the shareholding structure following Ying Si Kang Information’s withdrawal of its capital contribution in Xinbao Investment in March 2013.

## Agreements that Transfer Economic Benefits to Us

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

Pursuant to consulting and service agreements, between our PRC subsidiary Xinlian Information and most of the insurance intermediary subsidiaries of CNinsure Group Company, Yihe Investment and Xinbao Investment, Xinlian Information agreed to provide training services and consulting and other services relating to internal control compliance. In exchange, the insurance intermediaries each agree to pay a quarterly fee calculated primarily based on a percentage of their revenues. The parties to each agreement also agree to negotiating adjustments to the fee level every three months. Each of these agreements has an initial term of one year, which automatically renews each year unless Xinlian Information decides not to renew the agreement. Each agreement may be terminated by the insurance intermediary company only upon gross negligence, fraud, other illegal conduct or bankruptcy of Xinlian Information, or by Xinlian Information with 30 days’ notice.

**IT Platform Service Agreements.** Pursuant to IT platform service agreements between Litian Zhuoyue Software (Beijing) Co., Ltd, or Litian Zhuoyue, a subsidiary of Xinlian Information, and most of the insurance intermediary subsidiaries of CNinsure Group Company, Yihe Investment and Xinbao Investment, Litian Zhuoyue agreed to provide space for system operation and data storage, data maintenance, system security and efficiency maintenance, on-site support, software optimization and maintenance and other IT platform related services. In exchange, the insurance intermediaries each agree to pay a quarterly fee calculated primarily based on a percentage of their revenues. The parties to each agreement also agree to negotiating adjustments to the fee level every three months. Each of these agreements has an initial term of one year, which automatically renews each year unless Litian Zhuoyue decides not to renew the agreement. Each agreement may be terminated by the insurance intermediary company only upon gross negligence, fraud, other illegal conduct or bankruptcy of Litian Zhuoyue, or by Litian Zhuoyue with 30 days’ notice.

Because of our contractual arrangements with Yihe Investment, Xinbao Investment, and their shareholders, we are the primary beneficiary of Yihe Investment, Xinbao Investment and their subsidiaries and we consolidate them into our consolidated financial statements. In 2013, subsidiaries of Yihe Investment and Xinbao Investment paid to our subsidiaries a total fee of RMB6.4 million (US\$1.1 million), under the IT platform services agreements, and consulting and service agreements, representing approximately 5.1% of the net revenues of these affiliated entities. In the years ended December 31, 2011, 2012 and 2013, aggregate revenues derived from our consolidated affiliated entities contributed 91.9%, 23.6% and 7.2%, respectively, of our total consolidated net revenues, based on our corporate structure as of the end of each year. As of December 31, 2011, 2012 and 2013, our consolidated affiliated entities accounted for an aggregate of 29.3%, 5.4% and 3.2%, respectively, of our consolidated total assets. In the opinion of Global Law Office, our PRC legal counsel:

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

In addition to the above agreements, which allow us to exercise effective control, have an exclusive option to purchase all or part of the equity interests and receive a substantial portion of the economic benefits from entities over which we do not have equity control, we have entered into similar contractual arrangements with the minority shareholders of Meidiya Investments. As a result of these contractual arrangements, we have the right to exercise control over, purchase and receive the economic benefits from all of the equity interests in Mediya Investments that we currently do not hold.



We have been advised by our PRC legal counsel, however, that there are substantial 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 agreements establishing the structure for operating our PRC insurance intermediary businesses and online insurance distribution business do not comply with PRC government restrictions on foreign investment in the insurance intermediary industry and 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 agreements that establish the structure for operating part of our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.” 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 2,382.6 square meters of office space as of December 31, 2013. Our subsidiaries and consolidated affiliated entities leased approximately 39,073.3 square meters of office space as of December 31, 2013. In 2013, our total rental expenses were RMB30.5 million (US\$5.0 million).

**Item 4A. Unresolved Staff Comments**

None.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in this annual report. This discussion and analysis contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report.

Following the sale of Datong on March 25, 2011, we present our financial results for the years ended December 2009, 2010 and 2011 on both a continuing and discontinued basis. Profits and losses related to Datong were presented as discontinued operations while profits and losses for the remaining business were presented as continuing operations.

**A. Operating Results**

**Factors Affecting Our Results of Operations**

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

- total premium payments to Chinese insurance companies;
- the extent to which insurance companies in the PRC outsource the distribution of their products and claims adjusting functions;
- premium rate levels and commission and fee rates;
- the size and productivity of our sales force;
- acquisitions;

- commission rates for individual sales agents;
- product and service mix;
- share-based compensation expenses; and
- seasonality.

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

The Chinese insurance industry has grown substantially in the past decade. Between 2003 and 2013, total insurance premiums increased from RMB388.0 billion to RMB1.7 trillion, representing a compound annual growth rate, or CAGR, of 16.1%, according to the CIRC. The growth of insurance premiums in China slowed down in 2011 and 2012, primarily due to weakened demand for life insurance products due to the popularity of wealth management products which promise with higher returns. However, according to the CIRC, total insurance premiums in China grew from RMB1.5 trillion in 2012 to RMB1.7 trillion in 2013, representing an increase of 11.2%. 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 when the rapid growth trend will resume. Any continued downturn in the Chinese insurance industry, whether caused by a general slowdown of the PRC economy or otherwise, may adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

As a distributor of insurance products, we generate revenue primarily through our sales force, which consists of individual sales agents in our distribution and service network and a relatively small number of in-house sales representatives. The size of our sales force and its productivity, as measured by the average number of insurance products sold per person, the average premium per product sold and the average premiums generated per person during any specified period, directly affect our revenue and results of operations. In recent years, some entrepreneurial management 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. We believe this offers substantial opportunities for consolidation. We intend to grow our distribution and service network in part through selective acquisitions of high-quality independent insurance intermediary companies. Since 2008, we, through our consolidated affiliated entities in the PRC, acquired controlling interests in 15 insurance agencies (excluding Datong and its subsidiaries), four insurance claims adjusting firms (one of which was restructured into a holding company of the three claims adjusting firms) and one online insurance service company as of March 15, 2014. We expect acquisitions to have a positive impact on our results of operations in the long run. However, acquisitions also involve significant risks and uncertainties. See "Item 3. Key Information—Risk Factors—D. Risks Related to Our Business and Our Industry—If we fail to integrate acquired companies efficiently, or if the acquired companies do not perform to our expectations, our business and results of operations may be adversely affected." In addition, any write-down of goodwill due to impairment and the amortization of intangible assets acquired could have a negative impact on our results of operations. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Our Industry—If we are required to write down goodwill and other intangible assets, our financial condition and results may be materially and adversely affected."

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

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

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

We began distributing automobile insurance products in 1999 and expanded our product offerings to other property and casualty insurance products in 2002 and then to individual life insurance products in 2006. We further broadened our service offering to cover insurance claims adjusting services in 2008.

We started to offer insurance brokerage services for commercial line insurance to corporate clients in 2010 and referral services for wealth management products in 2012. The revenues derived from the brokerage services were included in the net revenues from the distribution of property and casualty insurance products while the revenues from wealth management product referral services were included in the net revenues from the distribution of life insurance products. In 2011, 2012 and 2013, revenues generated from the distribution of property and casualty insurance reporting unit accounted for 68.1%, 68.7%, and 72.0% of our total net revenues, respectively, while revenues from the distribution of life insurance reporting unit accounted for 18.2%, 17.2% and 13.1%, respectively, and revenues from the provision of claim adjusting services accounted for 13.3%, 13.7% and 14.8%, respectively.

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. Gross margin attributable to the property and casualty insurance business was volatile in recent years, largely due to greater market competition and higher profitability of the property and casualty insurance companies. Gross margin attributable to the property and casualty insurance business in 2011 was higher than life insurance business and the claims adjustment business. However, it declined significantly in 2012 from 2011, as the increase in commissions that we received from insurance companies were outpaced by the increase in commissions that we paid to our sales agents, driven by i) greater competition among property and casualty insurance companies in the automobile insurance market pushed up the market commissions against which we benchmarked to pay the commissions to our property and casualty insurance agents, and ii) competition resulting from the use of telemarketing by other insurance companies drove up the per policy acquisition cost for our sales agents, which in turn forced us to pay higher commissions to our property and casualty insurance sales agents. Gross margin attributable to the property and casualty insurance in 2013 was flat compared to 2012.

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 us insured throughout the payment period of the policy. Therefore, once we sell a life insurance policy with a periodic payment schedule, it can bring us a steady flow of commission and fee revenue throughout the payment period as long as the insured meets his or her premium payment commitment.

Because insurance companies pay us first-year commissions and fees for most life insurance products at rates higher than those for property and casualty insurance products, we expect a positive impact on our revenue if our distribution of life insurance products increases in the future. However, we will also incur a corresponding increase in operating costs because we pay our sales agents a higher commission and fee for distributing life insurance products. Accordingly, the operating margin attributable to first-year life insurance products are generally lower than that of property and casualty insurance products, and may initially have a negative impact on our overall operating margin. However, we expect that the operating margin for life insurance products will improve over time because we only need to pay commissions to our sales agents for the first five years of a policy, though we continue to earn renewal fees from the insurance company throughout the entire payment period of the policy, which can be up to 25 years.

The fees we receive for our claims adjusting services are calculated based on the types of insurance involved. For services provided in connection with property and casualty insurance (other than marine cargo insurance and automobile insurance), our fees are calculated as a percentage of the recovered amount from insurance companies plus travel expenses. For services provided in connection with marine cargo insurance, our fees are charged primarily on an hourly basis and, in some cases, as a percentage of the amount recovered from insurance companies. For automobile insurance, our fees are generally fixed and the amounts collected are based on the types of services provided. 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 insurance 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 in 2013 due to the significant decline in gross margin attributable to our property and casualty insurance business. We expect that revenues from our insurance claims adjusting business as a percentage of our total net revenues to remain stable over the next few years.

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. Gross margin of this line of business was higher than that of our retail line of property and casualty insurance business and our life insurance business and lower than that of claims adjusting business in 2013. We expect the revenues from our insurance brokerage business as a percentage of our total net revenues to increase over the next few years and that such an increase will have a positive impact on our gross margin and operating margin.

We receive referral service fees from our wealth management product supplier if customers referred by our sales agents purchase wealth management products from the supplier. We then pay commissions to our sales agents, which are calculated as a percentage of the value of wealth management products purchased by the customers. Gross margin from this business was higher than other business lines except for the claim adjustment business in 2013. We expect the revenues from the wealth management product referral services as a percentage of our total net revenues to increase over the next few years and that such increase will have positive impact on our gross margin and operating margin.

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

Our historical results of operations have been materially affected by the share-based compensation expenses incurred. In 2011, 2012 and 2013, we incurred share-based compensation expenses of RMB57.0 million, RMB66.9 million and RMB45.3 million (US\$7.5 million), respectively. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Key Performance Indicators—Operating Costs and Expenses—Share-based Compensation Expenses” for a more detailed discussion of our historical share-based compensation expenses. In order to attract and retain the best personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business, we adopted a share incentive plan in October 2007. Under our 2007 share incentive plan, as amended and restated in December 2008, we may issue an aggregate number of our ordinary shares, equal to 15% of our total number of shares outstanding immediately after the closing of our initial public offering, to cover awards granted under the plan. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentives—2007 Share Incentive Plan.” We expect that share-based compensation expenses will continue to be a significant component of our operating expenses.

#### ***Seasonality***

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

#### **Key Performance Indicators**

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

Our revenues are net of PRC business tax. In 2011, 2012 and 2013, we generated net revenues of RMB1.5 billion, RMB1.6 billion and RMB1.8 billion (US\$290.2 million), respectively. We derive net revenues from the following sources:

- commissions and fees paid by insurance companies, which accounted for 99.6%, 99.6% and 99.9% of our net revenues for 2011, 2012 and 2013, respectively; and
- other service fees, which refers to fees paid by insurance companies for certain insurance-related services provided by us to the insured on behalf of the insurance companies and fees for IT platform and software services that we provide. These other service fees accounted for 0.4%, 0.4% and 0.1% of our net revenues for 2011, 2012 and 2013, respectively.

In 2011, 2012 and 2013, we generated commissions and fees of RMB1.5 billion, RMB1.6 billion and RMB1.8 billion (US\$290.0 million), respectively. We derive commissions and fees from distributing property and casualty insurance and life insurance products and providing claims adjusting services.

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

	Year Ended December 31,					
	2011		2012		2013	
	RMB	%	RMB	%	RMB	US\$
	(in thousands except percentages)					
Property and casualty insurance reporting unit	1,032,594	68.1	1,090,205	68.7	1,264,317	208,850
Life insurance reporting unit	276,402	18.2	272,755	17.2	230,086	38,007
Claims adjusting services	202,003	13.3	217,497	13.7	261,206	43,148
Other service	5,676	0.4	5,660	0.4	1,415	234
Total net revenues	1,516,675	100.0	1,586,117	100.0	1,757,024	290,239

Net revenues from property and casualty insurance reporting unit, in particular automobile insurance products, have been our primary source of revenue since our inception. Net revenues from property and casualty insurance reporting unit increased in both absolute amounts and as a percentage of our total net revenues from 2011 to 2013. As the per capita automobile ownership in China is still low, automobile sales in China still have significant growth potential. Therefore, we expect that automobile insurance products will continue to be a significant contributor to our total net revenues in the next several years.

We began distributing individual life insurance products in 2006. Net revenues from life insurance products decreased both in absolute amounts and as a percentage of our total net revenues from 2011 to 2013, primarily due to the decline in net revenues from new life insurance policies impacted by the industry growth slow-down although recurring commissions from life insurance reporting unit increased moderately. We will keep devoting significant efforts on the distribution of life insurance products and we expect net revenues from life insurance reporting unit will still constitute a significant portion of our total net revenues in the next several years.

We began providing claims adjusting services in 2008. Net revenues from claims adjusting services increased from 2011 to 2013 in both absolute amounts and as a percentage of our total net revenues, primarily reflecting the stable growth of our claims adjusting business during the period. As we continue to grow our claims adjusting business, 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.

#### *Other Service Fees*

In 2011, 2012 and 2013, we generated other service fees of RMB0.8 million, RMB0.2 million and nil, respectively, for providing services related to the distribution of automobile insurance products, such as drivers' license renewal and annual inspection for the insured, which were included in net revenues from the distribution of property and casualty insurance products. We don't expect other service fees to constitute a significant portion of our total net revenues in the future.

In addition, in 2011, 2012 and 2013, we provided IT platform and software services to a third party and an affiliated entity through one of our affiliated entities, Litian Zhuoyue, including system operation, data storage, data maintenance, system security and efficiency maintenance, on-site support, software optimization and maintenance and other IT platform related services. In 2011, 2012 and 2013, we generated IT service fees of RMB5.7 million, RMB5.7 million and RMB1.4 million (US\$0.2 million), respectively. We do not expect these service fees to constitute a significant portion of our total net revenues in the future.

### Operating Costs and Expenses

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

	Year Ended December 31,					
	2011		2012		2013	
	RMB	%	RMB	%	RMB	US\$
	(in thousands except percentages)					
Total net revenues	1,516,675	100.0	1,586,117	100.0	1,757,024	290,239
Operating costs and expenses:						
Commissions and fees	(796,843)	(52.5)	(1,085,809)	(68.5)	(1,293,372)	(213,650)
Selling expenses	(77,802)	(5.1)	(78,449)	(4.9)	(96,461)	(15,934)
General and administrative expenses	(333,281)	(22.0)	(356,033)	(22.4)	(349,205)	(57,684)
Impairment loss	(1,057,522)	(69.7)	—	—	—	—
Total operating costs and expenses	(2,265,448)	(149.3)	(1,520,291)	(95.8)	(1,739,038)	(287,268)

#### Commissions and Fees

We incur commissions and fees in connection with the distributions of insurance products and provisions of claims adjusting services. The commissions and fees that we incurred increased in absolute amounts each year from 2011 to 2013 primarily as a result of increase in net revenues and increase in the size of our sales force and claims adjustors. We rely mainly on individual sales agents and, to a much lesser degree, on a small number of in-house sales representatives for the distributions of insurance products. For claims adjusting services, we rely entirely on our in-house claims adjustors. Commissions and fees incurred as a percentage of net revenues increased from 2011 to 2013, primarily due to significant rise in policy acquisition cost and commission cost as a result of increasing labor cost pressure and severer market competition. We anticipate that our commissions and fees will continue to increase in absolute amounts as we add more sales agents and claims adjustors to our work force and further grow our business.

#### Selling Expenses

Our selling expenses primarily consist of:

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

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

#### General and Administrative Expenses

Our general and administrative expenses principally comprise:

- salaries and benefits for our administrative staff;
- share-based compensation expenses for managerial and administrative staff;

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

We expect that our general and administrative expenses will increase as we hire additional administrative personnel, 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 largest components of our general and administrative expenses in 2011, 2012 and 2013. In 2011, we incurred share-based compensation only with respect to certain managerial and administrative staff and in 2012 and 2013 only a small portion of the share-based compensation was incurred in relation to sales agents. 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,					
	2011		2012		2013	
	RMB	%	RMB	%	RMB	US\$
	(in thousands except percentages)					
General and administrative expenses	333,281	100.0	356,033	100.0	349,205	57,684
Share-based compensation expenses	57,003	17.1	66,878	18.8	45,317	7,485

Our share-based compensation expenses in 2012 and 2013 were primarily attributable to the options granted in November 2008, March 2009 and March 2012. Our share-based compensation expenses in 2011 were primarily attributable to the options granted in November 2008, March 2009, February 2010 and April 2011, including a one-time recognition in the fourth quarter of 2011 of the remaining un-amortized expenses totaling RMB48.2 million in connection with the cancellation of certain options granted in February 2010 and April 2011.

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

*Impairment loss.* We perform impairment analysis on an annual basis. For the years ended December 31, 2011, 2012 and 2013, impairment losses on goodwill and intangible assets were RMB1.1 billion, nil, and nil respectively. Impairment loss in 2011 reflected the expected adverse impact of the overall economic uncertainties in China, growth slowdown within the Chinese insurance market and our strategic business transition on our earnings in the next two to three years.

## Taxation

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



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

Under the current laws of the Cayman Islands and the British Virgin Islands, we and our subsidiaries incorporated in the British Virgin Islands are not subject to income or capital gains taxes. In addition, dividend payments are not subject to withholding tax in those jurisdictions. Our subsidiary incorporated in Hong Kong is subject to a normal profits tax rate of 16.5% of its assessable profits for the years of assessment ending March 31, 2012, 2013 and 2014. Payment of dividends is not subject to withholding tax in Hong Kong.

### ***PRC***

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

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

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

Pursuant to a Notice of Preferential Policies of EIT, jointly issued by the PRC Ministry of Finance and the 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 affiliated entities, Litian Zhuoyue and Shenzhen CNinsure Software Technology Co., Ltd. (also known as Shenzhen Fanhua Software Technology Co., Ltd.), are entitled to the tax holidays under this notice from 2010 to 2014 and 2012 to 2016, respectively.

### **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 and brokerage services are considered to be rendered and completed, and revenue is recognized, at the time an insurance policy becomes effective, that is, when the signed insurance policy is in place and the premium is collected from the insured. 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. No allowance for cancellation has been recognized as management estimates, based on our past experience that the cancellation of policies rarely occurs. Any subsequent commission adjustments in connection with policy cancellations which have been de minimis to date are recognized upon notification from the insurance carriers. Actual commission and fee adjustments in connection with the cancellation of policies were 0.1% and 0.2% of the total commission and fee revenues during 2012 and 2013, respectively. For property insurance and life insurance, agency and brokerage companies may receive a performance bonus from insurance companies as agreed and per contract provisions. Once an agency and brokerage company achieves its performance target, typically a certain sales volume, the bonus will become due. The bonus amount is 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.

Commission revenues derived from the distribution of wealth management products are recorded when the products have been sold to customers, at which time we have fulfilled all our services obligations.

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

We present revenue net of sales taxes incurred. The sales taxes amounted to RMB113.4 million, RMB99.0 million and RMB99.9 million (US\$16.5 million) for the years ended December 31, 2011, 2012 and 2013, respectively, of which of which RMB4.5 million, nil and nil were related to discontinued operations for the years ended December 31, 2011 and 2012 and 2013, 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. A total of seven of our subsidiaries or affiliates that engage in consulting and information technology services meet the VAT Reform requirements, and have started to pay value-added tax since the appropriate effective day. Total Value-added taxes paid by us during the year ended December 31, 2013 amounted to RMB12.0 million (US\$2.0 million).

## ***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 (loss) and comprehensive income (loss). 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. We recognize 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, we recognize 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, we recognize 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.

### *Non-employee share-based compensation*

Share-based compensation related to non-employees is recognized as compensation expenses ratably over the requisite service periods. We measure the cost of non-employee services received in exchange for share-based compensation based on the fair value of the equity instruments issued. We measure the fair value of the equity instruments in these transactions on the measurement date, which is determined as the earlier of the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or the date at which the counterparty's performance is complete. The quantity and terms of the equity instruments issued to non-employees are not known up front as they are dependent upon counterparty performance conditions, we measure the equity instruments at their then-current lowest aggregate fair value at each reporting dates, and attributes the changes in those fair values over the future services period until the measurement date has been established.

### *Cancellation and modification*

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

A modification of the terms or conditions of an equity award is treated as an exchange of the original award for a new award. The incremental compensation of a modification is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at that date. Total recognized compensation cost for an equity award shall at least equal the fair value of the award at the grant date unless at the date of the modification the performance or service conditions of the original award are not expected to be satisfied.

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

Share-based compensation expenses of RMB57.0 million, RMB66.9 million and RMB45.3 million (US\$7.5 million) for the years ended December 31, 2011, 2012, and 2013, respectively, were included in the general and administrative expenses.

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

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

To assess potential impairment of goodwill, we perform an assessment of the carrying value of our reporting units at least on an annual basis or when events and changes in circumstances occur that would more likely than not reduce the fair value of our reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, we would perform the second step in our assessment process and record an impairment loss to earnings to the extent the carrying amount of the reporting unit's goodwill exceeds its implied fair value. We estimate the fair value of our reporting units through internal analysis and external valuations 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 2011, management performed step one of the two-step impairment test by comparing the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value. The income approach was used to estimate the fair value of all reporting units. Based on this quantitative test, management determined that the fair value of the life insurance unit exceeded its carrying amount and, therefore, step two of the two-step goodwill impairment test was unnecessary. However, management determined that the fair values of the property and casualty insurance unit and the claims adjusting unit were less than their carrying amounts and, therefore step two of the goodwill impairment test was performed to measure the amount of impairment for these units. As a result, goodwill impairment losses of RMB963 million relating to our property and casualty insurance unit and RMB38 million relating to our claims adjusting unit were recognised for the year ended December 31, 2011.

In 2012, management performed step one of the two-step impairment test by comparing the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value. The 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 two of the two-step goodwill impairment test was unnecessary. The management concluded that goodwill was not impaired for the years ended December 31, 2012.

In 2013, 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, 2013.

- For the P&C segment, we projected a five-year discounted cash flow. Basic assumptions in the cash flow projection included, among others, an estimated annual growth of between 3% to 15% in net revenues in the coming 5 years with reference to the stabilizing growth rate in 2013, and gross profit of around 25%, which is similar to the level in 2013. Any projection beyond 5 years by us cannot be estimated with reasonable accuracy, since the business environment is rapidly changing. The discount rate was set at 22%, based on the segment's weighted average cost of capital and adjusted to reflect our and business-specific risks. For the P&C segment, we had goodwill of RMB61.7 million as of December 31, 2013. The estimated fair value of the reporting unit exceeded its carrying value at December 31, 2013. Consequently, no goodwill impairment has been recognized.
- For the Life segment, we projected a five-year discounted cash flow. Basic assumptions in the cash flow projection included, among others, an estimated annual growth of between 3% to 10% in net revenues in the coming 5 years, and gross profit of around 30%, which is similar to the level in 2013. Any projection beyond 5 years by us cannot be forecast with reasonable accuracy, since the business environment is rapidly changing. A discount rate is set at 25%, based on the segment's weighted average cost of capital and adjusted to reflect our and business-specific risk. For the Life segment, we had goodwill of RMB16.9 million as of December 31, 2013. The estimated fair value of the reporting unit exceeded its carrying value at December 31, 2013. Consequently, no goodwill impairment has been recognized.

- For the Adjusting segment, related goodwill was completely written off in 2011.

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.

Amortizable intangible assets and long-lived assets are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge shall be recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

#### ***Impairment of intangible assets with definite lives***

We evaluate 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. We measure 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 us 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, 2011, 2012 and 2013, we recognized RMB36.4 million, nil and nil, respectively, of impairment losses on identifiable intangible assets with determinable useful lives.

#### ***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, 2011, 2012 and 2013, we recognized RMB20.4 million, nil and nil, respectively, of impairment losses on its indefinite-lived intangible assets.

#### ***Income Taxes***

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

We recognize in our financial statements uncertainties in income taxes by prescribing a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken, or expected to be taken on a tax return, based on the standards of ASC subtopic 740-10 ("ASC 740-10"), *Income taxes*. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than- not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

#### **Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board, or FASB, issued an authoritative pronouncement related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The pronouncement provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this pronouncement is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this pronouncement also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments in this Accounting Standards Updates ("ASU") should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this pronouncement) and should disclose that fact. Early adoption is permitted. We do not expect the adoption of this pronouncement to have a significant impact on our consolidated financial condition or results from operations.

In March 2013, the FASB issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the amendments in this pronouncement clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The amendments in this pronouncement are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption. We do not expect the adoption of this pronouncement to have a significant impact on our consolidated financial condition or results from operations.

In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. 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 entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We expect that the adoption of this pronouncement will change the presentation of deferred tax assets and other tax liabilities on our consolidated balance sheets.

## Results of Operations

	For the Year Ended December 31,					
	2011 to 2012		2012 to 2013			
	Percentage Change		Percentage Change			
	2011		2012		2013	
	RMB	%	RMB	%	RMB	US\$
(in thousands except percentages)						
<b>Consolidated Statement of Income (Loss) Data</b>						
<b>Net revenues:</b>						
Commissions and fees	1,510,886	4.6	1,580,234	11.1	1,755,545	289,995
Other service fees	5,789	1.6	5,883	(74.9)	1,479	244
<b>Total net revenues</b>	<b>1,516,675</b>	<b>4.6</b>	<b>1,586,117</b>	<b>10.8</b>	<b>1,757,024</b>	<b>290,239</b>
<b>Operating costs and expenses:</b>						
Commissions and fees	(796,843)	36.3	(1,085,809)	19.1	(1,293,372)	(213,650)
Selling expenses	(77,802)	0.8	(78,449)	23.0	(96,461)	(15,934)
General and administrative expenses	(333,281)	6.8	(356,033)	(1.9)	(349,205)	(57,684)
Impairment losses on goodwill and intangible assets	(1,057,522)	(100.0)	—	*	—	—
<b>Total operating costs and expenses</b>	<b>(2,265,448)</b>	<b>(32.9)</b>	<b>(1,520,291)</b>	<b>14.4</b>	<b>(1,739,038)</b>	<b>(287,268)</b>
<b>Income (loss) from operations</b>	<b>(748,773)</b>	<b>108.8</b>	<b>65,826</b>	<b>(72.7)</b>	<b>17,986</b>	<b>2,971</b>
<b>Other income, net:</b>						
Investment income	—	*	—	100.0	8,886	1,468
Interest income	52,031	73.6	90,323	(6.7)	84,250	13,917
Finance cost	—	100.0	(2,439)	(100.0)	—	—
Others, net	22,436	(70.0)	6,742	(168.2)	(4,601)	(760)
<b>Income (loss) from continuing operations before income taxes and income of affiliates and discontinued operations</b>	<b>(674,306)</b>	<b>123.8</b>	<b>160,452</b>	<b>(33.6)</b>	<b>106,521</b>	<b>17,596</b>
Income tax expense	(84,030)	(40.1)	(50,373)	(46.1)	(27,158)	(4,486)
Share of income of affiliates	14,246	2.9	14,658	40.7	20,621	3,406
<b>Net income (loss) from continuing operations</b>	<b>(744,090)</b>	<b>116.8</b>	<b>124,737</b>	<b>(19.8)</b>	<b>99,984</b>	<b>16,516</b>
<b>Net income (loss) from discontinued operations, net of tax</b>	<b>127,553</b>	<b>(100)</b>	<b>—</b>	<b>*</b>	<b>—</b>	<b>—</b>
<b>Net income (loss)</b>	<b>(616,537)</b>	<b>120.2</b>	<b>124,737</b>	<b>(19.8)</b>	<b>99,984</b>	<b>16,516</b>
Less: Net (loss) income attributable to the noncontrolling interests	(317,163)	(98.2)	(5,773)	175.2	4,341	717
<b>Net income (loss) attributable to the Company's shareholders</b>	<b>(299,374)</b>	<b>143.6</b>	<b>130,510</b>	<b>(26.7)</b>	<b>95,643</b>	<b>15,799</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, 2013 Compared to Year Ended December 31, 2012

*Net Revenues.* Our total net revenues increased by 10.8% from RMB1.6 billion in 2012 to RMB1.8 billion (US\$290.2 million) in 2013 primarily attributable to increases in net revenues from our P&C insurance and claims adjusting business segments, partially offset by the decline in net revenues from our life insurance business segment primarily due to our shifted focus to the sales of protection insurance products which have lower average premium per policy compared to participating insurance products. The increase in the P&C insurance business segment was mainly driven by increases in both sales volume and commission rates received from insurance underwriters, while the growth of the claims adjusting business segment was mainly attributable to growth in the auto insurance-related claims adjusting business.



### *Operating Costs and Expenses*

*Commissions and Fees.* Commissions and fees we incurred increased by 19.1% from RMB1.1 billion in 2012 to RMB1.3 billion (US\$213.7 million) in 2013. The increase was primarily due to sales growth and increases in commissions paid to our P&C sales agents caused by (i) higher commission rates in the auto insurance market as a result of increased competition among P&C insurance companies and (ii) increased per policy acquisition costs mainly due to expenses incurred in competing with telemarketing channels of certain P&C insurance companies.

*Selling Expenses.* Our selling expenses increased by 23.0% from RMB78.4 million in 2012 to RMB96.5 million (US\$15.9 million) in 2013 primarily due to sales increases and increases in staff salary, travel, gasoline and office expenses mostly incurred by the claims adjusting business segment due to staff increase.

*General and Administrative Expenses.* Our general and administrative expenses decreased slightly by 1.9% from RMB356.0 million in 2012 to RMB349.2 million (US\$57.7 million) in 2013.

*Income from Operations.* As a result of the foregoing factors, income from operations decreased by 72.7% from RMB65.8 million in 2012 to RMB18.0 million (US\$3.0 million) in 2013.

*Interest Income.* Our interest income decreased from RMB90.3 million in 2012 to RMB84.3 million (US\$13.9 million) in 2013. The decrease was primarily due to a decrease in the bank deposits as we increased short-term investment.

*Non-operating Income (Expense), Net.* Our other income, net, decreased by 168.2% from RMB6.7 million in 2012 to a loss of RMB4.6 million (US\$0.8 million) in 2013, primarily due to the write-down of dividends receivables from Datong.

*Income from Continuing Operations before Income Taxes and Income of Affiliates and Discontinued Operations.* As a result of the foregoing factors, our income from continuing operations before income taxes and income of affiliates and discontinued operations decreased by 33.6% from RMB160.5 million in 2012 to RMB106.5 million (US\$17.6 million) in 2013.

*Income Tax Expense.* Our income tax expense decreased from RMB50.4 million in 2012 to RMB27.2 million (US\$4.5 million) in 2013, primarily due to decrease in operating income. The effective tax rate in 2013 was 25.5% compared with 31.4% in 2012 due to higher share-based compensation expenses charged in 2012 which were non-tax deductible.

*Share of Income of affiliates.* Our share of income of affiliates increased from RMB14.7 million in 2012 to RMB20.6 million (US\$3.4 million) in 2013, primarily due to the rapid growth of net income generated by CFSG.

*Income from Continuing Operations.* As a result of foregoing factors, our income from continuing operations decreased by 19.8% from RMB124.7 million in 2012 to RMB100.0 million (US\$16.5 million) in 2013.

*Net Income Attributable to the Noncontrolling Interests.* We recorded RMB4.3 million (US\$0.7 million) net income attributable to noncontrolling interests in 2013. In comparison, we recorded RMB5.8 million net loss attributable to noncontrolling interests in 2012. The increase was primarily due to certain noncontrolling interest holding entities generated profit in 2013.

*Net Income Attributable to the Company's Shareholders.* As a result of the foregoing, our net income attributable to our shareholders decreased by 26.7% from RMB130.5 million in 2012 to RMB95.6 million (US\$15.8 million) in 2013.

### ***Year ended December 31, 2012 Compared to Year Ended December 31, 2011***

*Net Revenues.* Our total net revenues increased by 4.6% from RMB1.5 billion in 2011 to RMB1.6 billion in 2012 primarily attributable to (i) rising property and casualty insurance commission rates, (ii) the growth of recurring commissions of life insurance products and (iii) the growth of automobile insurance-related claims adjusting business.

### *Operating Costs and Expenses*

*Commissions and Fees.* Commissions and fees we incurred increased by 36.3% from RMB796.8 million in 2011 to RMB1.1 billion in 2012. The increase was primarily due to an increase in commissions paid to our sales agents within the property and casualty segment as greater competition among property and casualty insurance companies has driven up commission rates in the automobile insurance market and increased competition largely resulting from telemarketing by other insurance companies which has pushed up our per policy acquisition cost.

*Selling Expenses.* Our selling expenses increased by 0.8% from RMB77.8 million in 2011 to RMB78.4 million in 2012 primarily due to slight sales growth.

*General and Administrative Expenses.* Our general and administrative expenses increased by 6.8% from RMB333.3 million in 2011 to RMB356.0 million in 2012. This increase was primarily a result of the net effect of the following:

- an increase of 17.3% in share-based compensation expenses from RMB57.0 million for fiscal year 2011 to RMB66.9 million in fiscal year 2012. Share-based compensation expenses for fiscal year 2012 were mainly associated with options granted to employees in March 2012, which were recognized on an accelerated basis. Share-based compensation expenses for fiscal year 2011 were mainly related to the cancellation of certain stock options in November 2011;
- 11.4% increase in payroll expense from RMB100.7 million for fiscal year 2011 to RMB112.2 million for the fiscal year 2012; offset by
- the recognition of approximately RMB10.0 million in financial advisor and legal fees incurred in the third quarter of 2011 in relation to a non-binding going-private proposal which was later withdrawn.

*Impairment loss on goodwill and intangible assets.* Impairment loss on intangible assets and goodwill was nil in 2012, as compared to impairment loss on intangible assets and goodwill of RMB1.1 billion in 2011, which reflected the expected adverse impact of the overall economic uncertainties in China, growth slowdown within the Chinese insurance market and our strategic business transition on our earnings in the next two to three years.

*Income (Loss) from Operations.* As a result of the foregoing factors, income from operations was RMB65.8 million in 2012, compared to loss from operations of RMB748.8 million in 2011.

*Interest Income.* Our interest income increased from RMB52.0 million in 2011 to RMB90.3 million in 2012. The increase in interest income was primarily due to (1) RMB10.3 million in interest charged on the related parties for fiscal year 2012 and (2) increases in interest-bearing bank balances and bank interest rates from fiscal year 2011.

*Non-operating Income (Expense), Net.* Our other income, net, decreased by 70.0% from RMB22.4 million in 2011 to RMB6.7 million in 2012 which mainly represented RMB4.5 million refunds from the selling shareholder of an acquired subsidiary as the acquired subsidiary failed to achieve its performance targets. Non-operating income in 2011 mainly represented (i) RMB12.5 million refunds from the selling shareholder of certain acquired subsidiaries as those acquired subsidiaries failed to achieve their performance targets; and (ii) RMB8.0 million cash bonus granted to one of our affiliated subsidiaries by the Shenzhen Municipal Government.

*Income (Loss) from Continuing Operations before Income Taxes and Income of Affiliates and Discontinued Operations.* As a result of the foregoing factors, our income from continuing operations before income taxes and income of affiliates and discontinued operations was RMB160.5 million in 2012. In comparison, loss from continuing operations before income tax and income of affiliates and discontinued operations was RMB674.3 million in 2011.

*Income Tax Expense.* Our income tax expense in 2012 primarily consisted of current tax expenses of RMB 56.5 million offset by deferred tax income of RMB6.1 million. In comparison, our income tax expense in 2011 primarily consisted of current tax expense of RMB100.5 million offset by a deferred tax income of RMB16.4 million. The decrease was primarily due to a decrease of taxable income in 2012 from 2011 and significant impairment losses on goodwill and intangible assets in 2011 which was not tax-deductible, offset by an increase of the preferential tax rate enjoyed by two of our subsidiaries from tax exemption to 12.5% starting from 2012.

*Income (Loss) from Continuing Operations.* As a result of foregoing factors, our income from continuing operations was RMB124.7 million in 2012. In comparison, loss from continuing operations was RMB744.1 million in 2011.

*Income from Discontinued Operations.* Income from discontinued operations was nil in 2012, as compared to RMB127.6 million in 2011, representing the disposal gain from the sale of Datong.

*Net Loss Attributable to the Noncontrolling Interests.* We recorded RMB5.8 million net loss attributable to noncontrolling interests in 2012. In comparison, we recorded RMB317.2 million net loss attributable to noncontrolling interests in 2011, primarily due to impairment loss in goodwill and intangible assets incurred by certain affiliated insurance agencies in which we owned majority interests.

*Net Income (Loss) Attributable to the Company's Shareholders.* As a result of the foregoing, our net income attributable to our shareholders was RMB130.5 million in 2012, compared to net loss attributable to our shareholders of RMB299.4 million in 2011.

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

	Year Ended December 31,					
	2011	2011 to 2012	2012	2012 to 2013	2013	
	RMB	Percentage Change	RMB	Percentage Change	RMB	US\$
	(in thousands except percentages)					
<b>Net revenues:</b>						
Property and casualty	1,032,594	5.6	1,090,205	16.0	1,264,317	208,850
Life	276,402	(1.3)	272,755	(15.6)	230,086	38,007
Claims adjusting	202,003	7.7	217,497	20.1	261,206	43,148
Other	5,676	(0.3)	5,660	(75.0)	1,415	234
<b>Total net revenues</b>	<b>1,516,675</b>	<b>4.6</b>	<b>1,586,117</b>	<b>10.8</b>	<b>1,757,024</b>	<b>290,239</b>
<b>Operating costs and expenses:</b>						
Property and casualty	(1,626,472)	(44.0)	(911,330)	25.4	(1,142,677)	(188,757)
Life	(245,571)	8.3	(266,062)	(12.5)	(232,794)	(38,455)
Claims adjusting	(243,072)	(23.2)	(186,694)	25.4	(234,129)	(38,675)
Other	(150,333)	3.9	(156,205)	(17.1)	(129,438)	(21,381)
<b>Total operating costs and expenses</b>	<b>(2,265,448)</b>	<b>32.9</b>	<b>(1,520,291)</b>	<b>14.4</b>	<b>(1,739,038)</b>	<b>(287,268)</b>
<b>Income (Loss) from operations:</b>						
Property and casualty	(593,878)	130.1	178,875	(32.0)	121,640	20,093
Life	30,831	(78.3)	6,693	(140.5)	(2,708)	(448)
Claims adjusting	(41,069)	175.0	30,803	(12.1)	27,077	4,473
Other	(144,657)	4.1	(150,545)	(15.0)	(128,023)	(21,147)
<b>Total income (loss) from operations</b>	<b>(748,773)</b>	<b>108.8</b>	<b>65,826</b>	<b>(72.7)</b>	<b>17,986</b>	<b>2,971</b>

***Year ended December 31, 2013 Compared to Year Ended December 31, 2012***

*Net Revenues*

Net revenues from our property and casualty insurance segment increased by 16.0% from RMB1.1 billion in 2012 to RMB1.3 billion (US\$208.9 million) in 2013, primarily resulting from the increases in both commission rates and sales volume.

Net revenues from our life insurance segment decreased by 15.6% from RMB272.8 million in 2012 to RMB230.1 million (US\$38.0 million) in 2013, primarily due to shifted focus to the sales of protection insurance products which have lower average premium per policy compared to participating insurance products.

Net revenues from our claims adjusting segment increased by 20.1% from RMB217.5 million in 2012 to RMB261.2 million (US\$43.2 million) in 2013. The increase primarily resulted from sales volume growth in the auto-related claims adjustment business.

Net revenues from other services decreased by 75.0% from RMB5.7 million in 2012 to RMB1.4 million (US\$0.2 million) in 2013. Other services in 2013 represented IT services provided to an affiliate.

*Operating Costs and Expenses*

Operating costs and expenses for our property and casualty insurance segment increased by 25.4% from RMB911.3 million in 2012 to RMB1.1 billion (US\$188.8 million) in 2013. The significant increase was primarily due to the increase in commissions and fees paid to our property and casualty insurance sales agents, which reflected higher commission rates in the automobile insurance market and higher policy acquisition costs due to increased competition from telemarketing by insurance companies.

Operating costs and expenses for our life insurance segment decreased by 12.5% from RMB266.1 million in 2012 to RMB232.8 million (US\$38.5 million) in 2013. The decrease was primarily due to decrease in sales volume.

Operating costs and expenses for our claims adjusting segment increased by 25.4% from RMB186.7 million in 2012 to RMB234.1 million (US\$38.7 million) in 2013. The increase was primarily due to increases in sales volume.

*Income (loss) from Operations*

As a result of the foregoing factors, income from operations for our property and casualty insurance segment decreased by 32.0% from RMB178.9 million in 2012 to RMB121.6 million (US\$20.1 million) in 2013.

Income from operations for our life insurance segment significantly decreased by 140.5% from RMB6.7 million in 2012 to an operating loss of RMB2.7 million (US\$0.5 million) in 2013.

Income from operations for our claims adjusting segment decreased by 12.1% from RMB30.8 million in 2012 to RMB27.1 million (US\$4.5 million) in 2013.

***Year ended December 31, 2012 Compared to Year Ended December 31, 2011***

*Net Revenues*

Net revenues from our property and casualty insurance segment increased by 5.6% from RMB1.0 billion in 2011 to RMB1.1 billion in 2012. The increase primarily resulted from a slight rise in property and casualty insurance commission rates in 2012.

Net revenues from our life insurance segment slightly decreased by 1.3% from RMB276.4 million in 2011 to RMB272.8 million in 2012. The decrease was primarily attributable to the decline in the sales of new life insurance policies.

Net revenues from our claims adjusting segment increased by 7.7% from RMB202.0 million in 2011 to RMB217.5 million in 2012. The increase primarily resulted from (i) increased productivity of claims adjusters; and (ii) enhanced cooperation with the property and casualty segment which referred claims adjusting business to our claims adjusting firms.

Net revenues from other services decreased by 0.3% from RMB5.7 in 2011 to RMB5.7 million in 2012. Other services in 2012 represented IT services provided to an affiliate.

#### *Operating Costs and Expenses*

Operating costs and expenses for our property and casualty insurance segment decreased by 44.0% from RMB1.6 billion in 2011 to RMB911.3 million in 2012. The significant decrease was primarily due to the recognition of an impairment loss of RMB992.7 million and nil in 2011 and 2012, respectively, offset by increase in commissions and fees paid to our property and casualty insurance sales agents, which reflected higher commission rates in the automobile insurance market and higher policy acquisition costs due to increased competition from telemarketing by insurance companies.

Operating costs and expenses for our life insurance segment increased by 8.3% from RMB245.6 million in 2011 to RMB266.1 million in 2012. The increase was primarily due to increase in commissions and fees paid to sales agents and other operational cost such as rental expenses.

Operating costs and expenses for our claims adjusting segment decreased by 23.2% from RMB243.1 million in 2011 to RMB186.7 million in 2012. The decrease was primarily due to the recognition of an impairment loss RMB63.2 million and nil in 2011 and 2012, respectively, offset by an increase in commissions and fees paid to claims adjustors and related services costs, which was in line with the increase in revenues.

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

As a result of the foregoing factors, income from operations for our property and casualty insurance segment increased by 130.1% from an operating loss of RMB593.9 million in 2011 to an operating income of RMB178.9 million in 2012.

Income from operations for our life insurance segment significantly decreased by 78.3% from RMB30.8 million in 2011 to RMB6.7 million in 2012.

Income from operations for our claims adjusting segment is RMB30.8 million in 2012, compared to an operating loss of RMB41.1 million in 2011.

#### **Inflation**

Inflation in China has impacted our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China changed by 5.4% and 2.6% and 2.6% in 2011, 2012, and 2013 respectively. Our operating costs and expenses, such as sales agent and employee compensation and office operating expenses, increased significantly as a result of higher inflation in 2012 and 2013. 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 RMB6.0537 per U.S. dollar in December 2013. The fluctuation of the exchange rate between the RMB and U.S. dollar and HK dollar resulted in foreign currency translation loss of RMB7.0 million (US\$1.1 million) in 2013, 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, 2013, we had RMB2.3 billion (US\$378.1 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, construction of a nationwide operating platform, development of an e-commerce platform, establishment of sales outlets, working capital requirements, purchases of automobiles and office equipment, office renovation and rental deposits. Although we consolidate the results of our PRC affiliated entities, we do not have direct access to their cash and cash equivalents or future earnings. But we can direct the use of their cash through agreements that provide us with effective control of these entities. Moreover, we receive quarterly fees from some of these affiliated entities in exchange for certain consulting and other services provided by us. See “Item 4. Information on the Company—C. Organizational Structure.” We expect to require cash to fund our ongoing business needs, particularly the further expansion of our distribution and service network, expansion into the financial services business and development of an e-commerce insurance platform.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. Financing may be unavailable in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

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

	Year Ended December 31,			
	2011	2012	2013	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash generated from operating activities	491,400	157,808	185,945	30,716
Net cash (used in) generated from investing activities	(46,023)	234,914	(419,308)	(69,264)
Net cash (used in) generated from financing activities	(129,810)	(86,696)	3,350	553
Net increase (decrease) in cash and cash equivalents	315,567	306,026	(230,013)	(37,995)
Cash and cash equivalents at the beginning of the year	1,924,884	2,222,160	2,525,618	417,202
Cash and cash equivalents at the end of the year	2,222,160	2,525,618	2,288,623	378,054

#### *Operating Activities*

Net cash generated from operating activities amounted to RMB185.9 million (US\$30.7 million) for the year ended December 31, 2013, primarily attributable to (i) a net income of RMB100.0 million (US\$16.5 million); (ii) RMB45.3 million (US\$7.5 million) of share-based compensation cost which decreased from 2012 mainly because options granted to employees in March 2012 were recognized on an accelerated basis, (iii) RMB31.3 million (US\$5.2 million) of depreciation of fixed assets which increased significantly from 2012 due to the purchase of more fixed assets for our e-commerce operations in late 2012 and (iv) RMB13.7 million (US\$2.3 million) of amortization of acquired intangible assets, which were included in net income but did not affect cash flow during the period, offset by (i) share of income of affiliates amounting to RMB20.6 million (US\$3.4 million), which increased significantly from 2012 mainly due to strong financial results generated from CFSG, and was also included in net income but did not have cash flow effect during the period; and (ii) an increase of RMB12.5 million (US\$2.1 million) in accounts receivable, which negatively affected operating cash flow, primarily as a result of more bonuses due from insurance companies not yet collected as of December 31, 2013.

Net cash generated from operating activities amounted to RMB157.8 million for the year ended December 31, 2012, primarily attributable to (i) a net income of RMB124.7 million; and (ii) RMB66.9 million of share-based compensation cost, RMB26.3 million of depreciation of fixed assets and RMB15.3 million of amortization of acquired intangible assets, which were included in net income but did not affect cash flow during the period, offset by (i) share of income of affiliates amounting to RMB14.7 million, which was also included in net income but did not have cash flow effect during the period; and (ii) an increase of RMB34.4 million in accounts receivable, which negatively affected operating cash flow, primarily as a result of more bonuses due from insurance companies not yet collected as of December 31, 2012.

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

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

Net cash used in investing activities for the year ended December 31, 2013 was RMB419.3 million (US\$69.3 million), primarily attributable to (i) purchases of short term investments in financial products of RMB283.9 million (US\$46.9 million), (ii) payment for the purchase of office equipment of RMB36.1 million (US\$6.0 million), (iii) increase in other receivables of RMB67.7 million (US\$11.2 million), mainly representing an increase in loans to Jintaiping, and (iv) advance made to related parties of RMB62.3 million (US\$10.3 million), of which mainly made to CFSG. Net cash generated from investing activities for the year ended December 31, 2012 was RMB234.9 million, primarily attributable to (i) net repayment of RMB205.9 million from an affiliate, Sincere Fame, during the year, (ii) proceeds from disposal of short term investments of RMB71.1 million, and (iii) return of contingent consideration related to prior acquisition of RMB12.5 million, offset by purchases of short term investments and office equipment of RMB40.6 million and RMB11.6 million, respectively.

Net cash used in investing activities for the year ended December 31, 2011 was RMB46.0 million, primarily attributable to (i) net proceeds from the disposal of subsidiaries including Datong in the amount of RMB390.8 million during the year; (ii) a RMB331.9 million loan to Sincere Fame, in which we owned 20.6% equity interest, as at December 31, 2011; (iii) the payment of RMB50.0 million for the acquisition of Dongguan Zhongxin and Guangzhou Huajie and (iv) payment of RMB32.7 million for short-term investments during the year.

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

Net cash generated from financing activities was RMB3.4 million (US\$0.6 million) for the year ended December 31, 2013, attributable to capital injection from noncontrolling interests of RMB3.4 million (US\$0.6 million).

Net cash used in financing activities was RMB86.7 million for the year ended December 31, 2012, primarily attributable to (i) payment of RMB90.5 million for acquisitions of noncontrolling interests in subsidiaries; and (ii) a share repurchase amounting to RMB9.2 million, partially offset by capital injection from noncontrolling interests of RMB12.7 million.

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

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

We incurred capital expenditures of RMB20.9 million, RMB41.5 million and RMB6.3 million (US\$1.0 million) for the years ended December 31, 2011, 2012 and 2013, respectively. Our capital expenditures have been used primarily to construct our operating platform including our Core Business System and ERP-based financial and accounting system, construct our e-commerce insurance platform and to purchase automobiles and office equipment for newly established insurance intermediary companies. We estimate that our capital expenditures will increase in the following two or three years as we further expand our distribution and service network, and construct our e-commerce insurance platform. We anticipate funding our future capital expenditures primarily with net cash flows from financing and operating activities.

## Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries in China and our consolidated affiliated entities, Yihe Investment, Xinbao Investment and their subsidiaries. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries and consulting and service fees paid by the subsidiaries of CNinsure Group Company, Yihe Investment and Xinbao Investment. As of December 31, 2013, the total amount of service fees payable to our wholly owned subsidiaries from our consolidated affiliated entities was nil. If our subsidiaries or any consolidated affiliated entities incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. Our wholly owned subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and consolidated affiliated entities in China is required to set aside at least 10% of its after-tax profits as reported in the PRC statutory financial statements each year, if any, to fund a statutory reserve until such reserve reach 50% of its registered capital, and to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of its board. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation of the companies. Furthermore, the EIT Law that took effect on January 1, 2008 has eliminated the exemption of EIT on dividend derived by foreign investors from foreign-invested enterprises and imposes on foreign-invested enterprises an obligation to withhold tax on dividend distributed by such foreign-invested enterprises. As of December 31, 2013, our restricted net asset was RMB1.9 billion (US\$315.1 million), including RMB135.7 million (US\$22.4 million) restricted net assets of our consolidated affiliated entities. This amount is composed of the registered equity of our PRC subsidiaries and consolidated affiliated entities and the statutory reserves described above.

We conduct part of our operations through our consolidated affiliated entities. In the years ended December 31, 2011, 2012 and 2013, aggregate revenues derived from our consolidated affiliated entities contributed 91.9%, 23.6% and 7.2%, respectively, of our total consolidated net revenues, based on our corporate structure as of the end of each year. Our operations that are not conducted through contractual arrangements with our consolidated affiliated entities primarily consist of our insurance agency, brokerage and claims adjusting businesses. As of December 31, 2012 and 2013, our consolidated affiliated entities accounted for an aggregate of 5.4% and 3.2%, respectively, of our consolidated total assets. The assets that are 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, 2012 and 2013, our consolidated affiliated entities accounted for an aggregate of 23.6% and 10.7%, respectively, of our consolidated current liabilities. Our ability to pay dividends depends upon dividends paid by our subsidiaries, which in turn partially depend upon earnings of our consolidated affiliated entities transferred to our subsidiaries in the form of payments under the technology consulting and services agreements. As of December 31, 2013, the total amount of service fees payable to our wholly owned subsidiaries from our consolidated affiliated entities was nil. As of December 31, 2013, we had aggregate undistributed earnings of approximately RMB618.9 million (US\$102.2 million) that were available for distribution, including RMB39.1 million (US\$6.5 million) 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, 2013 to December 31, 2013 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Commitments and Arrangements

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



F. Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2013:

	Payment Due by Period				
	Total	Less than	1-3 years	3-5 years	More than
		1 year			
(in thousands of RMB)					
Operating lease obligations	51,728	20,665	25,726	5,337	—
Purchase obligations	—	—	—	—	—
Total	51,728	20,665	25,726	5,337	—

Not included in the table above are uncertain tax liabilities of RMB50.7 million (US\$8.4 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, 2013.

**Item 6. Directors, Senior Management and Employees**

A. Directors and Senior Management

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

Directors and Executive Officers	Age	Position/Title
Chunlin Wang	44	Chief Executive Officer
Qiuping Lai	60	President and Director
Peng Ge	43	Chief Financial Officer
Yinan Hu	48	Chairman
Xiaojun Shang	41	Director
Yunxiang Tang	68	Independent Director
Stephen Markscheid	60	Independent Director
Allen Warren Lueth	45	Independent Director
Mengbo Yin	58	Independent Director

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

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

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

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

*Ms. Xiaojun Shang* has been our director since August 2012. Ms. Shang has been an executive director of CDH Investments Management (Hong Kong) Limited, an asset management company based in Hong Kong, since October 2010. Prior to that, She was an executive director of CDH Investment Advisory Private Limited, a private equity fund management company based in Singapore, from 2009 to 2010, a vice president of CDH Investments Management (Hong Kong) Limited from 2007 to 2009 and a vice president of CDH China Management Company Limited from 2003 to 2007. Prior to joining CDH China Management Company Limited in 2003, Ms. Shang was an assistant vice president of GIC Special Investments' Asia Pacific private equity group, focusing on direct investment opportunities in China. From 1997 to 2001, she worked for DBS Land Limited and CapitaLand Residential Limited in business development, strategic planning, asset management and corporate planning areas. Ms. Shang graduated with a Bachelor's degree in Business Administration with first class honors in 1996 from the National University of Singapore.

*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 assistant governor of the PBOC, head of the PBOC Guangdong Branch and chief of State Administration of Foreign Exchange, Guangdong Branch.

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

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

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

## **Employment Agreements**

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

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use, except as required in the performance of his duties in connection with the employment, any confidential information, trade secrets and know-how of our company or the confidential information of any third-party, including our affiliated entities and our subsidiaries, received by us. In addition, each executive officer has agreed to be bound by non-competition restrictions set forth in his employment agreement. Specifically, each executive officer has agreed not to, while employed by us and for one year following the termination or expiration of the employment agreement, (i) approach our clients, customers or contacts or other persons or entities introduced to the executive officer for the purpose of doing business with such person or entities, and will not interfere with the business relationship between us and such persons and/or entities; (ii) assume employment with or provide services as a director for any of our competitors, or engage, whether as principal, partner or otherwise, in any business which is in direct or indirect competition with our business; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us at the date of the executive officer's termination, or in the year preceding such termination.

## **B. Compensation**

In 2013, the aggregate cash compensation, including reimbursement of expenses, to our executive officers was approximately RMB2.3 million (US\$0.4 million), and the aggregate cash compensation to our directors that are not executive directors was approximately RMB2.1 million (US\$0.3 million).

## **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 ("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. As of December 31, 2013, in connection with the 2008 Option, options to purchase 2,553,440 ordinary shares had been exercised and options to purchase 1,142,480 ordinary shares were forfeited due to a cessation of the option holders' employment.

On March 9, 2009, our board of directors voted to grant options to purchase an aggregate of 10,000,000 ordinary shares to employees under the amended and restated 2007 share incentive plan ("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. As of December 31, 2013, in connection with the 2008 Option, option to purchase 1,240,480 ordinary shares had been exercised, and options to purchase 1,540,820 ordinary shares were forfeited due to a cessation of the option holders' employment.

On February 8, 2010, our board of directors approved the grant of options to purchase an aggregate of 48,000,000 ordinary shares to various directors, officers and employees pursuant to the amended and restated 2007 Share Incentive Plan. The exercise price of these options is US\$0.84 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Select Market at the grant date (after adjusting for the 20 ordinary shares to 1 ADS ratio). These options were scheduled to vest over a four-year period starting from March 31, 2011, subject to the achievement of certain key performance indicators by the option holders and their continued employment with the Company. No option had been exercised. Options to purchase 20,328,116 ordinary shares were forfeited due to a cessation of the option holders' employment and failure to fulfill certain key performance indicators by certain option holders during 2011. Options to purchase an aggregate of 27,671,884 ordinary shares, which represented all the remaining options granted on February 8, 2010, were cancelled in November 2011.

On April 28, 2011, our board of directors approved the grant of options to purchase an aggregate of 28,400,000 ordinary shares to certain directors, officers and employees pursuant to the amended and restated 2007 Share Incentive Plan ("2011 Option"). The exercise price of these options is US\$0.73 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Select Market at the grant date (after adjusting for the 20 ordinary shares to one ADS ratio). These options were scheduled to vest over a four-year period starting from March 31, 2012, subject to the achievement of certain key performance indicators by the option holders and their continued employment with us. No option had been exercised. Options to purchase 11,425,400 ordinary shares were forfeited due to a cessation of the option holders' employment and failure to fulfill certain key performance indicators by certain option holders during 2011. In connection with the 2011 Option, options to purchase an aggregate of 16,974,600 ordinary shares, which represented all the remaining options granted on February 8, 2010, were cancelled in November 2011.

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 to two independent directors who are residents of the United States an aggregate of 3,200,000 ordinary shares at an exercise price of US\$0.31 per ordinary share ("2012 Option"). 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. As of the effective date of the option grant, outstanding and exercised options have reached 136,874,658, which is the maximum number of ordinary shares reserved for issuance under the 2007 Share Incentive Plan. As of December 31, 2013, none of the 2012 Option had been exercised. Options to purchase 930,334 ordinary shares were forfeited due to a cessation of the option holders' employment.

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.

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

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

- options to purchase our ordinary shares;
- restricted shares, which represent non-transferable ordinary shares, that may be subject to forfeiture, restrictions on transferability and other restrictions; and

- restricted share units, which represent the right to receive our ordinary shares at a specified date in the future, which may be subject to forfeiture.

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

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

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

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

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

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

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

As of March 15, 2014, options to purchase 131,129,192 ordinary shares of CNinsure were outstanding. The following table summarizes, as of March 15, 2014, the outstanding options that we granted to our directors and executive officers and to other individuals as a group.

Name	Options Outstanding	Exercise Price (Per Ordinary Share)	Grant Date	Expiration Date
Chunlin Wang	4,000,000	US\$0.3000	March 12, 2012	March 12, 2022
	2,050,000	US\$0.2780	November 21, 2008	December 31, 2017
Qiuping Lai	4,000,000	US\$0.3000	March 12, 2012	March 12, 2022
	3,400,000	US\$0.2780	November 21, 2008	December 31, 2017
Peng Ge	4,000,000	US\$0.3000	March 12, 2012	March 12, 2022
	3,350,000	US\$0.2780	November 21, 2008	December 31, 2017
Yinan Hu	4,000,000	US\$0.3000	March 12, 2012	March 12, 2022
	4,500,000	US\$0.2780	November 21, 2008	December 31, 2017
Xiaojun Shang	—	—	—	—
Yunxiang Tang	800,000	US\$0.3000	March 12, 2012	March 12, 2022
Stephen Markscheid	1,600,000	US\$0.3135	March 12, 2012	March 12, 2022
	600,000	US\$0.2780	November 21, 2008	December 31, 2017
Allen Warren Lueth	1,600,000	US\$0.3135	March 12, 2012	March 12, 2022
	600,000	US\$0.2780	November 21, 2008	December 31, 2017
Mengbo Yin	1,600,000	US\$0.3000	March 12, 2012	March 12, 2022
	400,000	US\$0.2780	November 21, 2008	December 31, 2017
Other individuals as a group	73,552,381	US\$0.3000	March 12, 2012	March 12, 2022
	7,143,800	US\$0.3360	March 9, 2009	December 31, 2017
	13,280,380	US\$0.2780	November 21, 2008	December 31, 2017
	652,631 <sup>(1)</sup>	RMB2.3214	February 3, 2007	February 1, 2017

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

On March 29, 2012, the shareholders of InsCom Holdings, a subsidiary in which we hold 65.1% equity interests, adopted a share incentive plan, under which a maximum number of 202,400,000 ordinary shares of InsCom Holdings can be granted as options, equal to 20% of the total number of ordinary shares outstanding of InsCom Holdings as at March 28, 2012.

On April 2, 2012, InsCom Holdings granted options to purchase 36,515,586 ordinary shares of InsCom Holdings to certain property and casualty insurance sales agents and options to purchase 24,492,750 ordinary shares of InsCom Holdings to certain employees of InsCom Holdings and the headquarter at an exercise price of RMB1.00 per ordinary share ("InsCom Option"). Pursuant to the option agreements entered into between InsCom Holdings and the option grantees, the options are scheduled to vest over a two-year period from 2012 to 2013. 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 subject to their continued services. The expiration dates for options granted to agents and employees are December 31, 2014 and June 30, 2017, respectively.

On June 24, 2013, InsCom Holdings granted stock options to purchase 5,914,312 of its ordinary shares to certain sales agents and 14,744,000 of its ordinary shares to the employees of InsCom Holdings and its affiliates and the headquarter at an exercise price of RMB1.2 per ordinary share (the "2013 InsCom Options"). Pursuant to the option agreements entered into between InsCom Holdings and the option grantees, the options are scheduled to vest over a two-year period from 2013 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 subject to their continued services. The expiration dates for options granted to agents and employees are December 31, 2014 and June 30, 2018, respectively.

In December, 2013, the chairman of InsCom Holdings approved an option modification to extend the expiration dates of all InsCom options for one year and revised the exercise price of the options to RMB0.025 per ordinary share, the fair value as of the modification date.

C. Board Practices

**Board of Directors**

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

In compliance with Rule 5605 of the Nasdaq Listing Rules, a majority of our directors and all of the committee members of our board of directors are independent directors. During 2013, our board of directors met in person or passed resolutions by unanimous written consent six times. In addition, our independent directors held executive sessions without the presence of non-independent directors or members of management twice during 2013. 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 2013, our audit committee held meetings or passed resolutions by unanimous written consent five 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 2013, our compensation committee held meetings or passed resolutions by unanimous written consent three times.

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

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

In 2013, 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 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 the directors to our company is breached.

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

All directors hold office until their successors have been duly elected and qualified. Outside of certain specified circumstances, including a director becoming bankrupt or of unsound mind or being absent from board meetings without special leave of absence for six consecutive months, a director may only be removed by the shareholders. Officers are elected by and serve at the discretion of the board of directors. We do not have contracts in place with any of our directors providing for benefits upon termination of employment. For the period during which the directors and executives have served in the office, please see “Item 6. Directors, Senior Management and Employees—D. Directors and Senior Management.”



D. Employees

**Employees, Sales Agents and Training**

We had 4,147, 4,108 and 4,288 employees as of December 31, 2011, 2012 and 2013, 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, 2013:

	<b>Number of Employees</b>	<b>% of Total</b>
Management and administrative staff	2,340	54.6
Financial and accounting staff	337	7.8
Sales and marketing staff	167	3.9
Professional claims adjustors	1,362	31.8
Information technology staff	82	1.9
Total	4,288	100

As of December 31, 2011, 2012 and 2013, we had contractual relationships with 46,026, 46,795 and 51,416 sales agents, respectively. The sales agents are not our employees and are only compensated by commissions. For the sale of each property and casualty insurance policy or life insurance policy with a single premium payment schedule, we pay the sales agent who has generated the sale a single commission based on a percentage of the commission and fee we receive from the insurance company for the sale of that policy. For the sale of each life insurance policy with a periodic premium payment schedule, we pay the sales agent who has generated the sale periodic commissions based on a percentage of the commissions and fees we receive from the insurance company for the sale and renewal of that policy, up to the first five years of the premium payment period, and retain all commissions and fees we continue to receive from insurance companies for the rest of the premium payment period.

Our life insurance sales agents are typically organized into sales teams with a multilevel hierarchy, 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 of our sales force. We provide trainings to both new sales agents and existing sales agents, on a monthly or quarterly basis, with a different emphasis. For new sales agents, we offer orientation courses that are designed to familiarize them with the industry background, regulatory environment, corporate culture, insurance products, and sales skills. For the existing sales agents, we offer on-the-job training courses that aim to enhance their sales skills and knowledge of different insurance products.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares, as of March 15, 2014, 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 15, 2014, there were 998,861,526 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>	7,293,020	0.7
Qiuping Lai <sup>(4)</sup>	30,121,200	3.0
Peng Ge <sup>(5)</sup>	12,389,340	1.2
Yinan Hu <sup>(6)</sup>	199,368,110	19.8
Xiaojun Shang	—	—
Yunxiang Tang	*	*
Stephen Markscheid	*	*
Allen Warren Lueth	*	*
Mengbo Yin	*	*
All Directors and Executive Officers as a Group <sup>(7)</sup>	253,171,670	24.8
<b>Principal Shareholders:</b>		
Sea Synergy Limited <sup>(8)</sup>	183,198,110	18.3
CDH Inservice Limited <sup>(9)</sup>	165,765,260	16.6
S. Donald Sussman <sup>(10)</sup>	68,487,280	6.9
Norges Bank (the Central Bank of Norway) <sup>(11)</sup>	78,300,000	7.8
FMR LLC <sup>(12)</sup>	63,901,180	6.4

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

† Except for Ms. Shang and independent directors, the business address of our directors and executive officers is c/o 22/F, Yin Hai Building, No. 299 Yanjiang Zhong Road, Guangzhou, Guangdong 510110, People's Republic of China.

- (1) The number of shares beneficially owned by each director and executive officer includes the shares beneficially owned by such person, the shares underlying all options held by such person that have vested or will vest within 60 days after March 15, 2014.
- (2) Percentage of beneficial ownership of each director and executive officer is based on 998,861,526 ordinary shares outstanding as of March 15, 2014, and the number of ordinary shares underlying options held by such person that have vested or will vest within 60 days after March 15, 2014.
- (3) Mr. Chunlin Wang holds approximately 32.7% of the total outstanding shares of Better Rise Investments. Better Rise Investments owns approximately 30.6% of Kingsford Resources. Kingsford Resources holds 23,883,560 ordinary shares and 12,320,000 ordinary shares in the form of ADSs of our company. Therefore, Mr. Chunlin Wang may be deemed to beneficially own, indirectly through Better Rise Investments and Kingsford Resources, approximately 2,403,320 ordinary shares and 1,23,700 ordinary shares in the form of ADSs of our company. 3,650,000 ordinary shares held by Mr. Chunlin Wang are issuable upon exercise of options within 60 days after March 15, 2014. 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 16,572,440 ordinary shares, 8,548,760 ordinary shares in the form of ADSs of our Company and 5,000,000 ordinary shares issuable upon exercise of options within 60 days after March 15, 2014 held by Mr. Lai who is the sole shareholder of High Rank Investments Limited, or High Rank Investments. High Rank Investments holds approximately 69.4% of the total outstanding shares of Kingsford Resources. Mr. Lai disclaims beneficial ownership of all of our shares held by Kingsford Resources except to the extent of his pecuniary interest therein.
- (5) Mr. Ge holds approximately 67.3% of the total outstanding shares of Better Rise Investments. Therefore, Mr. Ge may be deemed to beneficially own, indirectly through Better Rise Investments and Kingsford Resources, approximately 4,907,800 ordinary shares and 2,531,540 ordinary shares in the form of ADSs of our company. 4,950,000 ordinary shares held by Mr. Ge are issuable upon exercise of options within 60 days after March 15, 2014. Mr. Ge disclaims beneficial ownership of all of our shares held by Kingsford Resources except to the extent of his pecuniary interest therein.
- (6) Includes 10,070,000 ordinary shares in the form of ADSs of our Company acquired by Mr. Hu on the open market, 6,100,00 ordinary shares issuable upon exercise of options within 60 days after March 15, 2014 held by Mr. Hu. and 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. 54,959,433 of the ordinary shares beneficially owned by Mr. Hu through Sea Synergy have been pledged under a loan from an individual entered into in November 2012 for a term of two year.

- (7) Includes ordinary shares beneficially owned by all of our directors and executive officers as a group and ordinary shares underlying all options held by such persons that have vested or will vest within 60 days after March 15, 2014.
- (8) 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.
- (9) Includes 91,600,000 ordinary shares and 74,165,260 ordinary shares in the form of ADSs of our Company held by CDH Inservice, a British Virgin Islands company. All of the issued and outstanding shares of CDH Inservice are owned by CDH China Growth Capital Fund II, L.P., or CDH Fund II, a Cayman Islands exempted limited partnership. CDH Growth Capital Holdings, a Cayman Islands exempted limited liability company, is the general partner of CDH Fund II and has the power to direct CDH Fund II as to the voting and disposition of shares directly and indirectly held by CDH Fund II. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 15, 2014. The business address of CDH Inservice is One Temasek Avenue #18-02, Millenia Tower, Singapore 039192.
- (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 15, 2014. The business address of Mr. Sussman is 6100 Red Hook Quarters, Suite C1-C6 St. Thomas, United Virgin Islands 00802-1348.
- (11) Represents 78,300,000 ordinary shares in the form of ADSs of our Company held by Norges Bank, as reported on Schedule 13G/A filed by Norges Bank on February 7, 2013. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 15, 2014. The address of Norges Bank is Bankplassen 2, PO Box 1179 Sentrum, NO 0107 Oslo, Norway.
- (12) Represents 63,901,180 ordinary shares in the form of ADSs of our Company held by FMR LLC, as reported on Schedule 13G/A filed by FMR LLC on February 14, 2014. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of March 15, 2014. The address of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210, USA.

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 15, 2014, J.P. Morgan Chase Bank, N.A., or J.P. Morgan, the depository for our ADS program, is our only record holder in the United States, holding approximately 70.1% of our total outstanding ordinary shares. The number of beneficial owners of our ADSs in the United States is likely much larger than the number of record holders of our ordinary shares in the United States.

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

### **A. Major Shareholders**

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

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

#### **Amounts Due from 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. 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. As of December 31, 2013, the amounts due from Sincere Fame and its subsidiaries represented RMB126.6 million (US\$20.9 million) principal receivable, RMB16.3 million (US\$2.7 million) interest receivable, and RMB1.5 million (US\$0.2 million) accounts receivable. These amounts are unsecured and bear interest at 7.3%.

## **Revenues and Other Income from Affiliates**

We distributed certain wealth management products supplied by one of our affiliates on a referral basis. Commission revenues that we received from this affiliate were RMB13.1 million during the year ended December 31, 2013.

One of our subsidiaries provided IT services to an affiliate and charged RMB1.5 million during the year ended December 31, 2013.

We charged affiliates interest of RMB6.8 million for loans receivable during the year ended December 31, 2013.

## **Equity Interest Held on Behalf of an Affiliate**

One of our subsidiaries held a 30% equity interest of Beijing Fanhua Micro-credit Company Limited, a subsidiary of Sincere Fame, on behalf of Shenzhen Fanhua United Investment Group, which is also a subsidiary of Sincere Fame.

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

Historically, PRC laws and regulations have restricted foreign investment in and ownership of insurance agencies and brokerages. Accordingly, we conduct small part of our operations in China through contractual arrangements among our PRC subsidiaries, two affiliated entities in China, Yihe Investment and Xinbao Investment, their shareholders and their subsidiaries. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

## **Employment Agreements**

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

## **Share Options**

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

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

Not applicable.

## **Item 8. Financial Information**

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

See “Item 18. Financial Statements.”

## **Legal Proceedings**

On October 17, 2011, Pieter Van Dongen, individually and on behalf of an alleged class of similarly situated holders of our ADSs, filed a class action lawsuit in the United States District Court for the Southern District of New York against us and three of our then executive officers. The complaint alleges that we made a series of false or misleading statements or omissions regarding our business, prospects and operations. The complaint principally alleges that we improperly accounted for the compensation that we paid to our insurance agents, thereby understating our expenses and overstating our net income. The complaint asserts claims under Section 10(b) of the Securities Exchange Act of 1934, or the Exchange Act, and Rule 10b-5 thereunder and under Section 20(a) of the Exchange Act.

On December 6, 2011, we and van Dongen, entered into a stipulation providing that within forty-five days after the court's entry of an order appointing a lead plaintiff under the Private Securities Litigation Reform Act, the lead plaintiff must either file a consolidated complaint or give notice of its intent not to do so (and therefore proceed on its initial complaint). On December 16, 2011, Jeff and Linda Schram, two other alleged purchasers of our ADRs, who are represented by the same law firm that represents van Dongen, moved for appointment as lead plaintiffs. In an order dated June 26, 2012, the Court granted the Schrams' motion, appointing them as lead plaintiffs and approving the selection of Robbins Geller as lead counsel.

On August 13, 2012, the lead plaintiffs filed an amended complaint. We (which is the only defendant that has been served so far) filed a motion to dismiss the amended complaint on October 1, 2012. On November 28, 2012, lead plaintiffs filed a brief in opposition to the motion to dismiss, and on January 10, 2013, we filed our reply. On June 24, 2013, the Court denied our motion to dismiss, except that it summarily dismissed the claim under Section 20(a) of the Exchange Act against the individual defendants. The litigation thus proceeded to discovery.

On March 19, 2014, we signed a settlement agreement with the plaintiff, to settle the lawsuit at US\$6.6 million (approximately RMB40.1 million), to be paid as consideration for full and complete settlement of all the released claims, within thirty calendar days after the entry of an order granting preliminary approval of the settlement. On April 7, 2014, the United States District Court for the Southern District of New York preliminarily approved the settlement and scheduled a hearing on July 9, 2014 to determine whether such settlement should be granted final approval. On April 23, 2013, we and the individual defendants executed an agreement with XL Insurance Company PLC (Singapore Branch), or XL Insurance, in which, inter alia, XL Insurance agreed to pay the settlement amount of US\$6.6 million pursuant to the Directors and Officers and Company Reimbursement Insurance policy purchased by us, and the parties exchanged certain releases.

Accordingly, we have recorded a contingent liability in the amount of US\$6.6 million (RMB40.1 million) and other receivable in the amount of US\$6.6 million (RMB40.1 million) on the consolidated balance sheets. The retention fee to be paid by us under the insurance policy has been partially settled as legal expenses during the past fiscal years with the remaining RMB3.1 million (US\$0.5 million) recorded as other payables and accrued expenses as of December 31, 2013.

Except as disclosed above, we are not currently 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**

On April 23, 2010, our board of directors approved a cash dividend of US\$0.01 per ordinary share, equivalent to US\$0.26 per ADS, which amounted to a total payment of US\$11,862,469.85. The cash dividend was paid on or around June 10, 2010 to shareholders of record as of the close of business on May 20, 2010.

On May 21, 2009, our board of directors approved a cash dividend of US\$0.01 per ordinary share, equivalent to US\$0.22 per ADS, which amounted to a total payment of US\$10,037,475. The cash dividend was distributed on or around July 15, 2009 to shareholders of record as of the close of business on June 26, 2009.

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

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

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

**B. Significant Changes**

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

**Item 9. The Offer and Listing**

**A. Offer and Listing Details**

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

	Sales Price	
	High	Low
	US\$	US\$
<b>Annual High and Low</b>		
2009	24.74	6.26
2010	28.62	15.33
2011	20.88	5.28
2012	9.02	5.00
2013	7.00	4.75
<b>Quarterly Highs and Lows</b>		
First Quarter of 2012	9.02	5.90
Second Quarter of 2012	7.80	5.23
Third Quarter of 2012	7.00	5.00
Fourth Quarter of 2012	8.29	5.28
First Quarter of 2013	7.00	5.73
Second Quarter of 2013	6.77	5.99
Third Quarter of 2013	6.31	4.75
Fourth Quarter of 2013	6.10	4.85
<b>Monthly Highs and Lows</b>		
October 2013	5.35	4.85
November 2013	5.60	4.86
December 2013	6.10	4.86
January 2014	6.50	5.50
February 2014	6.35	5.54
March 2014	9.44	5.85
April 2014 (through April 25)	7.94	6.13

**B. Plan of Distribution**

Not applicable.

C. Markets

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

**Item 10. Additional Information**

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our amended and restated memorandum and articles of association, including certain amendments adopted by our shareholders at the annual general meeting of shareholders held on December 18, 2008, as well as the Companies Law (2013 Revision) insofar as they relate to the material terms of our ordinary shares.

**Registered Office and Objects**

The registered office of our company is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2013 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.

**Board of Directors**

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

**Ordinary Shares**

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

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

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

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

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

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

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

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

**Redemption and Repurchase of Shares.** Subject to the provisions of the Companies Law and our articles of association, we may issue shares on terms that they are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as 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. 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, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. No Cayman Islands stamp duty will be payable unless an instrument is executed in, or brought within the jurisdiction of the Cayman Islands, or produced before a court of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payment made to or by our Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

**PRC Taxation**

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

Under the EIT Law, which took effect as of January 1, 2008, enterprises established under the laws of non-PRC jurisdictions but whose “de facto management body” is located in China are considered “resident enterprises” for PRC tax purposes. Under the implementation regulations issued by the State Council relating to the new law, “de facto management bodies” are defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. 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 subsidiary, InsCom HK Limited, in which we indirectly hold a 65.1% equity interest, 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.

## U.S. Federal Income Taxation

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

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

- banks and other financial institutions;
- insurance companies;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- U.S. expatriates;
- entities subject to the United States anti-inversion rules;
- regulated investment companies or real estate investment trusts;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- Persons 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 who acquired ADSs or ordinary shares pursuant to the exercise of any employee stock options or otherwise as compensation;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock; or
- partnerships or other pass-through entities, or persons holding ADSs or ordinary shares through such entities.

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

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

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

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

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

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

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

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

Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we believe we were a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2013. A non-U.S. corporation will be a PFIC for any taxable year if either:

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

For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. The composition of our income and assets will be affected by how, and how quickly, we use the cash we generate from our operations and raise in any offering. Because the value of our assets for purposes of the asset test will generally be determined by reference to the market price of our ADSs or ordinary shares, fluctuations in the market price of the ADSs or ordinary shares may affect our status as a PFIC. If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares (as we believe we were for 2013), we will generally continue to be treated as a PFIC with respect to you for all succeeding years during which you hold the ADSs or ordinary shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the rules described in the following two paragraphs. After the deemed sale election, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC. **You are strongly urged to consult your tax advisors as to the possibility and consequences of making a deemed sale election if we cease to be a PFIC and such election becomes available to you.**

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

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

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

If we are treated as a PFIC with respect to you for any taxable year (as we believe we were for 2013), to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you will be deemed to own shares in such lower-tier PFICs directly or indirectly owned by us in the proportion that the value of the ADSs or ordinary shares you own bears to the value of all of our ADSs and ordinary shares, and you may be subject to the rules described in the preceding two paragraphs with respect to the shares of such lower-tier PFICs that you would be deemed to own. It is likely that one or more of our subsidiaries were PFICs for the taxable year ended December 31, 2013. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

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

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

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

Unless otherwise provided by the U.S. Treasury, each U.S. shareholder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. If we are a PFIC (as we believe we were for 2013), you should consult your tax advisors regarding any reporting requirements that may apply to you.

**YOU ARE STRONGLY URGED TO CONSULT YOUR TAX ADVISORS REGARDING THE IMPACT OF OUR BEING A PFIC FOR 2013 ON YOUR INVESTMENT IN OUR ADSs AND ORDINARY SHARES AS WELL AS THE APPLICATION OF THE PFIC RULES AND THE ELECTIONS DISCUSSED ABOVE.**

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

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, dividends generally will be “qualified dividend income” that is taxed at the lower applicable capital gains rate, provided certain conditions are satisfied, including (1) our ADSs or ordinary shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a passive foreign investment company nor treated as such with respect to you for our taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period and other requirements are met. Based on U.S. Treasury guidance, we expect the ADSs will be considered readily tradable on an established securities market in the United States for purposes of clause (1) above so long as they remain listed on the Nasdaq Global Select Market. If we are deemed to be a “resident enterprise” under PRC tax law (see “Item 10. Additional Information—E. Taxation—PRC Taxation”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC. As discussed above in “—Passive Foreign Investment Company,” we believe we were a PFIC for the taxable year ending December 31, 2013, and there is a significant risk that we will be a PFIC for future taxable years. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for any dividends paid with respect to the ADSs or ordinary shares and any possible change in law relating to the availability of such lower rate for dividends paid by us.

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

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

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

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

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

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

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

Certain U.S. Holders who are individuals are required to report information relating to an interest in our ADSs or ordinary shares, subject to certain exceptions (including an exception for ADSs or ordinary shares held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the ADSs or ordinary shares.

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

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

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

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

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

We intend to furnish J.P. Morgan, the 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.cninsure.net/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 15, 2014, 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, 2013, we had no short-term or long-term bank borrowings. If we borrow money in future periods, we may be exposed to additional interest rate risk.

#### **Foreign Exchange Risk**

Substantially all of our revenues and expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars resulting from the 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 the current policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately more than 26.9% appreciation of the RMB against the U.S. dollar over the following eight years. To the extent that we need to convert our U.S. dollar or other currencies-denominated assets into RMB for our operations, appreciation of the RMB against the U.S. dollar or other currencies would have an adverse effect on the RMB amount we receive from the conversion. We had U.S. dollar-denominated financial assets amounting to US\$4.0 million and HK dollar-denominated financial assets amounting to HK\$2.3 million as of December 31, 2013. A 10% appreciation of the RMB against the U.S. dollar and HK dollar would have resulted in a decrease of RMB2.6 million (US\$0.4 million) in the value of our U.S. dollar-denominated and HK dollar-denominated financial assets. Conversely, if we decide to convert our RMB denominated cash amounts into U.S. dollars amounts or other currencies amounts for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar or other currencies against the RMB would have a negative effect on the U.S. dollar or other currencies amount available to us.

**Item 12. Description of Securities Other than Equity Securities****A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares****D.3 Fees Payable by ADS Holders**

We have appointed J.P. Morgan as our 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, 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.

<b>Category</b>	<b>Depositary Actions</b>	<b>Associated Fees</b>
(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 depositary receipts	US\$1.50 per ADS
(f) General depositary services, particularly those charged on an annual basis.	<ul style="list-style-type: none"> <li>• Other services performed by the depositary in administering the ADRs</li> <li>• Provide information about the depositary'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 depositary by billing Holders or by deducting such charge from one or more cash dividends or other cash distributions



(g) Expenses of the depositary	<p>Expenses incurred on behalf of Holders in connection with</p> <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 depositary'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 depositary 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 depositary or its agents</li> </ul>	Expenses payable at the sole discretion of the depositary by billing Holders or by deducting charges from one or more cash dividends or other cash distributions
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#### D.4. Payment from the Depositary

##### Direct Payments

J.P. Morgan, as depositary, 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, 2012 and 2013, the depositary reimbursed US\$0.5 million and US\$0.2 million, respectively. For the year ended December 31, 2012 and 2013, the depositary reimbursement has been deducted US\$0.2 million and US\$0.1 million withholding income tax, respectively. The amounts the depositary reimbursed are not perforce related to the fees collected by the depositary from ADR holders. The table below sets forth the types of expenses that J.P. Morgan has agreed to reimburse and the amounts reimbursed for the year ended December 31, 2012 and 2013.

	For the Year Ended December 31,	
	2012	2013
	(in thousands of US\$)	
Investor relations <sup>(1)</sup>	81.4	50.6
Directors and officers liability insurance	357.0	122.8
Legal fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements	6.8	0.9
Listing fees	26.3	—
Others	26.0	21.8
	497.5	196.1

(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

On July 14, 2010, we completed a follow-on public offering of 4,600,000 ADSs, each representing 20 ordinary shares. The ordinary shares underlying the ADSs offered and sold were registered pursuant to our automatic shelf registration statement on Form F-3 (File No. 333-168009) filed with the SEC on July 7, 2010. Morgan Stanley and BofA Merrill Lynch acted as joint bookrunners of this offering. We received net proceeds of approximately US\$109.7 million. As of December 31, 2013, we used the net proceeds as follows:

- approximately US\$13.1 million to fund development of an e-commerce insurance platform;
- approximately US\$42.9 million to fund acquisitions; and
- approximately US\$1.3 million to fund development of wealth management business.

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

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

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

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

Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of December 31, 2013, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

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

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

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

We have audited the internal control over financial reporting of CNinsure Inc., its subsidiaries and variable interest entities (collectively, the "Group") as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* 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, 2013, based on the criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Group, and our report dated April 29, 2014 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/Deloitte Touche Tohmatsu  
Certified Public Accountants

Hong Kong  
April 29, 2014

#### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of 17 CFR 240.13a-15 that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Allen Lueth, an independent director (under the standards set forth in Rule 5605 of the Nasdaq Listing Rules and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

#### **Item 16B. Code of Ethics**

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees. We have posted a copy of our code of business conduct and ethics on our investor relations website at <http://ir.cninsure.net/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 Certified Public Accountants, our independent registered public accounting firm, for the periods indicated.

	<b>For the Year Ended December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>(in thousands of US\$)</b>	
Audit fees <sup>(1)</sup>	1,680	1,770.9
Audit-related fees <sup>(2)</sup>	—	—
Tax fees <sup>(3)</sup>	—	28.1

- (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.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

#### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

#### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In November and December 2008, our board of directors and shareholders respectively approved a share repurchase plan, pursuant to which we were authorized to repurchase up to US\$20 million of our ordinary shares represented by ADSs by the end of 2009. No equity securities of our company were purchased by or on behalf of our company or any “affiliated purchaser” (as such term is defined in Rule 10b-18 under the Exchange Act) of our company in the year ended December 31, 2009.

In December 3, 2010, our board of directors approved another share repurchase plan, pursuant to which we were authorized to repurchase up to US\$100 million of our ordinary shares represented by ADSs by June 30, 2011. As of June 30, 2011, we had repurchased 486,370 ADSs, equivalent to 9,727,400 ordinary shares, for an aggregate price of approximately US\$7.7 million on the open market. As of December, 2011, the management of CNinsure had repurchased 50,000 ADSs for an aggregate price of approximately US\$0.3 million on the open market.

In November 6, 2012, our board of directors approved a share repurchase program, or the 2012 Share Repurchase Program, pursuant to which we were authorized to repurchase up to \$30 million of our ordinary shares represented by ADSs by May 6, 2013. We repurchased 193,165 ADSs for an aggregate price of approximately US\$1.5 million on the open market in the fourth quarter of 2012.

In the fourth quarter of 2012, Mr. Yinan Hu, chairman of our board of directors, had repurchased 503,500 ADSs for an aggregate price of approximately US\$3.8 million on the open market.

#### **Item 16F. Change in Registrant’s Certifying Accountant**

Not applicable.

#### **Item 16G. Corporate Governance**

NASDAQ Stock Market Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer’s fiscal year-end. However, NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters. Maples and Calder, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2009, 2010, 2011, 2012 and 2013. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders’ approvals.

Other than the annual meeting practice described above, there are no significant differences between our corporate governance practices and those followed by U.S.domestic companies under NASDAQ Stock Market Rules.

### **PART III**

#### **Item 17. Financial Statements**

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

#### **Item 18. Financial Statements**

The consolidated financial statements of CNinsure Inc. and its subsidiaries are included at the end of this annual report.

#### **Item 19. Exhibits**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
1.2	Amendments to the Articles of Association adopted by the shareholders of the Registrant on December 18, 2008 (incorporated by reference to Exhibit 99.2 of our report on Form 6-K furnished to the Commission on December 22, 2008)
2.1	Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
2.2	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
2.3	Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.1	2007 Share Incentive Plan (as amended and restated effective December 18, 2008) (incorporated by reference to Exhibit 99.3 of our report on Form 6-K furnished to the Commission on December 22, 2008)
4.2	Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.3 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.3	Form of Director Agreement with Independent Directors of the Registrant (incorporated by reference to Exhibit 10.4 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.4	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 4.4 of our annual report on Form 20-F filed with the Commission on May 15, 2009)
4.5	English translation of Form of Loan Agreement between Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (previously known as Yiqiman Enterprise Management Consulting (Shenzhen) Co., Ltd.) and each shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) (incorporated by reference to Exhibit 10.6 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.6	English translation of Form of Equity Pledge Agreement among Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd., each shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) and Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) (incorporated by reference to Exhibit 10.7 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.7	English translation of Form of Power of Attorney issued by each shareholder of Guangdong Meidiya Investment Co., Ltd. and Sichuan Yihe Investment Co., Ltd. (incorporated by reference to Exhibit 10.8 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.8	English translation of Form of Exclusive Purchase Option Agreement among Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd., each shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.), and Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.) (incorporated by reference to Exhibit 10.9 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.9	English translation of Form of Employment Agreement between an acquired company and its founder (incorporated by reference to Exhibit 10.13 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.10	English translation of Form of Credit and Liability Transfer Agreement among a former shareholder of Guangdong Meidiya Investment Co., Ltd. (or Sichuan Yihe Investment Co., Ltd.), Mr. Peng Ge and Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.13 of our annual report on Form 20-F filed with the Commission on May 15, 2009)
4.11	Put Option Agreement dated October 29, 2010 among Hu Yinan, Apollo & Muse Holding Limited, Wang Strategic Capital Partners (II) Limited and Harbor Pacific Capital Partners I, LP (incorporated by reference to Exhibit 4.21 of our annual report on Form 20-F filed with the Commission on May 4, 2011)
4.12*	English translation of Loan Agreement dated April 18, 2011 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd. and Chunlin Wang
4.13*	English translation of Equity Pledge Agreement dated April 18, 2011 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Chunlin Wang and Shenzhen Xinbao Investment Management Co., Ltd.
4.14*	English translation of Exclusive Purchase Option Agreement dated April 18, 2011 among Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Chunlin Wang and Shenzhen Xinbao Investment Management Co., Ltd.
4.15*	English translation of Power of Attorney dated April 18, 2011 of Chunlin Wang

<b>Exhibit Number</b>	<b>Description of Document</b>
4.16*	English translation of Supplementary Agreement dated March 6, 2013 entered into among Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Chunlin Wang and Shenzhen Xinbao Investment Management Co., Ltd.
4.17*	English translation of Loan Agreement dated April 18, 2011 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd. and Yuan Tian
4.18*	English translation of Equity Pledge Agreement dated April 18, 2011 between Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Yuan Tian and Shenzhen Xinbao Investment Management Co., Ltd.
4.19*	English translation of Exclusive Purchase Option Agreement dated April 18, 2011 among Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Yuan Tian and Shenzhen Xinbao Investment Management Co., Ltd.
4.20*	English translation of Power of Attorney dated April 18, 2011 of Yuan Tian
4.21*	English translation of Supplementary Agreement dated March 6, 2013 entered into among Ying Si Kang Information Technology (Shenzhen) Co., Ltd., Yuan Tian and Shenzhen Xinbao Investment Management Co., Ltd.
4.22	Subscription and Share Purchase Agreement relating to InsCom Holdings Limited dated October 29, 2010 among InsCom Holding Limited, InsCom Group Limited, InsCom HK Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited, Wang Strategic Capital Partners (II) Limited, Harbour Pacific Capital Partners I, LP (incorporated by reference to Exhibit 4.20 of our annual report on Form 20-F filed with the Commission on May 4, 2011)
4.23	Deed of Adherence relating to InsCom Holdings Limited dated October 29, 2010 among InsCom Holdings Limited, InsCom Group Limited, InsCom HK Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited, CISG Holdings Ltd., Wang Strategic Capital Partners (II) Limited, Harbor Pacific Capital Partners I, LP (incorporated by reference to Exhibit 4.19 of our annual report on Form 20-F filed with the Commission on May 4, 2011)
4.24	Supplemental Subscription and Share Purchase and Shareholders Agreement relating to InsCom Holdings Limited dated April 27, 2011 among InsCom HK Limited, InsCom Group Limited, InsCom Holdings Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited, CISG Holdings Ltd. and Subscription and Shares Purchase and Shareholders Agreement dated July 29, 2010 among the same parties (incorporated by reference to Exhibit 4.18 of our annual report on Form 20-F filed with the Commission on May 4, 2011)
4.25	Second Supplemental Subscription and Share Purchase and Shareholders Agreement relating to InsCom Holding Limited dated April 1, 2012 among InsCom HK Limited, InsCom Group Limited, InsCom Holding Limited, Apollo & Muse Holding Limited, Clever Star Holdings Limited and CISG Holdings Ltd. (incorporated by reference to Exhibit 4.23 of our annual report on Form 20-F filed with the Commission on April 24, 2013)
4.26	English translation of Form of Consulting and Service Agreement made with Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.35 of our annual report on Form 20-F filed with the Commission on May 4, 2011)
4.27	English translation of Form of Consulting and Service Agreement made with Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (incorporated by reference to Exhibit 4.36 of our annual report on Form 20-F filed with the Commission on May 4, 2011)

Exhibit Number	Description of Document
4.28	English translation of Form of IT Platform Service Agreement made with Litian Zhuoyue Software (Beijing) Co., Ltd. (incorporated by reference to Exhibit 4.37 of our annual report on Form 20-F filed with the Commission on May 4, 2011)
8.1*	Subsidiaries and Consolidated Affiliated Entities of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 of our F-1 registration statement (File No.333-146605), as amended, initially filed with the Commission on October 10, 2007)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder
15.2*	Consent of Global Law Office
15.3*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants
101***	Financial information from Registrant for the year ended December 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2012 and 2013; (ii) Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2012 and 2013; (iii) Consolidated Statements of Shareholder's Equity for the Years Ended December 31, 2011, 2012 and 2013; (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2012 and 2013; (v) Notes to Consolidated Financial Statements; and (vi) Schedule 1—Condensed Financial Statements of CNinsure Inc.
*	Filed with this Annual Report on Form 20-F.
**	Furnished with this Annual Report on Form 20-F.
***	The amounts in the financial statements, “Notes to the Consolidated Financial Statements” and “Schedule 1—Condensed Financial Statements” of the Interactive Data Files are in thousands, except for shares and per share data. XBRL-related documents are not deemed filed for purposes of section 11 of the Securities Act, or section 18 of the Exchange Act, or otherwise subject to the liabilities of these sections; are not part of any registration statement to which they relate; are not deemed incorporated by reference; are subject to all other liability and anti-fraud provisions of these Act; and are deemed filed for purposes of Item 103 of Regulation S-T.



## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CNINSURE INC.

By: /s/ Chunlin Wang  
Name: Chunlin Wang  
Title: Chief Executive Officer

Date: April 29, 2014

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CNINSURE INC.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of CNinsure Inc. (the "Company"), its subsidiaries and variable interest entities (the "Group") as of December 31, 2012 and 2013, and the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also include the financial statement schedule included in schedule 1. These consolidated financial statements and the financial statement schedule are the responsibilities of the Group's management. Our responsibility is to express an opinion on the 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 CNinsure Inc., its subsidiaries and variable interest entities as of December 31, 2012 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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.

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, 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2014 expressed an unqualified opinion on the Group's internal control over financial reporting.

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. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

/s/Deloitte Touche Tohmatsu  
**Certified Public Accountants**  
Hong Kong  
April 29, 2014

CNINSURE INC.

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

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
<b>ASSETS:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	2,525,618	2,288,623	378,054
Restricted cash	10,871	11,100	1,834
Short term investments	600	253,900	41,941
Accounts receivable, net of allowance for doubtful accounts of RMB9,903 and RMB12,655 (US\$2,090) as of December 31, 2012 and 2013, respectively (Note 2(e))	196,244	199,482	32,952
Insurance premium receivables	10	57	9
Other receivables (Note 5)	86,565	254,776	42,086
Deferred tax assets (Note 12)	4,942	4,858	802
Amounts due from related parties (Note 16)	151,785	144,371	23,848
Other current assets	17,265	20,634	3,409
<b>Total current assets</b>	<b>2,993,900</b>	<b>3,177,801</b>	<b>524,935</b>
<b>Non-current assets:</b>			
Property, plant and equipment, net (Note 6)	94,921	69,562	11,491
Goodwill (Note 7)	78,553	78,553	12,976
Intangible assets, net (Note 2(g))	42,780	29,115	4,809
Deferred tax assets (Note 12)	3,967	3,382	559
Investment in affiliates (Note 8)	168,620	189,241	31,260
Other non-current assets	18,048	13,076	2,160
<b>Total non-current assets</b>	<b>406,889</b>	<b>382,929</b>	<b>63,255</b>
<b>Total assets</b>	<b>3,400,789</b>	<b>3,560,730</b>	<b>588,190</b>

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

CNINSURE INC.

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

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
<b>LIABILITIES AND EQUITY:</b>			
<b>Current liabilities:</b>			
Accounts payable (including accounts payable of the consolidated variable interest entities ("VIEs") without recourse to CNinsure Inc. of RMB30,689 and RMB10,282 (US\$1,699) as of December 31, 2012 and 2013, respectively)	98,124	92,324	15,251
Insurance premium payables (including insurance premium payables of the consolidated VIEs without recourse to CNinsure Inc. of RMB202 and RMB223 (US\$37) as of December 31, 2012 and 2013, respectively)	2,941	4,066	672
Other payables and accrued expenses (including other payables and accrued expenses of the consolidated VIEs without recourse to CNinsure Inc. of RMB35,000 and RMB21,129 (US\$3,490) as of December 31, 2012 and 2013, respectively) (Note 10)	116,124	147,954	24,440
Accrued payroll (including accrued payroll of the consolidated VIEs without recourse to CNinsure Inc. of RMB4,382 and RMB2,172 (US\$359) as of December 31, 2012 and 2013, respectively)	42,317	39,089	6,457
Income taxes payable (including income taxes payable of the consolidated VIEs without recourse to CNinsure Inc. of RMB2,037 and RMB2,603 (US\$430) as of December 31, 2012 and 2013, respectively)	56,003	55,992	9,249
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs without recourse to CNinsure Inc. of RMB3,030 and nil as of December 31, 2012 and 2013, respectively) (Note 15)	3,030	—	—
<b>Total current liabilities</b>	<b>318,539</b>	<b>339,425</b>	<b>56,069</b>

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

CNINSURE INC.

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

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
<b>Non-current liabilities:</b>			
Other tax liabilities (Note 12)	47,589	50,735	8,381
Deferred tax liabilities (Note 12)	26,754	23,808	3,933
<b>Total non-current liabilities</b>	<b>74,343</b>	<b>74,543</b>	<b>12,314</b>
<b>Total liabilities</b>	<b>392,882</b>	<b>413,968</b>	<b>68,383</b>
<b>Commitments and contingencies</b> (Note 17)			
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued and outstanding shares: 998,861,526 and 998,861,526 as of December 31, 2012 and 2013, respectively) (Note 13)	7,624	7,624	1,259
Additional paid-in capital	2,284,906	2,329,962	384,882
Statutory reserves	178,440	182,740	30,186
Retained earnings	527,542	618,885	102,233
Accumulated other comprehensive loss	(104,132)	(111,114)	(18,355)
<b>Total CNinsure Inc. shareholders' equity</b>	<b>2,894,380</b>	<b>3,028,097</b>	<b>500,205</b>
<b>Noncontrolling interests</b>	<b>113,527</b>	<b>118,665</b>	<b>19,602</b>
<b>Total equity</b>	<b>3,007,907</b>	<b>3,146,762</b>	<b>519,807</b>
<b>Total liabilities and equity</b>	<b>3,400,789</b>	<b>3,560,730</b>	<b>588,190</b>

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

CNINSURE INC.

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

	Year Ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
<b>Net revenues:</b>				
Commissions and fees	1,510,886	1,580,234	1,755,545	289,995
Other service fees	5,789	5,883	1,479	244
<b>Total net revenues</b>	<b>1,516,675</b>	<b>1,586,117</b>	<b>1,757,024</b>	<b>290,239</b>
<b>Operating costs and expenses:</b>				
Commissions and fees	(796,843)	(1,085,809)	(1,293,372)	(213,650)
Selling expenses	(77,802)	(78,449)	(96,461)	(15,934)
General and administrative expenses*	(333,281)	(356,033)	(349,205)	(57,684)
Impairment loss on goodwill and intangible assets	(1,057,522)	—	—	—
<b>Total operating costs and expenses</b>	<b>(2,265,448)</b>	<b>(1,520,291)</b>	<b>(1,739,038)</b>	<b>(287,268)</b>
<b>Income (loss) from operations</b>	<b>(748,773)</b>	<b>65,826</b>	<b>17,986</b>	<b>2,971</b>
<b>Other income, net:</b>				
Investment income	—	—	8,886	1,468
Interest income	52,031	90,323	84,250	13,917
Finance cost	—	(2,439)	—	—
Other, net	22,436	6,742	(4,601)	(760)
<b>Income (loss) from continuing operations before income taxes and income of affiliates and discontinued operations</b>	<b>(674,306)</b>	<b>160,452</b>	<b>106,521</b>	<b>17,596</b>
Income tax expense	(84,030)	(50,373)	(27,158)	(4,486)
Share of income of affiliates	14,246	14,658	20,621	3,406
<b>Net income (loss) from continuing operations</b>	<b>(744,090)</b>	<b>124,737</b>	<b>99,984</b>	<b>16,516</b>
<b>Net income from discontinued operations, net of tax</b>	<b>127,553</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net income (loss)</b>	<b>(616,537)</b>	<b>124,737</b>	<b>99,984</b>	<b>16,516</b>
Less: Net (loss) income attributable to the noncontrolling interests	(317,163)	(5,773)	4,341	717
<b>Net income (loss) attributable to the CNinsure Inc's shareholders</b>	<b>(299,374)</b>	<b>130,510</b>	<b>95,643</b>	<b>15,799</b>

\* Including share-based compensation expenses of RMB57,003, RMB66,878 and RMB 45,317 (US\$7,485), for the years ended December 31, 2011, 2012 and 2013, respectively.

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

CNINSURE INC.

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

	Year Ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
<b>Net income(loss) per share:</b>				
<b>Basic:</b>				
Net income (loss) from continuing operations	(0.43)	0.13	0.10	0.02
Net income from discontinued operations	0.13	—	—	—
<b>Net income (loss)</b>	<b>(0.30)</b>	<b>0.13</b>	<b>0.10</b>	<b>0.02</b>
<b>Diluted:</b>				
Net income (loss) from continuing operations	(0.43)	0.13	0.10	0.02
Net income from discontinued operations	0.13	—	—	—
<b>Net income (loss)</b>	<b>(0.30)</b>	<b>0.13</b>	<b>0.10</b>	<b>0.02</b>
<b>Net income (loss) per American Depositary Shares ("ADS"):</b>				
<b>Basic:</b>				
Net income (loss) from continuing operations	(8.51)	2.60	1.92	0.32
Net income from discontinued operations	2.54	—	—	—
<b>Net income (loss)</b>	<b>(5.97)</b>	<b>2.60</b>	<b>1.92</b>	<b>0.32</b>
<b>Diluted:</b>				
Net income (loss) from continuing operations	(8.51)	2.60	1.91	0.32
Net income from discontinued operations	2.54	—	—	—
<b>Net income (loss)</b>	<b>(5.97)</b>	<b>2.60</b>	<b>1.91</b>	<b>0.32</b>
<b>Shares used in calculating net income (loss) per share:</b>				
Basic	1,002,810,673	1,002,308,275	998,861,526	998,861,526
Diluted	1,002,810,673	1,005,301,969	1,000,570,018	1,000,570,018
<b>Net income (loss)</b>	<b>(616,537)</b>	<b>124,737</b>	<b>99,984</b>	<b>16,516</b>
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(18,291)	(2,481)	(6,982)	(1,153)
<b>Comprehensive income (loss)</b>	<b>(634,828)</b>	<b>122,256</b>	<b>93,002</b>	<b>15,363</b>
Less: Comprehensive loss attributable to the noncontrolling interests	(317,163)	(5,773)	4,341	717
<b>Comprehensive income (loss) attributable to the CNinsure Inc's shareholders</b>	<b>(317,665)</b>	<b>128,029</b>	<b>88,661</b>	<b>14,646</b>

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



CNINSURE INC.

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

	Share Capital		Additional Paid-in Capital	Statutory Reserves	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Number of Share	Amounts						
		RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>January 1, 2011</b>	<b>1,002,977,326</b>	<b>7,649</b>	<b>2,261,849</b>	<b>136,681</b>	<b>738,165</b>	<b>(83,360)</b>	<b>456,079</b>	<b>3,517,063</b>
Net loss	—	—	—	—	(299,374)	—	(317,163)	(616,537)
Foreign currency translation	—	—	—	—	—	(18,291)	—	(18,291)
Exercise of share options	2,670,340	17	5,288	—	—	—	—	5,305
Repurchase of ordinary shares	(3,106,220)	(20)	(13,702)	—	—	—	—	(13,722)
Share-based compensation	—	—	57,003	—	—	—	—	57,003
Provision for statutory reserves	—	—	—	34,004	(34,004)	—	—	—
Capital injection by noncontrolling interest	—	—	—	—	—	—	6,937	6,937
Acquisition of additional shares in a subsidiary	—	—	(37,858)	—	—	—	(4,778)	(42,636)
Disposal of subsidiaries	—	—	—	(3,538)	3,538	—	(16,127)	(16,127)
<b>Balance as of December 31, 2011</b>	<b>1,002,541,446</b>	<b>7,646</b>	<b>2,272,580</b>	<b>167,147</b>	<b>408,325</b>	<b>(101,651)</b>	<b>124,948</b>	<b>2,878,995</b>
Net income	—	—	—	—	130,510	—	(5,773)	124,737
Foreign currency translation	—	—	—	—	—	(2,481)	—	(2,481)
Exercise of share options	183,380	1	347	—	—	—	—	348
Repurchase of ordinary shares	(3,863,300)	(23)	(9,221)	—	—	—	—	(9,244)
Share-based compensation	—	—	66,878	—	—	—	—	66,878
Provision for statutory reserves	—	—	—	11,293	(11,293)	—	—	—
Capital injection by noncontrolling interest	—	—	—	—	—	—	12,655	12,655
Acquisition of additional interests in a subsidiary	—	—	(45,678)	—	—	—	(16,570)	(62,248)
Disposal of subsidiaries	—	—	—	—	—	—	(1,733)	(1,733)
<b>Balance as of December 31, 2012</b>	<b>998,861,526</b>	<b>7,624</b>	<b>2,284,906</b>	<b>178,440</b>	<b>527,542</b>	<b>(104,132)</b>	<b>113,527</b>	<b>3,007,907</b>

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

CNINSURE INC.

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

	Share Capital					Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Number of Share	Amounts RMB	Additional Paid-in Capital RMB	Statutory Reserves RMB	Retained Earnings RMB	RMB	RMB	RMB
Net income	—	—	—	—	95,643	—	4,341	99,984
Foreign currency translation	—	—	—	—	—	(6,982)	—	(6,982)
Share-based compensation	—	—	45,317	—	—	—	—	45,317
Provision for statutory reserves	—	—	—	4,300	(4,300)	—	—	—
Capital injection by noncontrolling interest	—	—	—	—	—	—	3,350	3,350
Disposal of subsidiaries	—	—	(261)	—	—	—	(2,553)	(2,814)
<b>Balance as of December 31, 2013</b>	<b>998,861,526</b>	<b>7,624</b>	<b>2,329,962</b>	<b>182,740</b>	<b>618,885</b>	<b>(111,114)</b>	<b>118,665</b>	<b>3,146,762</b>
<b>Balance as of December 31, 2013 in US\$</b>		<b>1,259</b>	<b>384,882</b>	<b>30,186</b>	<b>102,233</b>	<b>(18,355)</b>	<b>19,602</b>	<b>519,807</b>

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

CNINSURE INC.

Consolidated Statements of Cash Flows  
(In thousands)

	Year Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	(616,537)	124,737	99,984	16,516
Adjustments to reconcile net income (loss) to net cash generated from operating activities:				
Depreciation	27,370	26,349	31,253	5,163
Amortization of acquired intangible assets	26,454	15,285	13,665	2,257
Impairment loss on goodwill and intangible assets	1,057,522	—	—	—
Allowance for doubtful receivables	3,572	4,523	5,303	876
Compensation expenses associated with stock options	57,003	66,878	45,317	7,485
Loss (gain) on disposal of property, plant and equipment	542	3,662	(17)	(2)
Net income from discontinued operations	(127,553)	—	—	—
Investment income	—	—	(2,700)	(446)
Finance cost	—	2,439	—	—
Write down of dividend receivables	—	—	7,561	1,249
Share of income of affiliates	(14,246)	(14,658)	(20,621)	(3,406)
Changes in fair value of contingent assets	(12,500)	(4,500)	—	—
Deferred taxes	(16,431)	(3,000)	(3,404)	(562)
<b>Changes in operating assets and liabilities:</b>				
Accounts receivable	8,819	(34,404)	(12,496)	(2,064)
Insurance premium receivables	99	(6)	(47)	(8)
Other receivables	(33,646)	(12,834)	16,710	2,760
Increase in amounts due from related parties	—	—	4,500	743
Other current assets	515	(4,273)	(3,886)	(642)
Other non-current assets	—	(1,400)	1,400	231
Accounts payable	33,686	(8,460)	(5,643)	(932)
Insurance premium payables	1,348	258	1,124	186
Other payables and accrued expenses	65,125	180	7,215	1,192
Accrued payroll	6,406	7,413	(2,412)	(398)
Income taxes payable	15,484	(14,384)	(9)	(2)
Other tax liabilities	8,368	4,003	3,148	520
<b>Net cash generated from operating activities</b>	<b>491,400</b>	<b>157,808</b>	<b>185,945</b>	<b>30,716</b>
<b>Cash flows from investing activities:</b>				
Purchase of short term investments	(70,492)	(40,600)	(283,900)	(46,897)
Proceeds from disposal of short term investments	39,262	71,080	32,291	5,334

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

CNINSURE INC.

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

	Year Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Purchase of non-current assets	(1,450)	(1,948)	—	—
Return of investment in non-current assets	—	1,300	—	—
Addition in investment in affiliates	(600)	—	—	—
Purchase of property, plant and equipment	(20,859)	(11,624)	(36,181)	(5,976)
Purchase of intangible assets	(758)	—	—	—
Proceeds from disposal of property and equipment	793	584	249	41
Increase in other receivables	—	(3,400)	(67,706)	(11,184)
Acquisition of subsidiaries, net of cash acquired of RMB208, nil and nil in 2011, 2012 and 2013, respectively	(49,996)	—	—	—
Disposal of subsidiaries, net of cash disposed of RMB23,607, RMB80 and RMB2,656 (US\$439) in 2011, 2012 and 2013, respectively and transaction cost of RMB3,557 in 2011	390,836	1,967	(1,532)	(253)
Repayments from (advance to) related parties	(331,860)	218,350	(62,300)	(10,291)
Increase in restricted cash	(899)	(795)	(229)	(38)
<b>Net cash (used in) from investing activities</b>	<b>(46,023)</b>	<b>234,914</b>	<b>(419,308)</b>	<b>(69,264)</b>
<b>Cash flows from financing activities:</b>				
Payment for contingent consideration	(100,000)	—	—	—
Acquisition of additional interests in subsidiaries	(28,330)	(90,455)	—	—
Increase in capital injection by noncontrolling interests	6,937	12,655	3,350	553
Proceeds on exercise of stock options	5,305	348	—	—
Repurchase of ordinary shares	(13,722)	(9,244)	—	—
<b>Net cash from (used in) financing activities</b>	<b>(129,810)</b>	<b>(86,696)</b>	<b>3,350</b>	<b>553</b>
<b>Net increase(decrease) in cash and cash equivalents</b>	<b>315,567</b>	<b>306,026</b>	<b>(230,013)</b>	<b>(37,995)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,924,884</b>	<b>2,222,160</b>	<b>2,525,618</b>	<b>417,202</b>
Effect of exchange rate changes on cash and cash equivalents	(18,291)	(2,568)	(6,982)	(1,153)
<b>Cash and cash equivalents at end of year</b>	<b>2,222,160</b>	<b>2,525,618</b>	<b>2,288,623</b>	<b>378,054</b>
Supplemental disclosure of cash flow information:				
Interest paid	—	—	—	—
Income taxes paid	93,913	63,400	27,153	4,485

Supplemental disclosure of non-cash transactions is set out in note 19.

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

**CNINSURE INC.**

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

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

CISG Holdings Ltd ("CISG") was incorporated in the British Virgin Islands ("BVI") on June 8, 2004. CISG undertook a separate restructuring in anticipation of an initial public offering ("IPO") involving CNinsure Inc. (the "Company") that was incorporated in the Cayman Islands on April 10, 2007 as a shell company for listing purpose. On July 31, 2007, prior to its IPO, the Company issued 684,210,526 ordinary shares to the existing shareholders of CISG for exchange of their shares of CISG on a 10,000-for-1 basis and thereafter, became the ultimate holding company of CISG. 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, and services for wealth management products in the People's Republic of China (the "PRC").

Current PRC laws and regulations place certain restrictions on foreign investment in and ownership of insurance agencies and brokerages. Accordingly, the Group conducts 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. The contractual arrangements include a series of contracts entered into between the Group's PRC subsidiaries, the PRC affiliated entities and the equity shareholders of these PRC affiliated entities, including loan agreements, equity pledge agreements, powers of attorney, exclusive purchase option agreements, consulting and service agreements and information technology ("IT") platform service agreements. Through these contractual arrangements, the Group is entitled to: (1) receive service fees from the subsidiaries of these PRC affiliated entities; (2) exercise all of the voting powers of the owners of these PRC affiliated entities; (3) receive dividends declared by these PRC affiliated entities and their subsidiaries; (4) acquire all the equity interests of these PRC affiliated entities and their subsidiaries once PRC laws permit; and (5) exercise its substantive kick out right under the terms of the exclusive purchase option agreement. As the Company is the sole primary beneficiary of these VIEs, the Company consolidates them into its consolidated financial statements (see note 9).

During the year ended December 31, 2011, the Group disposed of the Datong segment as detailed in note 4 and Datong segment is therefore accounted as discontinued operations.

**(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 the valuation of deferred tax assets, valuation of goodwill and intangible assets for impairment analysis, allowance for doubtful receivables, fair values of the subsidiaries being transferred within the Group at the dates of transactions, the valuation of non-controlling interests acquired from related parties at acquisition dates, valuation of transfer pricing and fair value of share based compensation. Actual results could differ from those estimates.

**CNINSURE INC.**

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

**(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 is a guarantee deposits required by China Insurance Regulatory Commission ("CIRC") in order to protect insurance premium appropriation by insurance agency of RMB7,930 and RMB7,034 as of December 31, 2012 and 2013, respectively.

**(d) Short Term Investment**

Short term investments are mainly available-for-sale investments in debt securities that do not have a quoted market price in an active market. They are measured at costs which approximate their fair values in the consolidated balance sheets. 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, 2012 and 2013.

**(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>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Accounts receivable	206,147	212,137
Allowance for doubtful accounts	(9,903)	(12,655)
Accounts receivable, net	<u>196,244</u>	<u>199,482</u>

**CNINSURE INC.**

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

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

	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Balance at the beginning of the year	5,790	9,348	9,903
Provision for doubtful accounts	3,572	4,523	5,303
Write-offs	(14)	(3,968)	(2,551)
Balance at the ending of the year	<u>9,348</u>	<u>9,903</u>	<u>12,655</u>

Insurance premium receivables consist of insurance premium to be collected from 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.

**(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:

	<b>Estimated useful life (Years)</b>	<b>Estimated residual value</b>
Building	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 (loss) and comprehensive income (loss):

	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Commission and fees under operating costs	6,776	3,585	4,988
Selling expenses	1,937	1,880	1,636
General and administrative expenses	17,472	20,884	24,629
Net income from discontinued operations	1,185	—	—
Depreciation for the year	<u>27,370</u>	<u>26,349</u>	<u>31,253</u>

**(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, 2011, 2012 and 2013. 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.

CNINSURE INC.

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

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 2011, management compared the carrying value of each reporting unit, inclusive of assigned goodwill, to its respective fair value – step 1 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 the reporting unit, life insurance ("Life"), exceeded its carrying amount and, therefore, step 2 of the two-step goodwill impairment test was unnecessary. However, it was determined that the fair values of reporting units, property and casualty insurance services ("P&C") and insurance claims adjusting services ("Claims Adjusting"), were less than their carrying amount and, therefore step 2 of the goodwill impairment test was performed to measure the amount of impairment for the reporting units, P&C and Claims Adjusting. For the step 2 goodwill impairment test, implied fair value of the goodwill of the reporting units, P&C and Claims Adjusting are determined by assigning the fair value of the reporting unit used in step 1 to all assets and liabilities of that reporting unit as if the report unit has been acquired in business combination. The implied fair value of goodwill is compared with the carrying amount of goodwill to determine whether the goodwill is impaired and impairment loss is recognized. The fair value has been determined using cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 22%, 25% and 27% for P&C, Life and Claims Adjusting, respectively. Cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. Other key assumptions relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimations are based on the unit's past performance and management's expectations for the market development. As a result, a goodwill impairment loss of RMB1,000,705 was recorded for the year ended December 31, 2011 in relation to the P&C and Claims Adjusting reporting units.

In 2012 and 2013, 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, 2012 and 2013.

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.



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The intangible assets, net consisted of the following:

				As of December 31, 2012			
				Cost	Accumulated amortization	Accumulated impairment loss	Net carrying values
				RMB	RMB	RMB	RMB
Useful life (Years)							
Brand name	Indefinite			24,091	—	(20,384)	3,707
Trade name	9.4 to 10			8,898	(1,984)	—	6,914
Customer relationship	4.6 to 9.8			54,706	(33,684)	(5,760)	15,262
Non-compete agreement	3 to 6.25			68,215	(27,080)	(34,692)	6,443
Agency agreement and license	4.6 to 9.8			16,004	(8,222)	(581)	7,201
Software and system	5 to 10			5,740	(2,487)	—	3,253
				<u>177,654</u>	<u>(73,457)</u>	<u>(61,417)</u>	<u>42,780</u>

				As of December 31, 2013			
				Cost	Accumulated amortization	Accumulated impairment loss	Net carrying values
				RMB	RMB	RMB	RMB
Useful life (Years)							
Brand name	Indefinite			24,091	—	(20,384)	3,707
Trade name	9.4 to 10			8,898	(2,925)	—	5,973
Customer relationship	4.6 to 9.8			54,706	(39,738)	(5,760)	9,208
Non-compete agreement	3 to 6.25			68,215	(29,835)	(34,692)	3,688
Agency agreement and license	4.6 to 9.8			16,004	(10,989)	(581)	4,434
Software and system	5 to 10			5,740	(3,635)	—	2,105
				<u>177,654</u>	<u>(87,122)</u>	<u>(61,417)</u>	<u>29,115</u>

Aggregate amortization expenses for intangible assets were RMB26,454, RMB15,285 and RMB13,665 for the years ended December 31, 2011, 2012 and 2013, respectively, of which RMB326, nil and nil were recorded in discontinued operations for the years ended December 31, 2011, 2012 and 2013, 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, 2011, 2012 and 2013, the Group recognized RMB36,433, nil and nil, respectively, of impairment losses on identifiable intangible assets with determinable useful lives.

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, 2011, 2012 and 2013, the Group recognized RMB20,384, nil and nil, respectively, of impairment losses on its indefinite-lived intangible assets.

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The estimated amortization expenses for the next five years are: RMB13,057 in 2014, RMB8,262 in 2015, RMB941 in 2016, RMB941 in 2017 and RMB941 in 2018, and an aggregate amount of RMB1,266 in years thereafter.

**(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 owes equity interest of less than 20%, over which the Group exerts no significant influence and are measured initially at cost. As of December 31, 2012, the other non-current assets also include dividend receivable from Datong of RMB7,561, recorded at amortized cost after discounting with the effective interest rate. As of December 31, 2013, dividend receivable from Datong of RMB7,561 was fully impaired.

**(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) 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.

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**(n) 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 (loss) and comprehensive income (loss). 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.

*Non-employee share-based compensation*

Share-based compensation related to non-employees is recognized as compensation expenses ratably over the requisite service periods. The Group measures the cost of non-employee services received in exchange for share-based compensation based on the fair value of the equity instruments issued. The Group measures the fair value of the equity instruments in these transactions on the measurement date, which is determined as the earlier of the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or the date at which the counterparty's performance is complete. The quantity and terms of the equity instruments issued to non-employees are not known up front as they are dependent upon counterparty performance conditions, the Group measures the equity instruments at their then-current lowest aggregate fair value at each reporting dates, and attributes the changes in those fair values over the future services period until the measurement date has been established.

*Cancellation and modification*

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

A modification of the terms or conditions of an equity award shall be treated as an exchange of the original award for a new award. The incremental compensation of a modification is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at that date. Total recognized compensation cost for an equity award shall at least equal the fair value of the award at the grant date unless at the date of the modification the performance or service conditions of the original award are not expected to be satisfied.

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

Share-based compensation expenses of RMB57,003, RMB66,878 and RMB45,317 for the years ended December 31, 2011, 2012 and 2013, respectively, were included in the general and administrative expenses.

**(o) 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 (loss) and comprehensive income (loss) as they become payable in accordance with the rules of the above mentioned defined contribution plans.

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**(p) Revenue Recognition**

The Group's revenue is derived principally from the provision of insurance brokerage, agency, claims adjusting services and wealth management products. 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 collect ability of the fee is reasonably assured.

Insurance agency and brokerage services are considered to be rendered and completed, and revenue is recognized, at the time an insurance policy becomes effective, that is, when the signed insurance policy is in place and the premium is collected from the insured. The Group has met all the four criteria of revenue recognition when the premiums are collected by the Group or the respective insurance companies and not before, because collectability is not ensured until receipt of the premium. Accordingly, the Group does not accrue any commission and fees prior to the receipt of the related premiums. No allowance for cancellation has been recognized as the management of the Group estimates, based on its past experience that the cancellation of policies rarely occurs. Any subsequent commission adjustments in connection with policy cancellations which have been de minimis to date are recognized upon notification from the insurance carriers. Actual commission and fee adjustments in connection with the cancellation of policies were 0.1% and 0.2% of the total commission and fee revenues as of December 31, 2012 and 2013, respectively. For property insurance and life insurance, agency and brokerage companies may receive a performance bonus from insurance companies as agreed and per contract provisions. Once an agency and brokerage company achieves its performance target, typically a certain sales volume, the bonus will become due. The bonus amount is 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. Commission revenues earned from distribution of wealth management products are recorded when the products have been sold to customers, at which time the Group has fulfilled all its services obligations.

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

The Group presents revenue net of sales taxes incurred. The sales taxes amounted to RMB113,447, RMB99,001 and RMB99,931 for the years ended December 31, 2011, 2012 and 2013, respectively, of which RMB4,537 was related to discontinued operations for the years ended December 31, 2011. 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 2013, 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. A total of seven subsidiaries or VIEs in the Group that engage in consulting and information technology services met the VAT Reform requirements, and have started to pay value-added tax since the respectively effective days. Total Value-added taxes paid by the Group during the year ended December 31, 2013 amounted to RMB12,013.

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**(q) Contingent Consideration**

The Group recognizes all the assets acquired and liabilities assumed in a business combination at the acquisition-date fair values, which will include an estimation of the fair value of contingent consideration payables if any. Subsequent changes in the fair value of contingent consideration payables will be recorded in the consolidated statement of income (loss) and comprehensive income (loss) when incurred. No change in fair value of contingent consideration payable was charged to consolidated statement of income (loss) and comprehensive income (loss) for the years ended December 31, 2011, 2012 and 2013.

The selling shareholders of the acquired entities agreed to return part of considerations to the Group, if certain performance criteria cannot be met. The fair value of such contingent arrangements was charged to consolidated statement of income (loss) and comprehensive income (loss) in the amount of RMB12,500, RMB4,500 and nil for the years ended December 31, 2011, 2012 and 2013, respectively.

**(r) Fair Value of Financial Instruments.**

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1-inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2-inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Financial instruments primarily consist of cash and cash equivalents, restricted cash, short term investments, accounts receivable, insurance premium receivables, other receivables, accounts payable, other payables, amounts due from (to) related parties and insurance premium payables. The carrying values of these financial instruments, except for short-term investments, approximate their fair values because of their general short maturities.

*Measured at fair value on a recurring basis*

The Group measured its short-term investments at fair value on a recurring basis as of December 31, 2012 and 2013.

Short-term investments are measured at costs which approximate their fair values in the consolidated balance sheets. The Group benchmarks 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. The fair value of the Company's short-term investments measured at recurring basis was RMB600 and RMB253,900, as of December 31, 2012 and 2013 respectively, all classified as Level 2 with fair value measurement at reporting date using significant other observable inputs.

The Group did not have Level 3 investments as of December 31, 2012 and 2013.

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

Goodwill and intangible assets are measured at fair value on a nonrecurring basis and they are recorded at fair value only when impairment is recognized.

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.

**(s) 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 (loss) and comprehensive income (loss). The Group has chosen the Renminbi ("RMB") as their reporting currency.

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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 (loss) and comprehensive income (loss).

**(t) 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. The Group had aggregate amounts of RMB2,484,234 and RMB2,262,712 of cash and cash equivalents denominated in RMB as of December 31, 2012 and 2013, respectively.

**(u) 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 = RMB6.0537, representing the noon buying rate in the City of New York for cable transfers of RMB on December 31, 2013, 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 that rate on December 31, 2013, or at any other rate.

**(v) 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. For the periods presented, the Group operated three operating segments: (1) property and casualty insurance ("P&C"), (2) life insurance ("Life"), and (3) insurance claims adjusting services ("Claims Adjusting"). Details of these operating segments are described in note 22. 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 are derived in the PRC and all long-lived assets are located in the PRC.

**(w) 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.

**(x) Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs amounted to RMB2,188, RMB5,048 and RMB5,724 for the years ended December 31, 2011, 2012 and 2013, respectively, of which RMB87 was related to discontinued operations for the years ended December 31, 2011.

**(y) 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 (loss) and comprehensive income (loss) over the lease period.

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**(z) Accumulated Other Comprehensive Income (Loss)**

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

Accumulated other comprehensive income (loss) represents foreign currency translation adjustments for the period.

**(aa) Recently Issued Accounting Standards**

In February 2013, the FASB has issued an authoritative pronouncement related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The pronouncement provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this pronouncement is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this pronouncement also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments in this Accounting Standards Updates ("ASU") should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this pronouncement) and should disclose that fact. Early adoption is permitted. The Group does not expect the adoption of this pronouncement to have a significant impact on its consolidated financial condition or results from operations.

In March 2013, the FASB has issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the amendments in this pronouncement clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The amendments in this pronouncement are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption. The Group is in the process of assessing the impact of adoption of this pronouncement on its consolidated financial condition or results from operations.

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In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. 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 entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Group expects that the adoption of this pronouncement will change the presentation of deferred tax assets and other tax liabilities on its consolidated balance sheets.

**(3) Acquisitions**

**Acquisitions in 2011**

**P&C segment**

In August, 2011, the Group entered into agreements to acquire 100% equity interests in Guangzhou Huajie Insurance Agency Co., Ltd. ("Huajie") and Dongguan Zhongxin Insurance Agency Co., Ltd. ("Zhongxin") each at a cash consideration of RMB25,000 totalling RMB50,000. The acquisitions of Huajie and Zhongxin were completed on August 31, 2011. Pursuant to the agreements, the selling shareholders of Huajie and Zhongxin agreed to return part of considerations to the Group, if performance criteria of Huajie and Zhongxin for years 2012 and 2013 cannot be met. The fair value of such contingent arrangements approximates to zero at the acquisition date.

The following table summarizes the estimated fair values for major classes of assets acquired and liabilities assumed at the date of acquisition:

	<u>Huajie</u> <u>RMB</u>	<u>Zhongxin</u> <u>RMB</u>
Net tangible assets acquired	55	888
Intangible assets	4,840	5,389
Goodwill	21,204	20,070
Deferred tax assets	111	—
Deferred tax liabilities	(1,210)	(1,347)
Total consideration	<u>25,000</u>	<u>25,000</u>

The excess of purchase price over tangible assets and identifiable intangible assets acquired and liabilities assumed was recorded as goodwill. The goodwill of RMB41,274 arising from the acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the Group and the acquired companies. All of the goodwill was assigned to the Group's P&C segment. None of the goodwill recognized is expected to be deductible for income tax purposes.



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The acquired intangible assets were composed of the following:

	<u>Useful life</u> <u>(Years)</u>	<u>Fair Value Acquired</u> <u>RMB</u>	
		<u>Huajie</u>	<u>Zhongxin</u>
Customer relationship	5.3	2,860	3,490
Non-compete agreement	3.0	1,460	1,379
Agency agreement	5.3	520	520
Total		<u>4,840</u>	<u>5,389</u>

The weighted average amortization period of the intangible asset acquired is 4.7 years

The following unaudited pro forma information summarizes the effect of the acquisitions, as if the acquisitions had occurred as of January 1, 2011. This unaudited pro forma information is presented for information purposes only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Group consummated the acquisitions on January 1, 2011, nor is it necessarily indicative of future results of operations of the consolidated enterprises:

Acquisition of Huajie

	<u>Year ended December 31,</u> <u>2011</u> <u>RMB</u> <u>(unaudited)</u>
Pro forma net revenues	1,522,665
Pro forma loss from operations	(749,337)
Pro forma net loss	(299,904)
Pro forma net loss per share	(0.30)

The amounts of Huajie's net revenue and earnings included in the Group's consolidated income statement from September 1, 2011 to December 31, 2011 are RMB5,364 and RMB365, respectively.

Acquisition of Zhongxin

	<u>Year ended December 31,</u> <u>2011</u> <u>RMB</u> <u>(unaudited)</u>
Pro forma net revenues	1,524,763
Pro forma loss from operations	(749,143)
Pro forma net loss	(299,579)
Pro forma net loss per share	(0.30)

The amounts of Zhongxin's net revenue and earnings included in the Group's consolidated income statement from September 1, 2011 to December 31, 2011 are RMB8,046 and RMB465, respectively.

**(4) Discontinued Operations**

On March 25, 2011, the Company sold its 55% equity interest in Datong to an independent third party at a cash consideration of approximately US\$63,690 equal to RMB418,000. In addition, Datong declared a cash dividend of RMB10,000 exclusively to the Company as at March 25, 2011. In 2012, both parties agreed to defer the settlement date for the dividend to December 31, 2014 and no interest will be charged during the period. Accordingly, the dividend receivable of RMB10,000 has been reclassified from other receivables to other non-current assets, and finance cost of RMB2,439 has been recognized in 2012 based on the effective interest rate discounted over the amended settlement period. In late 2013, information became available to the Company that it is probable the dividend receivable has been impaired and the loss amount can be reasonably estimated to be the total amount of the receivable. As of year ended December 31, 2013, the Company has fully written down the dividend receivable.

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The Company recognized a gain on the disposal of Datong of RMB177,949 (net of transaction cost RMB3,557) which has been included in consolidated statement of income (loss) and comprehensive income (loss) as net income from discontinued operations, for the year ended December 31, 2011.

Results of the discontinued operations are summarized as follows:

	<b>Year ended December 31, 2011</b>
	<b>RMB</b>
Net revenues	65,854
Profit before tax	2,062
Gain on the disposal of Datong	177,949
Income tax	(52,458)
Net income from discontinued operations	<u>127,553</u>

Assets and liabilities of the discontinued operation as of the disposal date were summarized as follows:

ASSET:	
Current assets:	<b>RMB</b>
Cash and cash equivalents	23,607
Other current assets	107,826
Goodwill and intangible assets, net	201,704
Other non-current assets	21,571
Assets of discontinued operation	<u>354,708</u>
Current liabilities	88,258
Non-current liabilities	3,829
Liabilities of discontinued operation	<u>92,087</u>
Noncontrolling interest	<u>16,127</u>

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(5) Other Receivables

Other receivables, net are analyzed as follows:

	As of December 31,	
	2012	2013
	RMB	RMB
Advances to staff (i)	9,784	9,494
Advances to entrepreneurial agents (ii)	1,959	1,984
Rental deposits	5,893	6,213
Interest income receivables (iii)	51,315	47,273
Value-added tax recoverable (iv)	10,745	1,867
Receivable from third parties (v)	—	141,938
Reimbursement from insurance company (vi)	—	40,106
Other	6,869	5,901
	<u>86,565</u>	<u>254,776</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 build business. The advances are unsecured, interest-free and repayable on demand.
- (iii) This represented accrued interest income on bank deposits and interest bearing receivable from third parties as described in (v).
- (iv) As of December 31, 2012 and December 31, 2013, the amount represented value-added tax to be refunded from tax bureau. The amount of value-added tax outstanding as of December 31, 2012 had been refunded during the year 2013, and the amount as of December 31, 2013 had been refunded during the first quarter of year 2014.
- (v) Receivable from third parties mainly included receivables from two third parties: 1) receivable from Guangdong Jintaiping Asset Management Co. Ltd. ("Jintaiping"), in which the Group held 19.5% equity interest before December 2013. On December 2, 2013, the Group disposed of its entire equity interest in Jintaiping to Shanghai Puyi Investment Consulting Co. Ltd. ("Shanghai Puyi"), an independent third party at a consideration of RMB7,987. Accordingly, receivable from Jintaiping which was included in amounts due from related parties as of December 31, 2012 was reclassified as other receivables. The loan receivable from Jintaiping is unsecured, repayable on demand and bears annual interest rate at 8%. As of December 31, 2013, the amount due from Jintaiping was RMB130,651; 2) receivable from Shanghai Puyi as a result of the above mentioned equity transfer. As of December 31, 2013, the amount due from Shanghai Puyi was RMB7,987.
- (vi) On April 23, 2014, the company has signed a settlement agreement with an insurance company. Refer to note 17 (iv) for details.

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

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

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Building	11,346	11,346
Office equipment, furniture and fixtures	125,294	127,849
Motor vehicles	40,041	40,039
Leasehold improvements	9,073	9,033
Total	185,754	188,267
Less: Accumulated depreciation	(90,833)	(118,705)
Property, plant and equipment, net	94,921	69,562

No impairment for property, plant and equipment was recorded for the years ended December 31, 2011, 2012 and 2013.

**(7) Goodwill**

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

	<b>P&amp;C segment</b>	<b>Life segment</b>	<b>Claims Adjusting segment</b>	<b>Datong segment</b>	<b>Total</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Balance as of January 1, 2011	983,007	16,900	38,077	116,389	1,154,373
Addition for acquisitions	41,274	—	—	—	41,274
Addition for contingent considerations	—	—	—	70,000	70,000
Disposal of Datong	—	—	—	(186,389)	(186,389)
Impairment loss	(962,628)	—	(38,077)	—	(1,000,705)
Balance as of January 1, 2012 and 2013	61,653	16,900	—	—	78,553
Impairment loss	—	—	—	—	—
Balance as of December 31, 2012 and 2013	61,653	16,900	—	—	78,553

The gross amount and accumulated impairment losses by segment as of December 31, 2012 and 2013 as follows:

	<b>P&amp;C segment</b>	<b>Life segment</b>	<b>Claims Adjusting segment</b>	<b>Total</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Goodwill, gross	1,024,281	16,900	38,077	1,079,258
Accumulated impairment loss	(962,628)	—	(38,077)	(1,000,705)
Goodwill, net as of December 31, 2012 and 2013	61,653	16,900	—	78,553

The Group performed the annual impairment analysis as of the balance sheet date. Impairment loss of RMB1,000,705 (see note 2(g)), nil and nil has been recognized in goodwill for the years ended December 31, 2011, 2012 and 2013, respectively.

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**(8) Investment in Affiliates**

As of December 31, 2012 and 2013, investments in affiliates represent (i) 40% equity interest in Shanghai Teamhead Automobile Surveyors Co., Ltd. ("Teamhead Automobile") which is a PRC registered company that provides insurance surveyor and loss adjustors services, (ii) 30% equity interest in Jiaxing Baolian Insurance Agency Co., Ltd ("Jiaxing") which is a PRC registered company that distributes property and casualty insurance products and (iii) 20.6% equity interest in Sincere Fame International Limited ("Sincere Fame") which is a BVI company that is a financial services company, primarily engages in the origination and management of small loans made to individuals, loan repackaging transaction, asset management-related services to financial institutions and mortgage agency services to individuals based in Guangzhou, PRC.

During the years ended December 31, 2011, 2012 and 2013, the Group recognized its share of income of affiliates with regard to Teamhead Automobile, Jiaxing and Sincere Fame in the amount of RMB14,246, RMB14,658 and RMB20,621 respectively.

Investment as of December 31, 2012 and 2013 were as follows:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Teamhead Automobile	471	473
Jiaxing	347	192
Sincere Fame	167,802	188,576
Total	<u>168,620</u>	<u>189,241</u>

The summarized financial information of equity method investees is illustrated as below:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Balance sheets		
Current assets	970,114	641,314
Non-current assets	243,230	556,067
Current liabilities	721,431	582,734
Non-current liabilities	<u>743</u>	<u>1,057</u>

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Results of operations			
Net Revenues	223,089	328,385	365,521
Gross profit	202,755	240,644	295,954
Income from operations	60,571	89,963	139,211
Net profit	49,687	73,869	116,674

**(9) Variable Interest Entities**

Historically, PRC laws and regulations place certain restrictions on foreign investment in and ownership of insurance agencies and brokerages. As a Cayman Islands corporation, the Company is deemed a foreign legal person under PRC laws. Accordingly, the Group had conducted its business in China through contractual arrangements.

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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. However, there remains uncertainty regarding the interpretation and implementation of the relevant regulations and the timing of the restructuring process. In addition, restrictions by PRC laws and regulations on foreign investments in and ownership of internet businesses still exists and the Group is still in the process to complete its restructuring plan. Therefore, the Group still conducts part of its operations in China through contractual arrangements among its PRC subsidiaries and consolidated affiliated entities, Sichuan Yihe Investment Co., Ltd. ("Yihe Investment") and Shenzhen Xinbao Investment Management Co., Ltd. ("Xinbao Investment") (collectively referred as the "Two PRC Affiliated Entities") and the equity holders of the Two PRC Affiliated Entities who are PRC nationals. To provide the Company effective control over the Two PRC Affiliated Entities, and the ability to receive substantially all of the economic benefits of the Two PRC Affiliated Entities and their subsidiaries, a series of contractual arrangements were entered amongst CNinsure Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. ("Xinlian Information"), CNinsure Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. ("Zhonglian Enterprise"), Litian Zhuoyue Software (Beijing) Co., Ltd ("Litian") and Ying Si Kang Information Technology (Shenzhen) Co., Ltd. ("Ying Si Kang Information"), which are PRC subsidiaries of the Company, and the Two PRC Affiliated Entities and their direct equity holders, refer to as the "VIE arrangements".

#### **Agreements that provide the Group effective control over the Two PRC Affiliated Entities**

##### *Loan Agreements*

Each of the equity holders of Yihe Investment entered into loan agreements with Xinlian Information, evidencing a zero interest loan granted to them, equal to their respective capital contributions to Yihe Investment. The term of the loan agreement is ten years and may be extended upon written agreement of the parties, but it is not extended automatically. In the event that the loan is not renewed, then upon the expiration of its term and subject to then applicable PRC laws, the loan can be repaid only with the proceeds from the transfer of the individual shareholder's equity interests in Yihe Investment to Xinlian Information or another person designated by Xinlian Information. In addition, the loan agreements contain a number of covenants that restrict the actions the individual shareholder can take or cause Yihe Investment to take specific actions.

Each of the individual shareholders of Xinbao Investment entered into a loan agreement with the Group's subsidiary Ying Si Kang Information, evidencing a zero interest loan granted to them, equal to their respective capital contributions to Xinbao Investment. The terms of the loan agreement are substantially similar to those in the loan agreements of Yihe Investment described above.

##### *Equity Pledge Agreements*

Pursuant to the equity pledge agreements between (1) Yihe Investment, Xinlian Information and the equity holders of Yihe Investment; and (2) Xinbao Investment, Ying Si Kang Information and the equity holders of Xinbao Investment, the equity holders of the Two PRC Affiliated Entities have pledged their equity interests in the Two PRC Affiliated Entities to Xinlian Information and Ying Si Kang Information to secure their obligations under the loan agreements between (1) Yihe Investment and Xinlian Information; and (2) Xinbao Investment and Ying Si Kang Information. During the term of the equity pledge agreements, Xinlian Information and Ying Si Kang Information are entitled to all the dividends declared on the pledged equity interests. The equity pledge agreements will expire when the individual shareholder fully performed his obligations under the loan agreements.

##### *Power of attorney*

Pursuant to the power of attorney, the nominee equity holders of the Two PRC Affiliated Entities each executed a power of attorney, appointing a person designated by Xinlian Information or Ying Si Kang Information as their attorney-in-fact to vote on their behalf on all matters of the Two PRC Affiliated Entities requiring equity holder approval. If Xinlian Information or Ying Si Kang Information designates the individual shareholders of the Two PRC Affiliated Entities to attend a shareholder's meeting of the Two PRC Affiliated Entities, the individual shareholder agrees to vote his shares as instructed by Xinlian Information or Ying Si Kang information.

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The Articles of Association of the Two PRC Affiliated Entities state that the major rights of the equity holders include the power to review and approve annual budget, operating strategy and investment plan, elect the members of board of directors and approve their compensation plan. Therefore, through the power of attorney arrangement, Xinlian Information and Ying Si Kang Information have the ability to exercise effective control over the Two PRC Affiliated Entities through equity holder votes and, through such votes, to also control the composition of the board of directors. In addition, the senior management teams of the Two PRC Affiliated Entities are the same as that of Xinlian Information and Ying Si Kang Information.

**Agreements that provide the Group the option to purchase the equity interests in the Two PRC Affiliated Entities**

*Exclusive Purchase Option Agreements*

Pursuant to the exclusive purchase right agreements, Xinlian Information and Ying Si Kang Information may purchase the entire equity interests in, or all the assets of the Two PRC Affiliated Entities, for a purchase price equal to the amount of the individual shareholder's actual capital contributions to the Two PRC Affiliated Entities or the minimum price permitted by PRC laws, if and when PRC laws are amended to permit such a transaction.

**Agreements that transfer economic benefits to Xinlian Information, Zhonglian Enterprise and Litian**

*IT platform related service and, consulting service agreements*

Pursuant to IT platform service, and consulting service agreements entered into between the Group's PRC subsidiaries Litian, Xilian Information and Zhonglian Enterprise (collectively referred as the "Three Service Providers") and most of the insurance intermediary subsidiaries of the Two PRC Affiliated Entities, the Three Service Providers agreed to grant rights to use the "CNinsure" brand and provide consulting and training services related to finance, taxation, IT platform and internal control compliance to most of the insurance intermediaries of the Two PRC Affiliated Entities in exchange for fees payable quarterly calculated as a percentage of revenues of each insurance intermediary. Each of these agreements has an initial term of one year from the signing date, which will be automatically renewed for one-year terms unless the Three Service Providers decides not to renew the agreement. Each agreement may be terminated by the insurance intermediary companies only upon gross negligence, fraud, other illegal conduct or bankruptcy, or by the Three Service Providers with 30 days' notice.

These contractual arrangements allow the Group to effectively control the Two PRC Affiliated Entities and their subsidiaries, and to derive substantially all of the economic benefits from them. Accordingly, the Group treats the Two PRC Affiliated Entities as VIEs and because the Group is the primary beneficiary of the Two PRC Affiliated Entities, the Group has consolidated the financial results of the Two PRC Affiliated Entities and their subsidiaries.

In addition to the above agreements, which allow the Group to exercise effective control, have an exclusive option to purchase all or part of the equity interests and receive a substantial portion of the economic benefits from the Two PRC Affiliated Entities and their subsidiaries, the Group have also entered into similar contractual arrangements with the non-controlling interest shareholders of Guangdong Meidiya Investment Co., Ltd. ("Meidiya Investments"). As a result of these contractual arrangements, the Company has the right to exercise control over, purchase and receive the economic benefits from all of the equity interests in Meidiya Investments that it currently does not hold.

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**Risks in relation to VIE Arrangement**

The Company believes that the contractual arrangements with PRC Affiliated Entities and their subsidiaries and their current shareholders are in compliance with PRC laws and regulations and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

- revoking the business and operating licenses of the Group's PRC subsidiaries and VIEs;
- restricting or prohibiting any related-party transactions among the Group's PRC subsidiaries and VIEs;
- imposing fines or other requirements with which the Group may not be able to comply;
- requiring the Group to restructure the relevant ownership structure or operations; or
- restricting or prohibiting the Group from providing additional funding for its business and operations in China.

The Company's ability to conduct its business may be negatively affected if the PRC government were to carry out any of the aforementioned actions. As a result, the Company may not be able to consolidate the VIEs and their subsidiaries in its financial statements as it may lose the ability to exert effective control over the VIEs and their subsidiaries and its shareholders, and it may lose the ability to receive economic benefits from the VIEs and their subsidiaries.

The interests of the shareholders of the PRC Affiliated Entities may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the PRC Affiliated Entities not to pay the service fees when required to do so. The Company cannot assure that when conflicts of interest arise, shareholders of the PRC Affiliated Entities will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest the shareholders of PRC Affiliated Entities may encounter in their capacity as beneficial owners and directors of PRC Affiliated Entities, on the one hand, and as beneficial owners and directors of the Company, on the other hand. The Company believes the shareholders of PRC Affiliated Entities will not act contrary to any of the contractual arrangements and the exclusive option agreements provide the Company with a mechanism to remove the current shareholders of PRC Affiliated Entities should they act to the detriment of the Company. The Company relies on certain current shareholders of PRC Affiliated Entities, as directors and executive officers of the Company, to fulfill their fiduciary duties and abide by laws of the PRC and Cayman Islands and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and the shareholders of PRC Affiliated Entities, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.

The VIEs are principally engaged in the provision of insurance brokerage, agency and claims adjusting services in the PRC.

Relevant PRC laws and regulations restrict the VIE from transferring a portion of its net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 21 for disclosure of restricted net assets.

The financial information of the Company's VIEs and VIEs' subsidiaries as of December 31, 2012 and 2013 and for the years ended December 31, 2011, 2012 and 2013, before adjustments for intercompany eliminations, is as follows:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Total assets	185,235	114,232
Total liabilities	169,077	110,133

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Net Revenues	1,394,032	374,529	125,961
Net loss	(245,060)	(4,755)	(3,767)
Net cash generated from (used in) operating activities	73,425	(34,601)	(13,500)
Net cash (used in) generated from investing activities	(80,473)	81,593	12,041
Net cash used in financing activities	(105,903)	(38,305)	—



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In order to simplify the Group's corporate structure to enable more effective control over the PRC affiliated subsidiaries, the Group commenced a corporate restructuring onshore and offshore in October 2011.

In August 2011, CISG Holdings Ltd. ("CISG Holdings"), a wholly-owned subsidiary of the Company, acquired Minkfair Insurance Management Limited ("Minkfair"), a Hong Kong incorporated company whose principal business is insurance distribution in Hong Kong, for a total consideration of HK\$1,200. Subsequently, CNinsure Holdings Ltd. ("CNinsure Holdings"), a wholly-owned subsidiary of CISG Holdings, issued 1,000 of its shares with par value of US\$0.001 to Minkfair. At the same time, CNinsure Holdings repurchased from CISG Holdings one issued and fully paid ordinary share of par value US\$0.001 of CISG Holdings for a total consideration of US\$0.001. As a result of these transactions, Minkfair directly owns 100% of the equity interests in CNinsure Holdings.

In February 2012, CNinsure Insurance Sales Service Group Company Limited ("CNinsure Group Company", formerly known as Shenzhen Fanhua Nanfeng Investment Holding Co., Ltd.), subscribed for a share capital of RMB52,500 in Meidiya. As a result, CNinsure Group Company's shareholdings in Meidiya increased from 20% to 90%, and the equity holders' shareholdings in Meidiya decreased to 10%.

In October 2012, the Group obtained license approval from the CIRC to establish CNinsure Group Company as an insurance sales service group company.

Ying Si Kang Information withdrew all its capital contribution at cost of RMB2,000 in Xinbao Investment in December 2012. After the transaction, the two nominee equity shareholders collectively hold 100% equity interests in Xinbao Investment.

On various dates since May 2012, Meidiya and Yihe Investment transferred their equity interests in five of the Group's affiliated subsidiaries, including CNinsure Lianxing Insurance Sales Co., Ltd. ("CNinsure Lianxing") and CNinsure Times Insurance Sales & Service Co., Ltd., (or CNinsure Times, formerly known as Guangzhou Fanhua Insurance Agency Co., Ltd.) to CNinsure Group Company, Meidiya and Yihe have also transferred their equity interests in 19 of our affiliated entities to CNinsure Lianxing and CNinsure Times.

On July 1, 2013, Xinbao Investment transferred its equity interests in six of the Group's affiliated subsidiaries to CNinsure Times.

As a result of these equity transfers, the Group, through CNinsure Group Company, has controlling equity interest in 41 subsidiaries, while through contractual arrangements with Yihe Investment and Xinbao Investment, it controls the remaining seven VIEs as of December 31, 2013.

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

Components of other payables and accrued expenses are as follows:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Business and other tax payable	26,117	28,313
Refundable deposits from employees and agents	12,714	12,452
Professional fees	12,378	11,818
Advances from third parties	16,014	22,490
Payables for addition of office equipment, furniture and fixtures	38,537	8,618
Insurance compensation claim payable to customers	2,699	1,487
Payable for equity transfers of investment in affiliates	-	15,006
Consideration payable to settle the lawsuit (i)	-	40,106
Others	7,665	7,664
<b>Total</b>	<b>116,124</b>	<b>147,954</b>

Other payables and accrued expenses are unsecured, interest-free and repayable on demand.

- (i) On March 19, 2014, the Company signed a settlement agreement with the plaintiff to settle the lawsuit at US\$6,625 (approximately RMB40,106). Please refer to note (17) (iv) for details of the lawsuit.

**(11) 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 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, 2011, 2012 and 2013, the Group contributed RMB31,885, RMB34,931 and RMB42,919, respectively, to these plans, of which RMB1,196 were recorded in discontinued operations for the year ended December 31, 2011.

**(12) 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 Group 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, 2011, 2012 and 2013, if applicable.

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On March 16, 2007, the PRC promulgated New Enterprise Income Tax Law (the "New Taxation Law"). The New Taxation Law which becomes effective from January 1, 2008. Under the New Taxation Law, all enterprises (both domestic enterprises and FIEs) have one unified income tax rate of 25%. On December 6, 2007, the State Council of the PRC issued Implementation Regulations on the New Taxation Law. The New Taxation Law and Implementation Regulations have changed the tax rate from 15% to 18%, 20%, 22%, 24% and 25% for the years ending December 31, 2008, 2009, 2010, 2011 and 2012, respectively, for Shenzhen PRC subsidiaries.

Pursuant to the relevant laws and regulations in the PRC, Litian and Shenzhen CNinsure Software Technology Co., Ltd ("CNinsure Software"), the 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 has not made any provision for PRC income tax for the year ended December 31, 2011, and has made a 12.5% tax provision for its profits for the years ended December 31, 2012 and 2013. For CNinsure Software, year 2012 was the first profit-making year and accordingly, CNinsure Software has not made any provision for PRC income tax for the years ended December 31, 2012 and 2013.

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

As of December 31, 2013, 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, 2011	5,519
Gross increase in prior-period tax positions	38,067
Balance as of December 31, 2011	43,586
Gross increase in prior-period tax positions	4,003
Balance as of December 31, 2012	47,589
Gross increase in prior-period tax positions	3,146
Balance as of December 31, 2013	50,735

The uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable 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, 2012 and 2013. 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.

Income tax expenses are comprised of the following:

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Current tax expense	100,461	56,467	29,436
Deferred tax income	(16,431)	(6,094)	(2,278)
Income tax expense	84,030	50,373	27,158

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

	As of December 31,	
	2012	2013
	RMB	RMB
<b>Current deferred tax assets:</b>		
Operating loss carryforward	4,942	4,858
Less: valuation allowances	—	—
Current deferred tax asset, net	4,942	4,858
<b>Non-current deferred tax assets:</b>		
Operating loss carryforward	22,826	36,053
Less: valuation allowances	(18,859)	(32,671)
Non-current deferred tax asset, net	3,967	3,382
Total	8,909	8,240
<b>Deferred tax liabilities:</b>		
Intangible assets, net	8,592	5,646
Investment income	18,162	18,162
Total	26,754	23,808

Due to the uncertainty of the level of PRC subsidiaries or VIEs' taxable income and the lack of operating history in the VIEs, management does not believe certain subsidiaries or VIEs will generate sufficient taxable income such that it is more likely than not that the deferred tax assets will not be realized. As such, a valuation allowance has been established for these deferred tax assets as of December 31, 2012 and 2013. The Group had total operating loss carry-forwards of RMB111,536 and RMB164,108 for the years ended December 31, 2012 and 2013, respectively. Such operating loss carry-forwards expire five years after the PRC subsidiaries or VIEs incur the loss unless utilized. As of December 31, 2013, the operating loss carry-forwards of RMB3,024, RMB8,468, RMB50,202, RMB41,731 and RMB60,683 is to expire for the years ended December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

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

	Year Ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Net income (loss) before income taxes and income of affiliates and discontinued operations	(674,306)	160,452	106,521
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	(168,576)	40,113	26,630
Expenses not deductible for tax purposes:			
Entertainment	659	668	494
Goodwill and unamortized intangible asset impairment	255,272	—	—
Other	3,579	3,312	1,635
Tax exemption and tax relief:			
Tax rate differential	(30,140)	(3,947)	(16,347)
Change in valuation allowance	13,654	5,003	13,812
Uncertain tax provisions	8,367	4,003	3,148
Other	1,215	1,221	(2,214)
Income tax expense	84,030	50,373	27,158

Additional PRC income taxes that would have been payable without the tax exemption amounted to approximately RMB70,065, RMB26,784 and RMB19,364 for the years ended December 31, 2011, 2012 and 2013, respectively. Without such exemption, the Group's basic and diluted net profit per share for the year ended December 31, 2013 would have been decreased by RMB0.02.

Under the New Taxation 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 ("EIT") Implementation Regulation, "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 Taxation 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 (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, 2012 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, it is unclear that the legal entities organized outside of PRC should be treated as residents for New Taxation Law purposes. Nevertheless, even if one or more of those entities were characterized as PRC tax residents, no significant impact would be expected on the net current tax payable balance and the net deferred tax balance.

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 RMB1,754,077 and RMB1,882,224 as of December 31, 2012 and 2013 respectively, are considered to be indefinitely reinvested, and accordingly, no provision for 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 RMB175,408 and RMB188,222 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% interest in a 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. The Group has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in VIE affiliates because the Group believes such excess earnings can be distributed in a manner that would not be subject to tax.

**(13) Capital Structure**

During 2011, the Company issued 2,670,340 new shares for the exercise of options, representing 0.27% of the total shares outstanding as of December 31, 2011.

During 2011, the Company had repurchased 155,311 ADS (equal to 3,106,220 ordinary shares), representing 0.31% of the total shares outstanding as of December 31, 2011, for an aggregate price of approximately RMB13,722 on the open market.

During 2012, the Company issued 183,380 new shares for the exercise of options, representing 0.01% of the total shares outstanding as of December 31, 2012.

During 2012, the Company had repurchased 193,165 ADS (equal to 3,863,300 ordinary shares), representing 0.38% of the total shares outstanding as of December 31, 2012, for an aggregate price of approximately RMB9,244 on the open market.

During 2013, there was no movement on the capital structure.

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(14) Net Income (Loss) Per Share

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

	Year Ended December 31,		
	2011 RMB	2012 RMB	2013 RMB
<i>Basic:</i>			
Net income (loss) from continuing operations	(744,090)	124,737	99,984
Net income from discontinued operations	127,553	—	—
Less: Net income(loss) attributable to the noncontrolling interests	(317,163)	(5,773)	4,341
Net income (loss) attributable to the Company's shareholders	<u>(299,374)</u>	<u>130,510</u>	<u>95,643</u>
Weighted average number of ordinary shares outstanding	1,002,810,673	1,002,308,275	998,861,526
Basic net income (loss) from continuing operations per ordinary share	(0.43)	0.13	0.10
Basic net income from discontinued operations per ordinary share	0.13	—	—
Basic net income (loss) per ordinary share	<u>(0.30)</u>	<u>0.13</u>	<u>0.10</u>
Basic net income (loss) from continuing operations per ADS	(8.51)	2.60	1.92
Basic net income from discontinued operations per ADS	2.54	—	—
Basic net income (loss) per ADS	<u>(5.97)</u>	<u>2.60</u>	<u>1.92</u>
<i>Diluted:</i>			
Net income (loss) from continuing operations	(744,090)	124,737	99,984
Net income from discontinued operations	127,553	—	—
Less: Net loss attributable to the noncontrolling interests	(317,163)	(5,773)	4,341
Net income (loss) attributable to the Company's shareholders	<u>(299,374)</u>	<u>130,510</u>	<u>95,643</u>
Weighted average number of ordinary shares outstanding	1,002,810,673	1,002,308,275	998,861,526
Share options	—	2,993,694	1,708,492
Total	<u>1,002,810,673</u>	<u>1,005,301,969</u>	<u>1,000,570,018</u>
Diluted net income (loss) from continuing operations per ordinary share	(0.43)	0.13	0.10
Diluted net income from discontinued operations per ordinary share	0.13	—	—
Diluted net income (loss) per ordinary share	<u>(0.30)</u>	<u>0.13</u>	<u>0.10</u>
Diluted net income (loss) from continuing operations per ADS	(8.51)	2.60	1.91
Diluted net income from discontinued operations per ADS	2.54	—	—
Diluted net income (loss) per ADS	<u>(5.97)</u>	<u>2.60</u>	<u>1.91</u>

During the years ended December 31, 2011, 2012 and 2013, 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 16,158,418, 46,225,381 and 38,222,880, respectively.

Certain share options issued during 2010 and 2011 were cancelled in 2011. Please refer to note 20 to the consolidated financial statements for details of the options scheme issued.

(15) 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, 2013. 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.

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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 RMB178,440 and RMB182,740 as of December 31, 2012 and 2013, respectively.

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

The principal related party balances and transactions as of and for the years ended December 31, 2012 and 2013 are as follows:

a) Amounts due from related parties:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Amount due from an affiliate and its subsidiaries, net (i)	100,684	144,371
Amounts due from noncontrolling shareholders (ii)	51,101	—
<b>Total</b>	<b>151,785</b>	<b>144,371</b>

b) Amounts due to related parties:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2013</b>
	<b>RMB</b>	<b>RMB</b>
Amounts due to noncontrolling shareholders (iii)	3,030	—

- (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. 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. As of December 31, 2012 and 2013, the amount due from Sincere Fame and its subsidiaries represented RMB91,277 and RMB126,621 (US\$20,916) principal receivable, RMB9,407 and RMB16,250 (US\$2,684) interest receivable and nil and RMB1,500 (US\$248) account receivables. These amounts are unsecured, bear interest at 7.3% and are repayable on demand.
- (ii) As of December 31, 2012, the amounts due from noncontrolling shareholders represented RMB44,436 of principal receivable and RMB2,165 interest receivable from Guangdong Jintaiping Asset Management Service Company ("Jintaiping"), and RMB4,500 of acquisition consideration refund receivable from the selling shareholder of a subsidiary acquired in 2010, which failed to meet its performance target pursuant to the acquisition agreement. The Group formerly owned an equity interest of 19.5% in Jintaiping, which is also the non-controlling interest shareholder of one of the Group's subsidiaries. The Group granted a revolving loan with a maximum amount of RMB50,000 to Jintaiping, pursuant to a facility letter entered in June 2012. The revolving loan is valid for one year and bears annual interest rate at 8%. On December 2, 2013, the Group disposed its entire equity interest in Jintaiping. As a result, Jintaiping is no longer a related party to the Group and corresponding receivable was reclassified to other receivables as of December 31, 2013 (refer to note 5).
- (iii) The amount was unsecured, interest-free and repayable on demand. As of December 31, 2012, the amount represented consideration payable for the acquisition of equity investment of Jintaiping.
- c) A subsidiary of the Company provided information technology service to an affiliate and charged RMB5,000, RMB5,660 and RMB1,415 for the years ended December 31, 2011, 2012, and 2013, respectively.



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The Group charged affiliates interest income of RMB1,276, RMB10,298 and RMB6,843 for loans receivable for the years ended December 31, 2011, 2012, and 2013, respectively.

- d) A subsidiary of the Group held a 30% equity interest in Beijing Fanhua Micro-credit Company Limited ("Micro-credit"), on behalf of Shenzhen Fanhua United Investment Group, which is a subsidiary of Sincere Fame.
- e) The Group had acquired non-controlling interests of a number of its subsidiaries from shareholders who are also employees of the Group in 2011 and 2012. The excess of the fair values of these non-controlling interests acquired from these equity shareholders over the transaction prices as of the respective transaction dates were considered to be compensation expenses, which amounted to RMB6,000 and RMB7,900, and had been charged to the consolidated statement of income (loss) and comprehensive income (loss) for the years ended December 31, 2011 and 2012, respectively. The valuation of the equity of a private company is highly judgmental, so changes in the significant assumptions related to these valuations could materially affect the fair values of these entities and the related compensation expenses. There was no such transaction for the year ended December 31, 2013.
- f) Puyi Asset Management Co., Ltd ("Puyi Asset"), previously one of its subsidiaries, distributed certain wealth management products supplied by one of our affiliates. Commission revenues generated from such affiliate were nil, RMB7,522 and RMB13,112 for the years ended December 31, 2011, 2012 and 2013. However, Puyi Asset was disposal of in December, 2013 and no longer a subsidiary of the Group as of December 31, 2013.

**(17) 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, 2013 are:

	<b>Minimum Lease Payment</b>
	<b>RMB</b>
<b>Year ending December 31:</b>	
2014	20,665
2015	14,967
2016	10,759
2017	4,965
2018	372
<b>Total</b>	<b>51,728</b>

Rental expenses incurred under operating leases for the years ended December 31, 2011, 2012 and 2013 amounted to RMB28,048 and RMB31,858 and RMB30,509, respectively, of which RMB1,725 were recorded in discontinued operation for the year ended December 31, 2011.

- (ii) As of December 31, 2012 and 2013, the Group had a commitment of nil and nil, respectively, in connection with acquisition of office equipment that would be due in the following year.

- (iii) The Group entered into various acquisition agreements which contain certain purchase considerations that are contingent upon future performance of the acquired companies. Please refer to note 3 for more details.

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(iv) On October 17, 2011, Pieter van Dongen, an alleged purchaser of the Company's American Depositary Receipts ("ADRs") brought a purported class action against the Company, and three of its then-executive officers. The complaint asserts that between March 2, 2010 and September 14, 2011, the alleged class period, the defendants defrauded purchasers of the Company's ADRs through the dissemination of materially false and misleading statements regarding the Company's income, incentive compensation and future prospects by allegedly overstating net income, and failing to properly account for incentives provided to the Company's agents. The complaint asserts claims under Section 10(b) of the Security Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder and under Section 20(a) of the Exchange Act.

On December 6, 2011, the Company and van Dongen, entered into a stipulation providing that within forty-five days after the court's entry of an order appointing a lead plaintiff under the Private Securities Litigation Reform Act. On December 16, 2011, two other alleged purchasers of the Company's ADRs, who are represented by the same law firm that represents van Dongen, moved for appointment as lead plaintiffs, and no other prospective plaintiff moved for appointment as lead plaintiff by the December 16, 2011 deadline. In an order dated June 26, 2012, the Court granted the two other alleged purchasers' motion, appointing them as lead plaintiffs. On August 13, 2012, the lead plaintiffs filed an amended complaint. The Company (which is the only defendant that has been served so far) filed a motion to dismiss the amended complaint on October 1, 2012. On November 28, 2012, lead plaintiffs filed a brief in opposition to the motion to dismiss, and on January 10, 2013, the Company filed its reply.

On June 24, 2013, the Court denied the Company's motion to dismiss.

On March 19, 2014, the Company signed a settlement agreement with the plaintiff, to settle the lawsuit at US\$6,625 (approximately RMB40,106), to be paid as consideration for full and complete settlement of all the released claims, within thirty calendar days after the entry of an order granting preliminary approval of the Settlement. On April 7, 2014, Judge Broderick entered an order preliminarily approving the settlement and a hearing is scheduled for July 9, 2014 to determine whether the settlement should be granted final approval. On April 23, 2013, the Company and the individual defendants executed an agreement with XL Insurance Company PLC (Singapore Branch) ("XL") in which, inter alia, XL agreed to pay the settlement amount US\$6,625 pursuant to its coverage obligation under the Directors and Officers and Company Reimbursement Insurance policy purchased by the Company, and the parties exchanged certain releases.

Accordingly, the Company has recorded a contingent liability in the amount of US\$6,625(RMB40,106) (note 10) and other receivable in the amount of US\$6,625 (RMB40,106) (note 5) on the consolidated balance sheets. The retention fee to be paid by the Company under the insurance policy has been partially settled as legal expenses during the past fiscal years with the remaining RMB3,100 recorded as other payables and accrued expenses as of December 31, 2013.

**(18) Concentrations of Credit Risk**

**Concentration risks**

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

	Year ended December 31,					
	2011 RMB	% of sales	2012 RMB	% of sales	2013 RMB	% of sales
PICC Property and Casualty Company Limited ("PICC")	331,556	22%	330,699	21%	346,405	20%
Ping An Property & Casualty Insurance Company of China, Ltd.	181,088	12%	185,595	12%	248,102	14%
China Pacific Property Insurance Co., Ltd. ("CPIC")	184,717	12%	208,797	13%	204,983	12%
	<u>697,361</u>	<u>46%</u>	<u>725,091</u>	<u>46%</u>	<u>799,490</u>	<u>46%</u>

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

	As of December 31,			
	2012	%	2013	%
	RMB		RMB	
PICC	32,980	17%	41,375	21%
CPIC	—	—	20,654	10%
	32,980	17%	62,029	31%

The Group performs ongoing credit evaluations of its customers and related parties 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 16(a)(i) and other receivables from Jintaiping (note 5(v)). As the Group has significant influences over the operations of Sincere Fame through its equity investment in Sincere Fame, and the historically positive operating results of Sincere Fame and its subsidiaries and Jintaiping, the Group considered that the credit risks on the amounts due from an affiliate and its subsidiaries and other receivables from Jintaiping as not significant.

**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 fully 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.

**(19) Non-Cash Transactions**

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

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Considerations payable in connection with acquisition of subsidiaries	20,402	96	—
Considerations payable in connection with other investment (i)	—	3,030	3,720
Payables for addition of office equipment, furniture and fixtures	9,666	38,537	8,618

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(i) In 2012, the Group sold 19.5% equity interest of Puyi Investment, a private entity which the Group does not exert significant influence. Concurrently, the Group acquired 19.5% of Jintaiping with the purchase price of RMB7,987. The net amount payable to shareholders of Jintaiping for these two transactions amounted to RMB3,030 (see note 16b(iii)) and was recorded as amounts due to related parties as of December 31, 2012, and recorded as other payables and accrued expenses as of December 31, 2013.

**(20) Share-based Compensation**

**2013 InsCom Options**

On March 29, 2012, the shareholders of InsCom Holdings Limited ("InsCom"), a private subsidiary of which the Group has a 65.10% equity interest, has resolved on the adoption of a share incentive plan, under which the maximum number of ordinary shares that can be granted is 202,400,000 shares, equal to 20% of the total number of ordinary shares outstanding at InsCom as at March 28, 2012, and that the board of directors are authorized to grant such options.

On June 24, 2013, InsCom granted stock options to purchase 5,914,312 of its ordinary shares to its entrepreneurial agents and 14,744,000 ordinary shares to its and the Group's employees (the "2013 InsCom Options"). 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 subject to their continued services to the InsCom and the Group. For options granted to agents, 60,000 ordinary shares ("Option J1") was vested immediately on June 24, 2013, and the remaining ("Option J2") of the award options shall vest on June 30, 2014, the expiration date for options granted to agents is December 31, 2014. For options granted to employees ("Option J3") shall vest on June 30, 2014, and the expiration date for options granted to employees is June 30, 2018. The 2013 InsCom Options have an exercise price of RMB1.20 per ordinary share. There is no intrinsic value of the options as of the date of grant. The fair value of the options of the 2013 InsCom Options was determined by using the Black-Scholes option pricing model with the following assumptions:

	<b>Option J1</b>	<b>Option J2</b>	<b>Option J3</b>
Fair value per underlying ordinary shares of InsCom	RMB0.02	RMB0.02	RMB0.02
Risk-free interest rate	0.08%	0.13%	0.68%
Expected life (years)	0.8	1.3	3
Expected volatility	30.00%	32.00%	60.00%
Expected dividend yield	0%	0%	0%
Early exercise multiple	3.0	3.0	3.0

When estimating the fair value of the ordinary shares of InsCom on grant date, the Group determined InsCom's enterprise value by means of a discounted cash flow analysis under the contemporaneous income approach, which assumes the value of InsCom's equity as the present value of expected future cash flows. The discounted cash flow derived by management considered InsCom's future business plan, specific business and financial risks, the stage of development of the InsCom's operations and economic and competitive elements affecting the InsCom's business, industry and market.

The expected term was estimated by taking into consideration the expiration period and the vesting terms. As InsCom is a non-public company, expected volatility was estimated based on annualized daily volatilities of the Company for a period with length commensurate to expected term.

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Risk-free interest rate is estimated based on the yield to maturity of China Sovereign bond denominated in RMB plus China country risk premium as at the Valuation Date.

As of the grant date and December 31, 2013, the fair values of the 2013InsCom Options were estimated to be of nominal values. The share-based compensation expenses related to the 2013 InsCom Options was RMB6 for the year ended December 31, 2013.

**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 members of the board of directors of the Company received 8,800,000 stock options, which require continued services to the Company but with no other performance conditions. For the rest of the 2012 Option G awards, 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 subject to their continued employment with the Company. Accordingly, 20% ("Option G1"), 20% ("Option G2"), 25% ("Option G3"), 20% ("Option G4") and 15% ("Option G5") of the award options shall vest on May 31 each of the years 2012 to 2016, respectively. The expiration date of the 2012 Options is March 12, 2022. The 2012 Options G have 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 have an exercise price of US\$0.31 (RMB1.98) and an intrinsic value of US\$0.03 (RMB0.17) per ordinary share. The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions:

	<b>Option G1</b>	<b>Option G2</b>	<b>Option G3</b>	<b>Option G4</b>	<b>Option G5</b>
Weight average assumptions – expected dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	2.02%	2.16%	2.29%	2.42%	2.55%
Expected life (years)	5.11	5.61	6.11	6.61	7.11
Expected volatility	74.54%	74.54%	74.54%	74.54%	74.54%

The expected dividend yield was estimated by the Company based on its dividend policy over the expected life of the options. Risk-free interest rate was estimated based on the USD Treasury Bond Yield and pro-rated according to the tenor of the options plus a risk premium of 1.05% to cater the higher sovereign risk of China. The expected term was estimated by taking into consideration the expiration period and the vesting terms. Expected volatility was estimated based on the longest available historical annualized daily volatilities of the Company.

For the year ended December 31, 2012 and 2013, share-based compensation expenses of RMB60,666 and RMB35,732 were recognized in connection with the 2012 Options G, respectively.

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**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 number of options that the grantees are entitled to in each year of 2013 to 2016 will be calculated based on the key performance indicator scores of the grantees in the respective prior year and subject to their continued agent services with the Company. The expiration date of the 2012 Options is March 12, 2022. The 2012 Options H have an exercise price of US\$0.30 (RMB1.90) and an intrinsic value of US\$0.04 (RMB0.26) per ordinary share. The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions as of December 31, 2012:

	<b>Option H1</b>	<b>Option H2</b>	<b>Option H3</b>	<b>Option H4</b>	<b>Option H5</b>	<b>Option H6</b>
Stock price per ordinary shares	US\$0.31	US\$0.31	US\$0.31	US\$0.31	US\$0.31	US\$0.31
Weight average assumptions – expected dividend yield	0%	0%	0%	0%	0%	0%
Risk-free interest rate	1.87%	1.98%	2.09%	1.82%	1.93%	2.04%
Expected life (years)	5.37	5.87	6.37	5.12	5.62	6.12
Expected volatility	74.54%	74.54%	74.54%	74.54%	74.54%	74.54%

The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions as of December 31, 2013, exclude Option H4, which was vested on May 31, 2013:

	<b>Option H1</b>	<b>Option H2</b>	<b>Option H3</b>	<b>Option H5</b>	<b>Option H6</b>
Stock price per ordinary shares	US\$0.30	US\$0.30	US\$0.30	US\$0.30	US\$0.30
Weight average assumptions – expected dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	1.26%	1.43%	1.60%	1.26%	1.43%
Expected life (years)	4.31	4.81	5.31	4.31	4.81
Expected volatility	59.29%	60.32%	64.83%	59.29%	60.32%

The expected dividend yield was estimated by the Company based on its dividend policy over the expected life of the options. Risk-free interest rate was estimated based on the USD Treasury Bond Yield and pro-rated according to the tenor of the options plus a risk premium of 1.05% to cater the higher sovereign risk of China. The expected term was estimated by taking into consideration the expiration period and the vesting terms. Expected volatility was estimated based on daily stock prices of comparable companies for a period with length commensurate to expected term.

For the years ended December 31, 2012 and 2013, share-based compensation expenses of RMB1,100 and RMB1,288 were recognized in connection with the 2012 Options H, respectively.

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**c. 2012 InsCom Options**

On April 2, 2012, InsCom granted stock options to purchase 36,515,586 of its ordinary shares to its entrepreneurial agents and 24,492,750 ordinary shares to its and the Group's employees (the "2012 InsCom Options"). Pursuant to the option agreements entered into between the Company and the option grantees, the options shall vest over a two-year period from 2012 to 2013. 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 subject to their continued services to the InsCom and the Group. For options granted to agents, 86% ("Option I1") was vested immediately on April 2, 2012, and the remaining 14% ("Option I2") of the award options shall vest on June 30, 2013. The expiration date for options granted to agents is December 31, 2014. For options granted to employees, 36% ("Option I3") was vested immediately on April 2, 2012, and the remaining 64% ("Option I4") of the award options shall vest on June 30, 2013, and the expiration date for options granted to employees is June 30, 2017. The 2012 InsCom Options have an exercise price of RMB1.00 per ordinary share. There is no intrinsic value of the options as of the date of grant. The fair value of the 2012 InsCom Options on grant date was determined by using the Binominal option pricing model with the assistance of an independent valuation firm and the following assumptions:

	<b>Option I1</b>	<b>Option I2</b>	<b>Option I3</b>	<b>Option I4</b>
Fair value per underlying ordinary shares of InsCom	RMB0.02	RMB0.02	RMB0.02	RMB0.02
Risk-free interest rate	1.74%	1.83%	1.94%	2.06%
Expected life (years)	2.7	2.7	5.2	5.2
Expected volatility	77.00%	71.00%	67.00%	67.00%
Expected dividend yield	0%	0%	0%	0%
Early exercise multiple	3.0	3.0	3.0	3.0
Post-vesting forfeiture rate	0%	0%	5%	5%

When estimating the fair value of the ordinary shares of InsCom on grant date, the Group determined InsCom's enterprise value by means of a discounted cash flow analysis under the contemporaneous income approach, which assumes the value of InsCom's equity as the present value of expected future cash flows. The discounted cash flow derived by management considered InsCom's future business plan, specific business and financial risks, the stage of development of the InsCom's operations and economic and competitive elements affecting the InsCom's business, industry and market. The fair values of the shares were determined with the assistance of an independent valuation firm.

The expected term was estimated by taking into consideration the expiration period and the vesting terms. As InsCom is a non-public company, expected volatility was estimated based on annualized daily volatilities of the Company for a period with length commensurate to expected term.

Risk-free interest rate is estimated based on the yield to maturity of China Sovereign bond denominated in RMB plus China country risk premium as at the Valuation Date. The exercise multiple is estimated by management, based on a consideration of research study regarding exercise pattern from historical statistical data. A multiple of 3 was used in the valuation analysis. And the post vesting forfeit rate was based on historical statistical data of the Group.

As of the grant date and December 31, 2012 and 2013, the fair values of the 2012 InsCom Options were estimated to be of nominal values. The share-based compensation expenses related to the 2012 InsCom Options was RMB3 and RMB6 for the years ended December 31, 2012 and 2013 respectively.

**2011 Options**

On April 28, 2011, the Company granted options ("2011 Options") to its directors and employees to purchase 28,400,000 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 four-year period from 2012 to 2015. The number of options that the grantees are entitled to in each year of 2012 to 2015 will be calculated based on the key performance indicator scores of the grantees in the respective prior year and subject to their continued employment with the Company. Accordingly, 30% ("Option F1"), 30% ("Option F2"), 20% ("Option F3"), and 20% ("Option F4") of the award options shall vest on March 31 each of the years 2012 to 2015, respectively. The expiration date of the 2011 Options is March 31, 2017. The 2011 Options have an exercise price of US\$0.73 (RMB4.77) per ordinary share, equal to the price per ordinary share quoted on the Nasdaq Global Select Market at the date of passing the resolutions. There is no intrinsic value of the options as of the date of grant. The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions:

	<b>Option F1</b>	<b>Option F2</b>	<b>Option F3</b>	<b>Option F4</b>
Weight average assumptions – expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	1.93%	2.27%	2.54%	2.81%
Expected life (years)	3.43	3.93	4.43	4.94
Expected volatility	35.54%	34.34%	32.93%	32.49%

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For the year ended December 31, 2011, share-based compensation expenses of RMB24,615, were recognized in connection with the 2011 Options. In November 2011, 16,974,600 shares of 2011 Options were cancelled and share-based compensation expenses amounting to RMB22,015, representing the remaining unamortized share-based compensation expenses for these options was recognized and included in the total share-based compensation in connection with the 2011 Options. During 2011, 11,425,400 shares of 2011 options were forfeited due to the failure of directors and employees to meet performance requirements, and some employees resigned during the year. No share-based compensation expense related to the forfeited options was recognized.

**2010 Options**

On February 8, 2010, the Company granted options ("2010 Options") to its directors and employees to purchase 48,000,000 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 four-year period from 2011 to 2014. The number of options that the grantees are entitled to in each year of 2011 to 2014 will be calculated based on the key performance indicator scores of the grantees in the respective prior year and subject to their continued employment with the Company. Accordingly, 30% ("Option E1"), 30% ("Option E2"), 20% ("Option E3") and 20% ("Option E4") of the options shall vest on March 31 of each of the years 2011 to 2014, respectively. The expiration date of the 2010 Options is March 31, 2016. The 2010 Options have an exercise price of US\$0.84 (RMB5.73) per ordinary share, equal to the price per ordinary share quoted on the Nasdaq Global Select Market at the date of passing the resolutions. There is no intrinsic value of the options as of the date of grant. The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions:

	<b>Option E1</b>	<b>Option E2</b>	<b>Option E3</b>	<b>Option E4</b>
Weight average assumptions – expected dividend yield	1.31%	1.31%	1.31%	1.31%
Risk-free interest rate	2.35%	2.61%	2.82%	3.06%
Expected life (years)	3.64	4.14	4.64	5.14
Expected volatility	34.91%	33.7%	32.62%	31.82%

The expected term was estimated by taking into consideration the expiration period and the vesting terms. Expected volatility was estimated based on daily stock prices of comparable companies for a period with length commensurate to expected term.

For the years ended December 31, 2011, 2012 and 2013, share-based compensation expenses of RMB26,985, nil and nil was recognized in connection with the 2010 Options, respectively. In November 2011, 27,671,884 shares of 2010 Options were cancelled and share-based compensation expenses amounting to RMB26,150, representing the remaining unamortized share-based compensation expenses for these options was recognized and included in the total share-based compensation in connection with 2010 Options. During 2011, 20,328,116 shares of 2010 options were forfeited due to the failure of directors and employees to meet performance requirements, and some employees resigned during the year. No share-based compensation expense related to the forfeited options was recognized.



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**2009 Options**

On March 9, 2009, the Company granted options ("2009Options") to its employees to purchase 10,000,000 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 four-year period, with 30% ("Option D1"), 30% ("Option D2"), 20% ("Option D3") and the remaining 20% ("Option D4") of the options vesting on March 31 of each of the years 2010 to 2013, respectively, subject to the continuous employment of the option grantees and their key performance indicators ("KPI") results for the years 2009. The expiration date of the 2009 Options is March 31, 2015, which was later modified to December 31, 2017 (See "option modification" section of the note). The 2009 Options have an exercise price of US\$0.34 (RMB2.30) per ordinary share, equal to the price per ordinary share quoted on the Nasdaq Global Select Market at the date of passing the resolutions. There is no intrinsic value of the options as of the date of grant. The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions:

	<b>Option D1</b>	<b>Option D2</b>	<b>Option D3</b>	<b>Option D4</b>
Weight average assumptions – expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	3.35%	3.51%	3.55%	3.61%
Expected life (years)	3.56	4.06	4.56	5.06
Expected volatility	33.0%	31.9%	32.2%	31.2%

As of December 31, 2013, 1,240,480 shares of 2009 Options had been exercised. The expected term was estimated by taking into consideration the expiration period and the vesting terms. Expected volatility was estimated based on daily stock prices of comparable companies for a period with length commensurate to expected term.

For the years ended December 31, 2011, 2012 and 2013, share-based compensation expenses of RMB1,469, RMB1,353 and RMB238 was recognized in connection with the 2009 Options respectively, excluding the incremental expenses related to the option modification in December 2013 (see "option modification" section of the note). During the years ended December 31, 2011, 2012 and 2013, 153,480, 200,410 and 231,600 shares of 2009 Options, respectively, were forfeited due to employee resignations. No share-based compensation expense related to the forfeited options was recognized.

**2008 Options**

On November 21, 2008, the Company granted options to purchase 32,000,000 ordinary shares of the Company to certain directors and employees ("2008 Options"). Pursuant to the option agreements entered into between the Company and the option grantees, the options shall vest over a four-year period, with 30% ("Option C1"), 30% ("Option C2"), 20% ("Option C3") and the remaining 20% ("Option C4") of the options vesting on March 31 of each of the years 2010 to 2013, respectively, subject to the continuous employment of the option grantees and their KPI results for the years 2009. The expiration date of the 2008 Options is March 31, 2015, which was later modified to December 31, 2017 (See "option modification" section of the note). The 2008 Options have an exercise price of US\$0.28 (RMB1.90), equal to the fair value of the Company's share price at the grant date. There is no intrinsic value of the options as of the date of grant. The fair value of the options was determined by using the Black-Scholes option pricing model with the following assumptions:

	<b>Option C1</b>	<b>Option C2</b>	<b>Option C3</b>	<b>Option C4</b>
Weight average assumptions – expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	3.70%	3.71%	3.93%	4.07%
Expected life (years)	3.86	4.36	4.86	5.36
Expected volatility	28.2%	28.9%	28.0%	27.6%

As of December 31, 2013, 2,553,400 shares of 2008 Options had been exercised. The expected term was estimated by taking into consideration the expiration period and the vesting terms. Expected volatility was estimated based on daily stock prices of comparable companies for a period with length commensurate to expected term.

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For the years ended December 31, 2011, 2012 and 2013, share-based compensation expenses of RMB3,934, RMB3,756 and RMB946 (excluding the incremental expenses related to the option modification in December 2013), was recognized in connection with 2008 Options. During the years ended December 31, 2011, 2012 and 2013 respectively, 84,520, 211,080 and 269,800 shares of 2008 Options, respectively, were forfeited due to employee resignations. No share-based compensation expense related to the forfeited options was recognized.

**2007 Options**

**Option A**

On February 3, 2007, CISG granted share options ("2007 Option A") to the Company's former Chief Financial Officer, Mr. David Tang to purchase 5,473,684 ordinary shares. The options grant represents 0.8% of the issued share capital of CISG on a fully diluted basis upon full exercise of all outstanding options. The options vest over a two-year period, with 40% of the options vesting upon public listing of the Company and 30% on each of the first and second anniversaries of his employment. The 2007 Option A has an exercise price of RMB2.32 per ordinary share, equal to the fair value of CISG's share price at the grant date, as determined by using the Black-Scholes option pricing model. The management of the Company determined the value of the Company's shares as of January 31, 2007, with the assistance of a third party valuation company. There was no intrinsic value of the option as of the date of grant.

The assumptions used in determining the fair value of the options were as follows:

Weighted average assumptions—expected dividend yield	0%
Risk-free interest rate	2.71%
Expected life (years)	5.6
Expected volatility	28.5%

The expected term was estimated by taking into consideration the expiration period and the vesting terms. Expected volatility is estimated based on daily stock prices of comparable companies for a period with length commensurate to expected term.

As of December 31, 2013, 4,000,000 shares of 2007 Option A had been exercised.

**Option modification**

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. Other terms of the options grants remain unchanged. The Company had taken a modification charge for the incremental compensation cost of RMB6,700 to the consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2013, the period in which the modification occurred.

In December, 2013, the chairman of InsCom approved an option modification to extend the expiration dates of all InsCom options for one year and revised the exercise price of the options to RMB0.025 per ordinary share, the fair value as of the modification date. The Company had taken a modification charge for the incremental compensation cost of RMB401 to the consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2013, the period in which the modification occurred.

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For each of the three years ended December 31, 2011, 2012 and 2013, changes in the status of outstanding options, excluding the InsCom options, were as follows:

	Number of options	Weighted average exercise price in RMB	Aggregate Intrinsic Value RMB
Outstanding as of January 1, 2011	88,019,441	4.04	146,782
Granted on April 28, 2011	28,400,000	4.77	
Exercised	(2,670,340)	2.28	
Cancelled	(44,646,484)	5.37	
Forfeited	(31,991,516)	5.36	
Outstanding as of December 31, 2011	37,111,101	1.99	7,070
Granted on March 12, 2012	96,645,000	1.90	
Exercised	(183,380)	1.95	
Cancelled	—	—	
Forfeited	(411,490)	2.09	
Outstanding as of December 31, 2012	133,161,231	1.92	15,436
Granted	—	—	
Exercised	—	—	
Cancelled	—	—	
Forfeited	(1,431,734)	1.96	
Outstanding as of December 31, 2013	131,729,497	1.92	—
Exercisable as of December 31, 2013	73,752,289	1.94	—

As of December 31, 2013, there were a total of 57,977,208 outstanding unvested options for the Group. As of December 31, 2013, there was RMB41,564 of total unrecognized compensation cost related to share options granted in 2012, which was expected to be recognized over a period of 3 years as of December 31, 2013.

No 2012 InsCom Options was exercised, or cancelled during the year ended December 31, 2012 and 2013. There was negligible unrecognized cost as of December 31, 2013. As of December 31, 2013, 3,025,225 shares of 2012 InsCom Options were forfeited because of resignation of the option holders. As of December 31, 2013, 57,983,111 shares of the 2012 InsCom Options are outstanding and exercisable, with weighted average remaining contractual life of 3 years and exercise price of RMB0.025 per ordinary share.

No 2013 InsCom Options was exercised or cancelled during the year ended December 31, 2013, and there was RMB6 of unrecognized cost expected to be recognized over a period of one year as of December 31, 2013. During the year of 2013, 497,000 shares were forfeited. As of December 31, 2013, 20,121,312 shares of the 2013 InsCom Options are outstanding, 60,000 options are exercisable, with weighted average remaining contractual life of 4.5 years and exercise price of RMB0.025 per ordinary share.

The following table summarizes information about the Company's share option plans for the years ended December 31, 2011, 2012 and 2013, excluding the InsCom options, were:

	Year ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
Weighted-average grant-date fair value per share of options granted	1.45	1.48	—
Total intrinsic value of options exercised	9,495	74	—
Total fair value of share options vested	7,355	30,513	34,362

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The following table summarizes information about the Company's stock option plans as of December 31, 2013, excluding the InsCom options, were:

	<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	91,897,750	8.3	1.90	37,390,750
2012 Options H	3,656,336	8.3	1.90	186,128
2009 Options	7,218,700	4.0	2.30	7,218,700
2008 Options	28,304,080	4.0	1.90	28,304,080
2007 Option A	652,631	3.0	2.32	652,631
<b>Total</b>	<u>131,729,497</u>			<u>73,752,289</u>

There are no 2010 Options and 2011 Options outstanding as of December 31, 2013.

**(21) Restricted Net Assets**

Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries and VIEs 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 and VIEs 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, 2012 and 2013, the Company had restricted net assets of RMB1,901,940 and RMB1,907,730 (including RMB159,464 and RMB135,678 restricted net assets 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 VIEs and the statutory reserves disclosed in note 15.

**(22) Segment Reporting**

During 2011, the Group disposed of the Datong segment, which was reclassified to discontinued operations for all periods presented, and it operates in three principal operating segments: P&C, Life and Claims Adjusting. Business segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance.

The principle activities of the three reportable operating segments are as follows:

*1) P&C segment*

This segment mainly provides brokerage and agency services of property and casualty insurance products.

*2) Life segment*

This segment mainly provides life insurance brokerage and agency services.

*3) Claims Adjusting segment*

This segment provides pre-underwriting survey, claim adjusting, disposal of residual value, loading and unloading supervision and consulting services.

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The following table shows the Group's operations by business segment for the years ended December 31, 2011, 2012 and 2013. Other includes revenue and expenses that are not allocated to reportable segments and corporate related items.

	Year ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
<b>Net revenues</b>				
P&C	1,032,594	1,090,205	1,264,317	208,850
Life	276,402	272,755	230,086	38,007
Claims Adjusting	202,003	217,497	261,206	43,148
Other	5,676	5,660	1,415	234
<b>Total net revenues</b>	<b>1,516,675</b>	<b>1,586,117</b>	<b>1,757,024</b>	<b>290,239</b>
<b>Operating costs and expenses</b>				
P&C	(1,626,472)	(911,330)	(1,142,677)	(188,757)
Life	(245,571)	(266,062)	(232,794)	(38,455)
Claims Adjusting	(243,072)	(186,694)	(234,129)	(38,675)
Other	(150,333)	(156,205)	(129,438)	(21,381)
<b>Total operating costs and expenses</b>	<b>(2,265,448)</b>	<b>(1,520,291)</b>	<b>(1,739,038)</b>	<b>(287,268)</b>
<b>Income (loss) from operations</b>				
P&C	(593,878)	178,875	121,640	20,093
Life	30,831	6,693	(2,708)	(448)
Claims Adjusting	(41,069)	30,803	27,077	4,473
Other	(144,657)	(150,545)	(128,023)	(21,147)
<b>Total income (loss) from operations</b>	<b>(748,773)</b>	<b>65,826</b>	<b>17,986</b>	<b>2,971</b>
	As of December 31,			
	2012	2013	2013	
	RMB	RMB	US\$	
<b>Segment assets</b>				
P&C	1,542,536	1,262,728	208,587	
Life	250,126	221,748	36,630	
Claims Adjusting	84,325	103,126	17,035	
Other	1,523,802	1,973,128	325,938	
<b>Total assets</b>	<b>3,400,789</b>	<b>3,560,730</b>	<b>588,190</b>	

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Substantially all of the Group's revenues for the three years ended December 31, 2011, 2012 and 2013 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.

## CNINSURE INC.

## SCHEDULE 1—CONDENSED FINANCIAL STATEMENTS OF THE COMPANY

## Balance Sheets

(In thousands, except for shares)

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
<b>ASSETS:</b>			
<i>Current assets:</i>			
Cash and cash equivalents	14,589	11,471	1,895
Other receivables	1,212	40,106	6,625
Amounts due from subsidiaries	1,528,450	1,491,025	246,300
<b>Total current assets</b>	<b>1,544,251</b>	<b>1,542,602</b>	<b>254,820</b>
<i>Non-current assets:</i>			
Investment in subsidiaries	1,386,753	1,561,555	257,950
<b>Total assets</b>	<b>2,931,004</b>	<b>3,104,157</b>	<b>512,770</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<i>Current liabilities:</i>			
Other payables	5,578	45,102	7,451
Amounts due to subsidiaries	31,046	30,958	5,114
<b>Total liabilities</b>	<b>36,624</b>	<b>76,060</b>	<b>12,565</b>
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued and outstanding shares: 998,861,526 and 998,861,526 as of December 31, 2012 and 2013, respectively)			
	7,624	7,624	1,259
Additional paid-in capital	2,284,906	2,329,962	384,882
Retained earnings	705,982	801,625	132,419
Accumulated other comprehensive loss	(104,132)	(111,114)	(18,355)
<b>Total shareholders' equity</b>	<b>2,894,380</b>	<b>3,028,097</b>	<b>500,205</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,931,004</b>	<b>3,104,157</b>	<b>512,770</b>

CNINSURE INC.

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

Statements of Income (Loss) and Comprehensive Income (Loss)

(In thousands)

	Year Ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
General and administrative expenses	(70,893)	(77,993)	(50,633)	(8,364)
Interest income	2,011	13,215	6,847	1,131
Equity in earnings (loss) of subsidiaries	(230,492)	195,288	139,429	23,032
<b>Net income (loss)</b>	<b>(299,374)</b>	<b>130,510</b>	<b>95,643</b>	<b>15,799</b>
Other comprehensive loss, net of tax: Foreign currency translation adjustments	(18,291)	(2,481)	(6,982)	(1,153)
<b>Comprehensive income (loss) attributable to the CNinsure Inc's shareholders</b>	<b>(317,665)</b>	<b>128,029</b>	<b>88,661</b>	<b>14,646</b>



CNINSURE INC.

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

Statements of Shareholders' Equity

(In thousands, except for shares)

	Share Capital		Additional	Retained	Accumulated Other Comprehensive	
	Number of Share	Amounts	Paid-in Capital	Earnings	Income (Loss)	Total
		RMB	RMB	RMB	RMB	RMB
<b>Balance as of January 1, 2011</b>	<b>1,002,977,326</b>	<b>7,649</b>	<b>2,261,849</b>	<b>874,846</b>	<b>(83,360)</b>	<b>3,060,984</b>
Net loss	—	—	—	(299,374)	—	(299,374)
Foreign currency translation	—	—	—	—	(18,291)	(18,291)
Exercise of share options	2,670,340	17	5,288	—	—	5,305
Repurchase of ordinary shares	(3,106,220)	(20)	(13,702)	—	—	(13,722)
Share-based compensation	—	—	57,003	—	—	57,003
Other	—	—	(37,858)	—	—	(37,858)
<b>Balance as of December 31, 2011</b>	<b>1,002,541,446</b>	<b>7,646</b>	<b>2,272,580</b>	<b>575,472</b>	<b>(101,651)</b>	<b>2,754,047</b>
Net income	—	—	—	130,510	—	130,510
Foreign currency translation	—	—	—	—	(2,481)	(2,481)
Exercise of share options	183,380	1	347	—	—	348
Repurchase of ordinary shares	(3,863,300)	(23)	(9,221)	—	—	(9,244)
Share-based compensation	—	—	66,878	—	—	66,878
Other	—	—	(45,678)	—	—	(45,678)
<b>Balance as of December 31, 2012</b>	<b>998,861,526</b>	<b>7,624</b>	<b>2,284,906</b>	<b>705,982</b>	<b>(104,132)</b>	<b>2,894,380</b>
Net income	—	—	—	95,643	—	95,643
Foreign currency translation	—	—	—	—	(6,982)	(6,982)
Share-based compensation	—	—	44,904	—	—	44,904
Other	—	—	152	—	—	152
<b>Balance as of December 31, 2013</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>
<b>Balance as of December 31, 2013 in US\$</b>		<b>1,259</b>	<b>384,882</b>	<b>132,419</b>	<b>(18,355)</b>	<b>500,205</b>

CNINSURE INC.

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

Statements of Cash Flows

(In thousands)

	Year Ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	(299,374)	130,510	95,643	15,799
<b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b>				
Equity in (earnings) loss of subsidiaries	230,492	(195,288)	(139,016)	(22,965)
Compensation expenses associated with stock options	57,003	66,878	44,904	7,418
<b>Changes in operating assets and liabilities:</b>				
Other receivables	(188,182)	189,004	1,212	201
Other payables	(6,790)	(189)	(582)	(96)
<b>Net cash (used in) generated from operating activities</b>	<b>(206,851)</b>	<b>190,915</b>	<b>2,161</b>	<b>357</b>
<b>Cash flows from investing activities</b>				
Increase in investment in subsidiaries	(56,374)	(12,899)	(34,102)	(5,633)
Advances (to) from subsidiaries	205,316	(176,826)	37,337	6,167
Disposal of subsidiaries	—	—	(1,532)	(253)
<b>Net cash (used in) generated from investing activities</b>	<b>148,942</b>	<b>(189,725)</b>	<b>1,703</b>	<b>281</b>
<b>Cash flows from financing activities:</b>				
Proceeds on exercise of stock options	5,305	348	—	—
Repurchase ordinary shares	(13,722)	(9,244)	—	—
<b>Net cash used in financing activities</b>	<b>(8,417)</b>	<b>(8,896)</b>	<b>—</b>	<b>—</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(66,326)</b>	<b>(7,706)</b>	<b>3,864</b>	<b>638</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>109,393</b>	<b>24,776</b>	<b>14,589</b>	<b>2,410</b>
Effect of exchange rate changes on cash and cash equivalents	(18,291)	(2,481)	(6,982)	(1,153)
<b>Cash and cash equivalents at end of year</b>	<b>24,776</b>	<b>14,589</b>	<b>11,471</b>	<b>1,895</b>

**CNINSURE 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, 2013, RMB1,907,730 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, 2012 and 2013.

**LOAN AGREEMENT**

THIS LOAN AGREEMENT (“**this Agreement**”) is entered into by the following two parties in Shenzhen as of April 18, 2011:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.  
Address: Rom 2108-2110-35, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

Party B: Chunlin Wang  
ID Card No.:

**WHEREAS:**

1. Party A is a wholly foreign-owned enterprise duly incorporated under the laws of the People’s Republic of China (the “**PRC**”);
2. Party B is a Chinese citizen and holds 75% equity interest in Shenzhen Xinbao Investment Management Co., Ltd. (“**Shenzhen Xinbao**”);
3. Party B desires to borrow a loan from Party A by pledging its equity interest in Shenzhen Xinbao, and Party A agrees to extend a loan in an amount of Seven Million and Five Hundred Thousand Renminbi (RMB7,500,000) to Party B.

**NOW THEREFORE**, after friendly negotiations, both parties hereby agree as follows for mutual observance:

1. In accordance with the terms and conditions of this Agreement, Party A agrees to grant an interest-free loan in an amount of Seven Million and Five Hundred Thousand Renminbi (RMB7,500,000) to Party B, and Party B agrees to accept such loan.
2. The term of the loan under this Agreement shall start from the date when the loan is withdrawn until ten (10) years after signing this Agreement, and may be extended subject to the mutual agreement between both parties. During the loan term or any extension thereof, Party A shall have the right, by giving written notice to Party B, to decide that the loan under this Agreement is due immediately and request Party B to repay the loan in the manner as specified herein if Party B has any of the following circumstances:
  - 2.1 Party B resigns from or is dismissed by Party A or any of its affiliates;
  - 2.2 Party B dies or loses its civil capacity or its capacity for civil conduct is restricted;
  - 2.3 Party B commits a crime or is involved in a crime;

- 2.4 Any other third party claims more than One Hundred Thousand Renminbi (RMB100,000) against Party B; or
- 2.5 Party A has given to Party B a written notice regarding the purchase of Party B's equity interest in Shenzhen Xinbao according to the provisions of the "Exclusive Purchase Option Agreement" as set forth in Article 3 hereof to exercise its call option.
3. Both parties hereby agree and acknowledge that, subject to the permission of and to the extent permitted by the PRC laws, Party A shall be entitled but not obliged to, at any time, purchase, or designate other person (including natural person, legal person or any other entity), to purchase all or part of the equity interest held by Party B in Shenzhen Xinbao (the "**Call Option**"), provided, however, that Party A gives a written notice about equity purchase to Party B. Once such written notice about exercising the Call Option is given by Party A, Party B shall, according to Party A's intention and instructions, transfer its equity interest in Shenzhen Xinbao to Party A or other person designated by Party A at its original investment price (the "**Original Investment Price**") or if otherwise specified by laws, at another price agreed upon by Party A. Both parties hereby agree and acknowledge that when Party A exercises the Call Option, if the lowest equity price permitted by the applicable laws and regulations then in effect is higher than the Original Investment Price, the purchase price for Party A or its designee shall be the lowest price permitted by laws. Both parties agree to execute the "Exclusive Purchase Option Agreement" with respect thereto.
4. Both parties hereby agree and acknowledge that Party B shall repay the loan in the manner as given below only: when the loan is due, Party B (or any of its successors, heirs or assignees) shall, at Party A's written request, transfer its equity interest in Shenzhen Xinbao to Party A or its designee subject to the permission of the PRC laws, and shall use the proceeds from such equity transfer to repay the loan under this Agreement.
5. Both parties hereby agree and acknowledge that except as otherwise provided for herein, the loan under this Agreement is interest-free. But when the loan is due and Party B needs to transfer its equity interest hereunder to Party A or its designee, if the actual equity transfer price is higher than Party B's loan principal, due to legal requirements or other reasons, the excess shall be deemed as loan interest or fund utilization costs to the extent permitted by laws, and shall be paid to Party A together with loan principal.
6. Both parties hereby agree and acknowledge that Party B's obligations under this Agreement are deemed to be fully performed only if all the following conditions are met:
- 6.1 Party B has transferred all its equity interest in Shenzhen Xinbao to Party A and/or its designee; and
- 6.2 Party B has paid to Party A as loan repayment all proceeds from equity transfer or the maximum amount permitted by laws (including principal and the highest loan interest permitted by applicable laws then in force).

7. To secure the performance of the debts under this Agreement, Party B agrees to pledge all its equity interest in Shenzhen Xinbao to Party A (the “**Equity Pledge**”). Both parties agree to execute an “Equity Pledge Agreement” with respect thereto.
8. As of the execution date of this Agreement, Party A hereby represents and warrants to Party B that:
  - 8.1 Party A is a wholly foreign-owned enterprise incorporated and validly existing under the PRC laws;
  - 8.2 Party A has the authority to execute and perform this Agreement. The execution and performance by Party A of this Agreement comply with its business scope, articles of association or other organizational documents, and Party A has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;
  - 8.3 The execution and performance of this Agreement by Party A do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party; and
  - 8.4 Once executed, this Agreement constitutes a legal, valid and binding obligation of Party A, enforceable against Party A in accordance with its provisions.
9. From the execution date of this Agreement until the termination hereof, Party B hereby represents and warrants to Party A that:
  - 9.1 Shenzhen Xinbao is a limited liability company incorporated and validly existing under the PRC laws, whose registered capital has been paid up and which has obtained capital verification report issued by a qualified accounting firm. Shenzhen Xinbao has completed all government approvals, authorizations, licenses, registrations, filing, etc necessary to carry out the business activities within its business scope and to possess its assets;
  - 9.2 Party B legally owns 75% equity interest in Shenzhen Xinbao;
  - 9.3 Party B has the authority to execute and perform this Agreement. The execution and performance by Party B of this Agreement comply with the articles of association or other organizational documents of Shenzhen Xinbao, and Party B has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;
  - 9.4 The execution and performance of this Agreement by Party B do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party;
  - 9.5 Once executed, this Agreement constitutes a legal, valid and binding obligation of Party B, enforceable against Party B in accordance with its provisions;

- 9.6 Except for the provisions stipulated in the “Equity Pledge Agreement” and “Exclusive Purchase Option Agreements”, Party B has not mortgaged, pledged or otherwise encumbered its equity interest in Shenzhen Xinbao, given an offer about the transfer of such equity interest to any third party, made any commitment about the offer of any third party to purchase its equity interest, or executed any agreement with any third party to transfer its equity interest in Shenzhen Xinbao;
- 9.7 There are no existing or potential disputes, litigations, arbitrations, administrative proceedings or other legal proceedings in connection with Party B’s equity interest in Shenzhen Xinbao.
10. Party B covenants that it shall, during the term of this Agreement:
- 10.1 Without Party A’s prior written consent, not sell, transfer, mortgage or otherwise dispose of or cause any other security interest to be created on its equity interest or other interests in Shenzhen Xinbao, except for the equity pledge and other rights created for the benefit of Party A;
- 10.2 Without Party A’s prior written consent, not vote for or support or execute at the shareholders’ meetings of Shenzhen Xinbao any shareholders’ resolution approving the sale, transfer, mortgage or otherwise disposal of, or causing any other security interest to be created on, its legal or beneficial interest in the equity interest of Shenzhen Xinbao;
- 10.3 Without Party A’s prior written consent, not vote for or support or execute at the shareholders’ meetings of Shenzhen Xinbao any resolution approving Shenzhen Xinbao to be merged or consolidated with, acquire or invest in, any person;
- 10.4 Promptly inform Party A of any existing or potential litigation, arbitration or administrative proceedings relating to Party B’s equity interest in Shenzhen Xinbao;
- 10.5 Execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defenses against all claims in order to maintain the ownership over its equity interest in Shenzhen Xinbao;
- 10.6 Not do any act and/or omission that may materially affect the assets, business and liabilities of Shenzhen Xinbao without Party A’s prior written consent;
- 10.7 At Party A’s request, appoint any person nominated by Party A as the director of Shenzhen Xinbao;
- 10.8 When Party A exercises its Call Option described herein, transfer all of Party B’s equity interest in Shenzhen Xinbao promptly and unconditionally to Party A and/or its designee subject to the permission of and to the extent permitted by the PRC laws;

- 10.9 Not request Shenzhen Xinbao to distribute dividends or profits to it;
- 10.10 In case its equity interest in Shenzhen Xinbao is transferred to Party A or its designee, Party B will, subject to compliance with legal requirements, pay all equity transfer proceeds to Party A as the loan principal and as the loan interests or fund utilization costs permitted by laws;
- 10.11 Comply strictly with the provisions of this Agreement, fully perform its obligations under this Agreement and not do any act/omission that affects or impairs the validity and enforceability of this Agreement.
11. Party B undertakes that within the term of this Agreement, it will, in the capacity of the shareholder of Shenzhen Xinbao, cause Shenzhen Xinbao:
- 11.1 Not to supplement, amend or modify its articles of association in any way, or to increase or decrease its registered capital, or to change its capital structure in any way without Party A's prior written consent;
- 11.2 To maintain its existence, and to operate its business and deal with matters prudently and effectively, subject to good financial and business rules and practices;
- 11.3 Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial interests in any of its assets, business or income at any time after the signing of this Agreement without Party A's prior written consent;
- 11.4 Not to create any liability, without Party A's prior written consent, except (i) the liability arising from the normal course of business, but not arising from the loan; and (ii) the liability disclosed to Party A and approved by Party A in writing;
- 11.5 To operate persistently all the business in the normal course of business to maintain the value of its assets;
- 11.6 Not to execute any material contracts (a contract will be deemed material if its value exceeds One Hundred Thousand Renminbi (RMB100,000)), without Party A's prior written consent, other than those executed during the normal course of business;
- 11.7 To provide information concerning all of its operations and financial performance at Party A's request;
- 11.8 Not to be merged or consolidated with, acquire or invest in, any other person without Party A's prior written consent;



- 11.9 Not to distribute dividends to each shareholder in any way without Party A's prior written consent. However, Shenzhen Xinbao shall promptly distribute all its distributable profits to Party A's shareholders upon Party A's request;
- 11.10 To inform promptly Party A of any existing or potential litigation, arbitration or administrative proceedings concerning its assets, business or income;
- 11.11 To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate lawsuits or to make all necessary and appropriate defenses against all claims in order to maintain the ownership over all its assets;
- 11.12 To comply strictly with the agreements with respect to the technological support and consulting services (the "**Service Agreements**") and other agreements executed by it with Party A's affiliates, to perform its obligations under the Service Agreements and other agreements, and not to do any act/omission that affects the validity and enforceability of such agreements.
12. This Agreement shall be binding on and inure to the benefit of both parties hereto and their respective successors, heirs and permitted assignees. Without the prior written approval of Party A, Party B shall not transfer, pledge or otherwise assign any of its rights, benefits or obligations under this Agreement.
13. Party B hereby agrees that Party A may assign its rights and obligations under this Agreement to any other third parties when necessary. Party A shall only be required to notify Party B in writing when such transfer occurs and no further consent from Party B shall be needed in respect of the transfer.
14. The formation, validity, interpretation, performance, amendment and termination of and resolution of disputes in connection with this Agreement shall be governed by the PRC laws.
15. Arbitration
- 15.1 Any dispute, controversy or claim arising from the interpretation and performance in connection with this Agreement (including any question regarding its existence, validity or termination) shall be settled by both parties through friendly consultations. In case no settlement can be reached within thirty (30) days after one party makes a request for settlement, either party may submit such dispute to the China International Economic and Trade Arbitration Commission ("**CIETAC**") for arbitration in accordance with its arbitration rules then in effect at the time of applying for arbitration. The arbitration award shall be final and binding upon both parties;
- 15.2 The seat of arbitration shall be Shenzhen;
- 15.3 The language of arbitration proceedings shall be Chinese.

16. This Agreement shall be formed on its signing date. This Agreement shall be effective as of the date on which the loan is released until both parties have performed their obligations under this Agreement.
17. Party B shall not terminate or revoke this Agreement unless Party A commits a gross negligence, fraud or other material illegal acts; or Party A goes bankrupt.
18. This Agreement shall not be amended or modified except with the written consent of both parties. In case of anything not covered herein, both parties may make supplements hereto by signing a written agreement. Any amendment, modification, supplement or annex to this Agreement shall form an integral part of this Agreement.
19. This Agreement constitutes the entire agreement between both parties with respect to the transactions contemplated herein and supersedes all prior oral discussions or written agreements reached by both parties with respect to the transactions mentioned above.
20. This Agreement is severable. If any provision of this Agreement is held to be invalid or unenforceable, such provision shall not affect the validity and enforceability of the remainder of this Agreement.
21. Each party hereto shall keep in strict confidence the information concerning the other party's business, operation, financial performance or other confidential data obtained under this Agreement or during the performance of this Agreement.
22. Any obligation arising out of this Agreement or that is due before the expiration or early termination of this Agreement shall survive such expiration or early termination. Articles 14, 15 and 21 hereof shall survive the termination of this Agreement.
23. This Agreement is executed in four originals, with each of Party A and Party B holding one original. All originals have the same legal effect.

[No text below]

[No text below]

**IN WITNESS WHEREOF**, Party A's legal representative or authorized representative and Party B have executed this Agreement as of the date as first above written.

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

Party B: Chunlin Wang

Signature: /s/ Chunlin Wang

## EQUITY PLEDGE AGREEMENT

THIS EQUITY PLEDGE AGREEMENT (hereinafter “**this Agreement**”) is entered into in Shenzhen as of April 18, 2011 by the following parties:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Address: Room 2108-2110-35, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

Party B: Chunlin Wang

ID card No.:

Third Party: Shenzhen Xinbao Investment Management Co., Ltd.

Address: Room 2108-2110-22, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

### WHEREAS:

1. Party A is a wholly foreign-owned enterprise incorporated in the People’s Republic of China (hereinafter the “PRC”).
2. Party B is a citizen of the PRC and holds 75% equity interest (“Pledged Equity Interest”) in Shenzhen Xinbao Investment Management Co., Ltd. (hereinafter “Shenzhen Xinbao”), a limited liability company incorporated in Shenzhen, China.
3. Party A and Party B signed the Loan Agreement on April 18, 2011, pursuant to which, Party A will provide an interest-free loan in the total amount of Seven Million and Five Hundred Thousand Renminbi (RMB7,500,000) (hereinafter the “Loan”) to Party B, and Party B will provide the Pledged Equity Interest to Party A as a guarantee for the Loan.

NOW THEREFORE, Party A (hereinafter the “Pledgee”) and Party B (hereinafter the “Pledgor”) hereby enter into this Agreement after friendly negotiation.

### 1. Right of Pledge

The Pledgor pledges all of his Pledged Equity Interest in Shenzhen Xinbao to the Pledgee as a guarantee for all of his liabilities under the Loan Agreement. The “Right of Pledge” refers to the right owned by the Pledgee to be first compensated from the money converted from, or the proceeds from the auction or sale of, such equity interest pledged by the Pledgor to the Pledgee.

### 2. Registration of Pledge

- 2.1 Within one (1) week after the signing of this Agreement, the Pledgor shall cause Shenzhen Xinbao to record the Pledgee’s Right of Pledge over his Pledged Equity Interest in the register of shareholders and deliver the copy of the register of shareholders bearing the common seal of Shenzhen Xinbao, as well as the original of equity contribution certificate of Shenzhen Xinbao to the Pledgee for safe-keeping.

- 2.2 Both parties agree that if conditions permit, they will make their best effort to file, and cause the pledge under this Agreement to be filed, with the industrial and commercial administrative department in the place where Shenzhen Xinbao is registered, but both parties confirm that unless compulsorily stipulated by the PRC laws and regulations, whether this Agreement is filed as above or not will not affect the validity of this Agreement.

**3. Rights of the Pledgee**

- 3.1 Where the Pledgor does not perform his liabilities, the Pledgee shall be entitled to be first compensated from the money converted from, or the proceeds from the auction or sale of, such Pledged Equity Interest.
- 3.2 The Pledgee shall be entitled to the bonus arising from the Pledged Equity Interest.

**4. Representation and Warranty of the Pledgor**

- 4.1 The Pledgor is the legal owner of the Pledged Equity Interest.
- 4.2 Except for the interest of the Pledgee, the Pledgor has not created other pledges or any other kinds of rights over the Pledged Equity Interest.
- 4.3 The pledge of the equity interest by the Pledgor has obtained the consent of the other shareholders of Shenzhen Xinbao, and other shareholders have unanimously agreed that they will give up the exercise of their respective preemptive right when the Pledgee actually exercises the Right of Pledge.

**5. Undertakings by the Pledgor**

- 5.1 During the term of this Agreement, the Pledgor undertakes to the Pledgee for the benefit of the Pledgee that he will:
- 5.1.1 Not transfer or dispose of the Pledged Equity Interest, nor create or cause to be created any pledge (except the pledge pursuant to this Agreement) on the Pledged Equity Interest without the prior written consent of the Pledgee.
- 5.1.3 Timely notify the Pledgee of any events or any received notices which may affect the Pledgor's right over the Pledged Equity Interest or any part thereof, or may change the Pledgor's any warranty and obligation under this Agreement or may have effects on it.
- 5.2 The Pledgor agrees that the Pledgee's right to exercise the Right of Pledge obtained pursuant to this Agreement shall not be interrupted or hindered by the Pledgor or any of its successors or principals or any other person through legal proceedings.
- 5.3 The Pledgor undertakes to the Pledgee that in order to protect or improve the guarantee for the repayment of the loan under this Agreement, the Pledgor will execute in good faith and cause other interested persons relating to the Right of Pledge to execute all right certificates and contracts required by the Pledgee and/or perform and cause other interested persons to perform the acts required by the Pledgee and facilitate the exercise of the rights and authority granted to the Pledgee under this Agreement.

- 5.4 The Pledgor undertakes to the Pledgee that he will execute all documents relating to any change in equity interest that is pledged with the Pledgee and any persons designated by it (natural persons/ legal persons) within a reasonable period.
- 5.5 The Pledgor undertakes to the Pledgee that for the purpose of the Pledgee's benefits, he will comply with and perform all warranties, undertakings, agreements, representations and conditions. Where the Pledgor does not perform, in whole or in part, his warranties, undertakings, agreements, representations and conditions, the Pledgor shall compensate all losses suffered by the Pledgee arising therefrom.

## **6. Event of Default**

6.1 The following events shall be regarded as the Events of Default:

- 6.1.1 The Pledgor fails to perform his obligations under the Loan Agreement;
- 6.1.2 Any representation or warranty made by the Pledgor in Article 4 hereof contains misleading or false information that is material and/or the Pledgor breaches any warranty in Article 4 hereof;
- 6.1.3 The Pledgor breaches the undertakings under Article 5 hereof;
- 6.1.4 The Pledgor breaches any of the other provisions of this Agreement;
- 6.1.5 Any borrowing, guarantee, compensation, undertaking or other debt liabilities of the Pledgor (1) is required to be repaid or performed in advance due to a default; or (2) has been due but cannot be repaid or performed on time, which, in the opinion of the Pledgee, would have affected the ability of the Pledgor in performing his obligations under this Agreement;
- 6.1.6 Shenzhen Xinbao is incapable of repaying the general debts or other debts;
- 6.1.7 The properties owned by the Pledgor have significant adverse changes, which, in the opinion of the Pledgee, would have affected the ability of the Pledgor in performing his obligations under this Agreement;
- 6.2 If the Pledgor knows or finds that any matter stated in Article hereof or any event possibly resulting in any of the above matters has occurred, he shall immediately inform the Pledgee in writing.
- 6.3 Unless the Events of Default listed in this Article 6.1 has been resolved to the satisfactory of the Pledgee, the Pledgee may give a written Notice of Default to the Pledgor at any time when the Pledgor is in default or thereafter, requesting the Pledgor to immediately pay the outstanding debts and other payables under the Loan Agreement or requesting to dispose of the Right of Pledge according to Article 7 hereof.

## **7. Exercise of the Right of Pledge**

- 7.1 The Pledgor shall not transfer the Pledged Equity Interest before his obligations under the Loan Agreement have been fully performed and without the prior written consent of the Pledgee.
- 7.2 The Pledgee shall give a notice to the Pledgor when the Pledgee exercises the Right of Pledge.
- 7.3 Subject to Article 6.3, the Pledgee may exercise the Right of Pledge when it gives a Notice of Default in accordance with Article 6.3 or at any time thereafter.
- 7.4 The Pledgee shall be entitled to be first compensated from the money converted from, or the proceeds from auction or sale of, all or part of the equity interest hereunder in accordance with statutory procedures until the outstanding debts and all other payables of the Pledgor under the Loan Agreement are repaid.
- 7.5 When the Pledgee disposes of the Right of Pledge in accordance with this Agreement, the Pledgor shall not pose any obstacles, and shall give necessary assistance in this regard so that the Pledgee can realize its Right of Pledge.

## **8. Assignment of this Agreement**

- 8.1 The Pledgor shall have no right to transfer any of his rights and obligations under this Agreement without the prior consent of the Pledgee.
- 8.2 The Pledgee may, at any time and to the extent permitted by laws, transfer or assign all or any of its rights and obligations under the Loan Agreement to any person designated by it (natural person or legal person). In this case, such assignee shall have the same rights and obligations hereunder as those of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the rights and obligations under the Loan Agreement, only a written notice shall be given by the Pledgee to the Pledgor, and the Pledgor shall, at the request of the Pledgee, execute the relevant agreements and/or documents with respect to such transfer or assignment.
- 8.3 This Agreement shall be binding upon the Pledgor and his successors or heirs, and shall be valid and binding upon the Pledgee and each of its successors, heirs or permitted assigns.

## **9. Termination**

This Agreement shall be terminated when the Loan under the Loan Agreement is paid off and the Pledgor ceases to undertake any obligations under the Loan Agreement, and the Pledgee shall, within the earliest reasonable and practicable time, offer assistance to complete necessary formalities so as to discharge the pledge of the Equity Interest.

## **10. Tax and Expenses**

The Pledgee shall be responsible for all the fees and actual expenses in relation to this Agreement, including but not limited to legal fees, cost of production, stamp tax and any other taxes and charges. If the Pledgee shall pay the relevant taxes in accordance with the laws, it shall compensate all such taxes paid by the Pledgor.

## **11. Force Majeure**

- 11.1 “Force Majeure” means any event that is beyond the reasonable control of either party and unavoidable or unpreventable and such event hinders, affects or delays any party to perform all or part of the obligations hereunder. Such events include but not limited to earthquake, typhoons, flood, fire and other disasters, wars, riots, strikes or any other similar events.
- 11.2 Both parties agree and acknowledge that the party who is affected by the “Force Majeure” and cannot perform this Agreement shall not constitute the default as set forth in Articles 6.1 hereto and shall not be required to assume any liabilities hereunder. However, the party who is affected by the “Force Majeure” shall inform the other party as soon as possible of the event and shall take appropriate measures to minimize or eliminate the impact of “Force Majeure”, and make endeavors to resume the performance of the obligations delayed or prevented by the “Force Majeure”. Both parties agree to make their best efforts to resume the performance of this Agreement once the “Force Majeure” is eliminated.

## **12. Confidentiality**

Both parties agree and acknowledge that any oral or written information exchanged between them in connection with this Agreement shall be confidential information. Each party shall keep confidential all such information, and shall not disclose any of the information to any third party without the prior written consent of the other party, except for the following: (a) the information that is or will be known to the public (provided that it is not disclosed to the public without authorization by the information receiving party); (b) the information required to be disclosed by applicable laws or stock exchange’s rules or regulations; or (c) the information required to be disclosed by either party to his/its legal or financial advisors with respect to the transaction contemplated under this Agreement, for which such legal or financial advisors shall also comply with the confidentiality obligations similar to those stated in this Article. Any divulgence of confidential information by any personnel of either party or any institutions engaged by him/it shall be deemed as the divulgence of confidential information by such party, and such party shall be liable for the breach pursuant to this Agreement.

## **13. Dispute Resolution**

- 13.1 This Agreement shall be governed by and construed in accordance with the PRC laws.
- 13.2 Any dispute between the parties arising from the interpretation and performance of the provisions of this Agreement shall be settled by both parties in good faith through negotiations. In case no settlement can be reached by both parties, either party may refer such dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration in accordance with its arbitration rules then in effect. The seat of arbitration shall be Shenzhen and the language of proceedings shall be Chinese. The arbitral award shall be final and binding upon both parties.



**14. Integrity of this Agreement**

This Agreement constitutes the entire representations and agreement between both parties with respect to the subject matter thereof and supersedes and replaces all prior oral and/or written representations, warranties, understandings and agreements reached by both parties made before the execution of the Agreement with respect to the subject matter thereof.

**15. Severability of this Agreement**

Should any provision of this Agreement be held invalid or unenforceable for any reasons, or violates any applicable laws, such provision shall not affect the legal effect of the other provisions hereof.

**16. Amendment or Supplement to this Agreement**

16.1 The parties hereto may make amendments or supplements to this Agreement by written agreement. All amendment agreements and supplemental agreements in relation to this Agreement that are duly signed by both parties shall form an integral part of this Agreement, and shall have the same legal effect as this Agreement.

16.2 This Agreement and any amendments, supplements or changes thereof shall be in writing and will come into effect upon being executed and sealed by both parties hereto.

**17. Counterparts**

This Agreement is executed in five originals in Chinese. Each of Party A and Party B shall hold one original, one original shall be held by Shenzhen Xinbao for filing and the other originals shall be provided for approval by or filing with the relevant authorities. Each original shall have the same legal effect.

[No text below]

[No text below]

**IN WITNESS WHEREOF**, legal representative of each party or its authorized representative has executed this Agreement as of the date first above written.

Pledgee: Ying Si Kang Information Technology (Shenzhen) Co, Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

**Pledgor:** Chunlin Wang

Signature: /s/ Chunlin Wang

**Third Party:** Shenzhen Xinbao Investment Management Co., Ltd.

Legal Representative/Authorized Representative: /s/ Chunlin Wang

Chop: *[Chop affixed]*

## EXCLUSIVE PURCHASE OPTION AGREEMENT

THIS EXCLUSIVE PURCHASE OPTION AGREEMENT (hereinafter “**this Agreement**”) is entered into by the following Parties in Shenzhen as of April 18, 2011:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.  
Address: Rom 2108-2110-35, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

Party B: Chunlin Wang  
ID card No.:

Party C: Shenzhen Xinbao Investment Management Co., Ltd.  
Address: Rom 2108-2110-22, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

In this Agreement, Party A, Party B and Party C are referred to individually as a “**Party**” and collectively as the “**Parties**”.

## WHEREAS:

1. Party A is a wholly foreign-owned enterprise incorporated under the laws of the People’s Republic of China (hereinafter the “**PRC**”);
  2. Party C is a limited liability company incorporated in Shenzhen, the PRC;
  3. Party B is a shareholder of Party C. Party B holds 75% equity interest in Party C (hereinafter the “**Equity Interest**”);
  4. Party A and Party B signed the Loan Agreement on April 18, 2011, pursuant to which Party B will borrow a loan of Seven Million and Five Hundred Thousand Renminbi (RMB7,500,000) from Party A;
  5. Party A and Party B signed the Equity Pledge Agreement on April 18, 2011, pursuant to which Party B will pledge his Equity Interest in Party C as a guarantee for the loan under the Loan Agreement;
  6. Party B intends to grant an exclusive purchase option to Party A so that Party A may request Party B to sell his Equity Interest to it if certain conditions are met;
  7. Simultaneously with the execution hereof, Party A signed the Exclusive Purchase Option Agreements with Yuan Tian, another shareholder of Party C, pursuant to the terms similar to this Agreement. In accordance with the Exclusive Purchase Option Agreement, Yuan Tian will grant to Party A an exclusive purchase option for the purchase of his Equity Interest in Party C.
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**NOW, THEREFORE**, the Parties hereby agree as follows for mutual observance after friendly consultation:

**1. Purchase and Sale of Equity Interest**

**1.1 Grant of Option**

Party B hereby irrevocably grants to Party A an option to purchase or cause any person or persons designated by Party A (hereinafter the “**Designee**”) to purchase from Party B all or part of his Equity Interest in Party C (hereinafter the “**Call Option**”) at any time according to the steps determined by Party A at its own discretion to the extent permitted by PRC Laws and at the price specified in Article 1.3 of this Agreement. No Call Option shall be granted to any other third person other than Party A and/or the Designee. Party B shall not sell, offer to sell, transfer or offer as gift any Equity Interest to any other third person. Party C hereby agrees to the grant of the Call Option by Party B to Party A and/or the Designee. The “person” set forth in this Agreement includes an individual, corporation, joint venture, partnership, enterprise, trust or a non-corporate body.

**1.2 Exercising Steps**

Subject to the PRC laws and regulations, Party A and/or the Designee may exercise the Call Option by giving a written notice (hereinafter the “**Equity Purchase Notice**”) to Party B, which specifies the Equity Interest to be purchased from Party B (hereinafter the “**Purchased Equity**”) and the manner in which purchase is made.

**1.3 Purchase Price**

1.3.1 When Party A exercises the Call Option, the purchase price of the Purchased Equity (the “**Purchase Price**”) shall be equal to the actual capital contribution made by Party B for the Purchased Equity, unless an appraisal is required to be made in respect of the Equity Interest by applicable PRC laws and regulations then in effect or there are other restrictions imposed by such PRC laws and regulations on the price of Equity Interest.

1.3.2 If an appraisal is required to be made in respect of the Equity Interest by the PRC laws and regulations that are applicable at the time when Party A exercises its Call Option or there are other restrictions imposed by such PRC laws and regulation on the price of Equity Interest, the Parties agree that the Purchase Price shall be the lowest price permitted by applicable laws.

**1.4 Transfer of the Purchased Equity**

At each exercise of the Call Option:

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- 1.4.1 Party B shall cause Party C to convene a shareholders' meeting in a timely manner, during which a resolution approving the transfer by Party B of his Equity Interest to Party A and/or the Designee shall be passed;
- 1.4.2 Party B shall, pursuant to the requirements of this Agreement and the Equity Purchase Notice in connection with the Purchased Equity, enter into an equity transfer agreement with Party A and/or the Designee for each transfer.
- 1.4.3 Upon request by Party A, Party B shall execute all other necessary contracts, agreements or documents, obtain all necessary government approvals and consents and take all necessary actions to grant the valid ownership of the Purchased Equity to Party A and/or the Designee without any security interest being attached thereto and cause Party A and/or the Designee to be the registered owner of the Purchased Equity. In this Article and this Agreement, "Security Interest" includes guarantee, mortgage, pledge, third party right or interest, any share option, right of acquisition, right of first refusal, right of set-off, ownership detainment or other security arrangements, but excluding any security interest arising under the Equity Pledge Agreement.

#### 1.5 Payment

The payment method of the Purchase Price shall be determined by Party A and/or the Designee and Party B through negotiation. The Parties hereby agree that any amount that is paid by Party A and/or the Designee to Party B with respect to the Purchased Equity shall be used to repay his loan principal under the Loan Agreement as well as the loan interest or fund utilization costs permitted by laws.

## 2. Each Party's Undertakings

#### 2.1 Undertakings by Party B and Party C

- 2.1.1 Not to supplement, amend or modify Party C's articles of association in any way, or to increase or decrease its registered capital, or to change its registered capital structure in any way without Party A's prior written consent;
  - 2.1.2 To maintain the existence of Party C, and to operate the business of Party C prudently and effectively, subject to good financial and business rules and practices;
  - 2.1.3 Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial interests in any of Party C's assets, business or income at any time after the signing of this Agreement without Party A's prior written consent;
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- 2.1.4 Not to create any liability, without Party A's prior written consent, except (i) the liability arising from the usual or normal course of business, but not arising from the loan; and (ii) the liability disclosed to Party A and approved by Party A in writing;
- 2.1.5 To operate persistently all the business in the normal course of business to maintain the value of Party C's assets;
- 2.1.6 Without the prior written consent of Party A, not to enter into any material agreement, other than the agreements in the normal course of business (for the purpose of this Agreement, an agreement will be deemed material if its value exceeds One Hundred Thousand Renminbi (RMB100,000));
- 2.1.7 Without the prior written consent of Party A, not to provide loan or credit to any person;
- 2.1.8 To provide information concerning Party C's operations and financial condition at Party A's request;
- 2.1.9 To purchase and maintain the insurance at the insurance company acceptable to Party A, whose amount and type shall be the same as those of the insurance normally procured by the companies engaged in similar businesses and possessing similar properties or assets in the area where Party C is located;
- 2.1.10 Not to be merged or consolidated with, acquire or invest in, any other person without Party A's prior written consent;
- 2.1.11 To inform promptly Party A of any existing or potential litigation, arbitration or administrative proceedings concerning Party C's assets, business or income;
- 2.1.12 To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate claims or to make all necessary and appropriate defenses against all claims in order for Party C to maintain the ownership over all its assets;
- 2.1.13 Not to distribute dividends to Party C's shareholders in any way without Party A's prior written consent. However, Party C shall promptly distribute all or part of its distributable profits to Party A's shareholders upon Party A's request;
- 2.1.14 At the request of Party A, to appoint any person nominated by Party A as the director of Party C.

## 2.2 Undertakings by Party B

- 2.2.1 Not to sell, transfer, pledge or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial interest in his Equity Interest at any time after the signing of this Agreement without Party A's prior written consent, but except the right of pledge created on Party B's Equity Interest in accordance with the Equity Pledge Agreement;
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- 2.2.2 Without Party A's prior written consent, not to vote for or support or execute at shareholders' meetings of Party C any shareholders' resolution approving the sale, transfer, mortgage or otherwise disposal of, or causing any other security interest to be created on, his legal or beneficial interest in the Equity Interest of Party C, except to Party A or its Designee;
- 2.2.3 Without Party A's prior written consent, not to vote for or support or execute at shareholders' meetings of Party C any resolution approving Party C to be merged or consolidated with, acquire or invest in, any person;
- 2.2.4 To irrevocably agree to the grant by Party C's another shareholder, Yuan Tian, of an exclusive Call Option to Party A, and to irrevocably waive his preemptive right to such Equity Interest to be transferred by Yuan Tian to Party A;
- 2.2.5 To promptly inform Party A of any existing or potential litigation, arbitration or administrative proceedings with respect to his Equity Interest;
- 2.2.6 To cause the shareholders' meeting of Party C to approve the transfer of the Purchased Equity under this Agreement;
- 2.2.7 To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate claims or to make all necessary and appropriate defenses against all claims in order to maintain the ownership over his Equity Interest;
- 2.2.8 At Party A's request, to appoint any person nominated by Party A as the director of Party C;
- 2.2.9 To strictly comply with the provisions of this Agreement and other agreements entered into jointly or severally by and among Party B, Party C and Party A, to perform all obligations under these agreements and not to do any act/omission that affects or impairs the validity and enforceability of these agreements.

### **3. Representations and Warranties**

Party B and Party C hereby represent and warrant to Party A as follows:

- 3.1 They have the power to execute and deliver this Agreement. Once executed, this Agreement will constitute a legal, valid and binding obligation and shall be enforceable against them in accordance with the provisions thereof;
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- 3.2 The execution, delivery and performance of this Agreement shall not: (i) violate any relevant PRC laws and regulations; (ii) conflict with their Articles of Association or other organizational documents; (iii) violate any contract or instrument to which they are a party or that binds upon them;
- 3.3 Party C has good and saleable ownership over all assets. Party C has not created any security interest on the above assets;
- 3.4 Party C has no outstanding debts, except debts arising from its normal course of business; and debts disclosed to Party A and approved by Party A in writing;
- 3.5 Currently, there are no existing, pending or threatened litigation, arbitration or administrative proceedings related to the Equity Interest or Party C's assets; and
- 3.6 Party B has good and saleable ownership over all his Equity Interest and has not created any security interest on such Equity Interest, but excluding the security interest under the Equity Pledge Agreement.

#### **4. Assignment of this Agreement**

- 4.1 Party B and Party C shall not transfer any of their rights and obligations under this Agreement to any third party without the prior written consent of Party A.
- 4.2 Party B and Party C hereby agree that Party A shall have the right to transfer all of its rights and obligations under this Agreement to other third parties when necessary. Party A shall only be required to serve written notice to Party B and Party C when such transfer is made, and no consent shall be further required from Party B and Party C in respect of such transfer.

#### **5. Effectiveness and Term**

- 5.1 This Agreement shall become effective as of the date first above written.
- 5.2 The term of this Agreement shall be ten (10) years unless it is early terminated in accordance with the provisions of this Agreement or the relevant agreements separately signed by the Parties. The term of this Agreement may be extended with the written confirmation of Party A before its expiration. The extension thereof shall be agreed upon by the Parties through negotiation.
- 5.3 If the operation term (including any extension thereof) of Party A or Party C expires or terminates for other reasons within the term set forth in the preceding Article, this Agreement shall be terminated at the time of the termination of such Party, unless Party A has transferred its rights and obligations in accordance with Article 4.2 hereof.

#### **6. Applicable Law and Dispute Resolution**

##### **6.1 Applicable Law**

The formation, validity, interpretation and performance of and settlement of disputes under this Agreement shall be protected and governed by the laws of PRC.

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## 6.2 Dispute Resolution

Any dispute arising from the interpretation and performance of the provisions of this Agreement shall be resolved by the Parties through amicable negotiation. In case no resolution can be reached by the Parties within thirty (30) days after either party makes a request for dispute resolution through negotiation, either party may refer such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with its arbitration rules then in effect. The seat of arbitration shall be Shenzhen and the language of proceedings shall be Chinese. The arbitral award shall be final and binding upon the Parties.

## 7. Taxes and Expenses

Every Party shall bear any and all taxes, expenses and charges incurred by or levied on it in connection with the execution and performance of this Agreement.

## 8. Confidentiality

The Parties agree and acknowledge that any oral or written information exchanged between them in connection with this Agreement shall be confidential information. Each Party shall keep confidential all such information, and shall not disclose any of the information to any third party without the prior written consent of the other Party, except for the following:

- (a) the information that is or will be known to the public (provided that it is not disclosed to the public without authorization by the information receiving party);
- (b) the information required to be disclosed by applicable laws or stock exchange's rules or regulations; or
- (c) the information required to be disclosed by either Party to his/its legal or financial advisors with respect to the transaction contemplated under this Agreement, for which such legal or financial advisors shall also comply with the confidentiality obligations similar to those stated in this Article.

No matter what reason causes this Agreement to become invalid, dismissed, terminated or unenforceable, this Article shall become effective.

## 9. Miscellaneous

### 9.1 Amendment, Modification and Supplement

The Parties may make amendments or supplements to this Agreement by written agreement. All amendment agreements and supplemental agreements to this Agreement that are duly signed by the Parties shall form an integral part of this Agreement, and shall have the same legal effect as this Agreement.

### 9.2 Integrity of this Agreement

The Parties acknowledge this Agreement constitutes the entire representations and agreement between the Parties with respect to the subject matter hereof and supersedes all prior oral and/or written representations, warranties, understandings and agreements reached by the Parties made before the execution of the Agreement with respect to the subject matter hereof.

### 9.3 Severability of this Agreement

If any provision or provisions of this Agreement is/are held to be invalid or unenforceable or violate(s) any applicable laws, the validity, legality and enforceability of the other provisions hereof shall not be affected.

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9.4 Language and Counterparts

This Agreement is executed in Chinese in four (4) originals and each Party shall hold one original. All of the originals shall have the same legal effect.

9.5 Successors

This Agreement shall be binding upon the respective successors or heirs of the Parties and the permitted assignees of such Parties.

9.6 Survival

Any obligations that occur or are due as a result of this Agreement before the expiration or early termination of this Agreement shall survive the expiration or early termination hereof. The provisions of Articles 6 and 8 hereof shall survive the termination of this Agreement.

[No Text Below]

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[No Text Below]

**IN WITNESS WHEREOF**, legal representative of each Party or its authorized representative has executed this Agreement as of the date first above written.

**Party A:** Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

**Party B:** Chunlin Wang

Signature: /s/ Chunlin Wang

**Party C:** Shenzhen Xinbao Investment Management Co., Ltd.

Legal Representative/Authorized Representative: /s/ Chunlin Wang

Chop: *[Chop affixed]*

**POWER OF ATTORNEY**

I, Chunlin Wang, a citizen of the People's Republic of China (the "PRC") with the Chinese ID card No.: \_\_\_\_\_, is the shareholder of Shenzhen Xinbao Investment Management Co., Ltd ("Shenzhen Xinbao"), holding 75% equity interest of Shenzhen Xinbao. I hereby irrevocably appoint Ying Si Kang Information Technology (Shenzhen) Co., Ltd. ("Ying Si Kang") to exercise the following rights during the term of this Power of Attorney:

I hereby authorize the person designated by Ying Si Kang which it thinks fit to represent me with full power to exercise all voting rights of shareholder to which I shall be entitled in accordance with PRC laws and Shenzhen Xinbao's Articles at shareholders' meetings of Shenzhen Xinbao, including but not limited to the right to sell or transfer any or all of my equity interest in Shenzhen Xinbao, to vote on all important matters of Shenzhen Xinbao as my authorized representative at its shareholders' meetings, and to elect and appoint the directors and officers of Shenzhen Xinbao, etc. I will issue a power of attorney to the person designated by Ying Si Kang from time to time as per its request so as to facilitate the designee with full power to exercise all voting rights of shareholder at shareholders' meetings of Shenzhen Xinbao on my behalf.

If Ying Si Kang designates me to attend a shareholders' meeting of Shenzhen Xinbao, I promise that I will exercise the voting rights of shareholder according to the instructions of Ying Si Kang.

During the validly existing period of Shenzhen Xinbao and within the term of the Loan Agreement executed by myself and Ying Si Kang, this Power of Attorney shall have a term of ten (10) years from the execution date of this Power of Attorney.

/s/ Chunlin Wang  
Chunlin Wang

April 18, 2011

**SUPPLEMENTARY AGREEMENT**

THIS SUPPLEMENTARY AGREEMENT (“**Supplementary Agreement**”) is entered into by the following parties in Shenzhen as of March 6, 2013:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.  
Address: F3, Hanfeng Building, 1 Xiameilin 1<sup>st</sup> Street, Futian District, Shenzhen

Party B: Chunlin Wang  
ID Card No.:

Party C: Shenzhen Xinbao Investment Management Co., Ltd.  
Address: Rom 2108-2110-22, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

**WHEREAS:**

1. A Loan Agreement was entered into between Party A and Party B on April 18, 2011, pursuant to which Party A agreed to grant an interest-free loan in an amount of Seven Million and Five Hundred Thousand Renminbi (RMB7,500,000) to Party B (“**Loan**”).
2. An Equity Pledge Agreement was entered into between Party A and Party B on April 18, 2011, pursuant to which Party B agreed to pledge all of his 75% equity interest in Party C to Party A as a security pledge for the Loan under the Loan Agreement..
3. An Exclusive Purchase Option Agreement was entered into between Party A and Party B on April 18, 2011, pursuant to which Party B agreed to grant an exclusive purchase option to Party A so that Party A may request Party B to sell his equity interest in Party C to it if certain conditions are met.
4. On March 6, 2013, upon unanimous approval of shareholders of Party C, the registered capital of Party C was decreased from RMB10 million to RMB8 million. As a result, Party B holds 93.75% of equity interest in Party C.

**NOW THEREFORE**, after friendly negotiations, both parties hereby enter into the Supplementary Agreement to amend the terms of the foresaid Equity Pledge Agreement and Exclusive Purchase Option Agreement as follows:

**1. Loan**

Both parties certify that Party A granted an interest-free loan in an amount of Seven Million and Five Hundred Thousand Renminbi (RMB7,500,000) to Party B and as of the date of this Supplementary Agreement, Party B has not yet repaid the loan.

**2. Equity Pledge**

The equity interest in Party C pledged by Party B to Party A as the security for the Loan was changed to 93.75%.

**3. Exclusive Purchase Option**

Party B intends to grant an exclusive purchase option to Party A so that Party A may request Party B to sell his 93.75% equity interest in Party C to Party A if certain conditions are met.

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**4. Validity**

The Supplementary Agreement constitutes an integral part of the Equity Pledge Agreement and Exclusive Purchase Option Agreement and shall have the same legal effect. In the event of conflict, the provisions of the Supplementary Agreement shall prevail.

**5. Language and Counterparts**

This Agreement is executed in Chinese in three (3) originals and each Party shall hold one original. All of them shall have the same legal effect.

[No text below]

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[Signature Page]

**IN WITNESS WHEREOF**, legal representative from each party or its authorized representative and Party B have executed this Agreement as of the date as first above written.

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

Party B: Chunlin Wang

Signature: /s/ Chunlin Wang

Party C: Shenzhen Xinbao Investment Management Co., Ltd.

Legal Representative/Authorized Representative: /s/ Chunlin Wang

Chop: *[Chop affixed]*

**LOAN AGREEMENT**

THIS LOAN AGREEMENT (“**this Agreement**”) is entered into by the following two parties in Shenzhen as of April 18, 2011:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Address: Rom 2108-2110-35, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

Party B: Yuan Tian

ID Card No.:

**WHEREAS:**

1. Party A is a wholly foreign-owned enterprise duly incorporated under the laws of the People’s Republic of China (the “**PRC**”);
2. Party B is a Chinese citizen and holds 5% equity interest in Shenzhen Xinbao Investment Management Co., Ltd. (“**Shenzhen Xinbao**”);
3. Party B desires to borrow a loan from Party A by pledging its equity interest in Shenzhen Xinbao, and Party A agrees to extend a loan in an amount of Five Hundred Thousand Renminbi (RMB500,000) to Party B.

**NOW THEREFORE**, after friendly negotiations, both parties hereby agree as follows for mutual observance:

1. In accordance with the terms and conditions of this Agreement, Party A agrees to grant an interest-free loan in an amount of Five Hundred Thousand Renminbi (RMB500,000) to Party B, and Party B agrees to accept such loan.
2. The term of the loan under this Agreement shall start from the date when the loan is withdrawn until ten (10) years after signing this Agreement, and may be extended subject to the mutual agreement between both parties. During the loan term or any extension thereof, Party A shall have the right, by giving written notice to Party B, to decide that the loan under this Agreement is due immediately and request Party B to repay the loan in the manner as specified herein if Party B has any of the following circumstances:
  - 2.1 Party B resigns from or is dismissed by Party A or any of its affiliates;
  - 2.2 Party B dies or loses its civil capacity or its capacity for civil conduct is restricted;
  - 2.3 Party B commits a crime or is involved in a crime;



- 2.4 Any other third party claims more than One Hundred Thousand Renminbi (RMB100,000) against Party B; or
- 2.5 Party A has given to Party B a written notice regarding the purchase of Party B's equity interest in Shenzhen Xinbao according to the provisions of the "Exclusive Purchase Option Agreement" as set forth in Article 3 hereof to exercise its call option.
3. Both parties hereby agree and acknowledge that, subject to the permission of and to the extent permitted by the PRC laws, Party A shall be entitled but not obliged to, at any time, purchase, or designate other person (including natural person, legal person or any other entity), to purchase all or part of the equity interest held by Party B in Shenzhen Xinbao (the "**Call Option**"), provided, however, that Party A gives a written notice about equity purchase to Party B. Once such written notice about exercising the Call Option is given by Party A, Party B shall, according to Party A's intention and instructions, transfer its equity interest in Shenzhen Xinbao to Party A or other person designated by Party A at its original investment price (the "**Original Investment Price**") or if otherwise specified by laws, at another price agreed upon by Party A. Both parties hereby agree and acknowledge that when Party A exercises the Call Option, if the lowest equity price permitted by the applicable laws and regulations then in effect is higher than the Original Investment Price, the purchase price for Party A or its designee shall be the lowest price permitted by laws. Both parties agree to execute the "Exclusive Purchase Option Agreement" with respect thereto.
4. Both parties hereby agree and acknowledge that Party B shall repay the loan in the manner as given below only: when the loan is due, Party B (or any of its successors, heirs or assignees) shall, at Party A's written request, transfer its equity interest in Shenzhen Xinbao to Party A or its designee subject to the permission of the PRC laws, and shall use the proceeds from such equity transfer to repay the loan under this Agreement.
5. Both parties hereby agree and acknowledge that except as otherwise provided for herein, the loan under this Agreement is interest-free. But when the loan is due and Party B needs to transfer its equity interest hereunder to Party A or its designee, if the actual equity transfer price is higher than Party B's loan principal, due to legal requirements or other reasons, the excess shall be deemed as loan interest or fund utilization costs to the extent permitted by laws, and shall paid to Party A together with loan principal.
6. Both parties hereby agree and acknowledge that Party B's obligations under this Agreement are deemed to be fully performed only if all the following conditions are met:
- 6.1 Party B has transferred all its equity interest in Shenzhen Xinbao to Party A and/or its designee; and
- 6.2 Party B has paid to Party A as loan repayment all proceeds from equity transfer or the maximum amount permitted by laws (including principal and the highest loan interest permitted by applicable laws then in force).

7. To secure the performance of the debts under this Agreement, Party B agrees to pledge all its equity interest in Shenzhen Xinbao to Party A (the “**Equity Pledge**”). Both parties agree to execute an “Equity Pledge Agreement” with respect thereto.
8. As of the execution date of this Agreement, Party A hereby represents and warrants to Party B that:
- 8.1 Party A is a wholly foreign-owned enterprise incorporated and validly existing under the PRC laws;
  - 8.2 Party A has the authority to execute and perform this Agreement. The execution and performance by Party A of this Agreement comply with its business scope, articles of association or other organizational documents, and Party A has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;
  - 8.3 The execution and performance of this Agreement by Party A do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party; and
  - 8.4 Once executed, this Agreement constitutes a legal, valid and binding obligation of Party A, enforceable against Party A in accordance with its provisions.
9. From the execution date of this Agreement until the termination hereof, Party B hereby represents and warrants to Party A that:
- 9.1 Shenzhen Xinbao is a limited liability company incorporated and validly existing under the PRC laws, whose registered capital has been paid up and which has obtained capital verification report issued by a qualified accounting firm. Shenzhen Xinbao has completed all government approvals, authorizations, licenses, registrations, filing, etc necessary to carry out the business activities within its business scope and to possess its assets;
  - 9.2 Party B legally owns 5% equity interest in Shenzhen Xinbao;
  - 9.3 Party B has the authority to execute and perform this Agreement. The execution and performance by Party B of this Agreement comply with the articles of association or other organizational documents of Shenzhen Xinbao, and Party B has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;
  - 9.4 The execution and performance of this Agreement by Party B do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party;
  - 9.5 Once executed, this Agreement constitutes a legal, valid and binding obligation of Party B, enforceable against Party B in accordance with its provisions;

- 9.6 Except for the provisions stipulated in the “Equity Pledge Agreement” and “Exclusive Purchase Option Agreements”, Party B has not mortgaged, pledged or otherwise encumbered its equity interest in Shenzhen Xinbao, given an offer about the transfer of such equity interest to any third party, made any commitment about the offer of any third party to purchase its equity interest, or executed any agreement with any third party to transfer its equity interest in Shenzhen Xinbao;
- 9.7 There are no existing or potential disputes, litigations, arbitrations, administrative proceedings or other legal proceedings in connection with Party B’s equity interest in Shenzhen Xinbao.
10. Party B covenants that it shall, during the term of this Agreement:
- 10.1 Without Party A’s prior written consent, not sell, transfer, mortgage or otherwise dispose of or cause any other security interest to be created on its equity interest or other interests in Shenzhen Xinbao, except for the equity pledge and other rights created for the benefit of Party A;
- 10.2 Without Party A’s prior written consent, not vote for or support or execute at the shareholders’ meetings of Shenzhen Xinbao any shareholders’ resolution approving the sale, transfer, mortgage or otherwise disposal of, or causing any other security interest to be created on, its legal or beneficial interest in the equity interest of Shenzhen Xinbao;
- 10.3 Without Party A’s prior written consent, not vote for or support or execute at the shareholders’ meetings of Shenzhen Xinbao any resolution approving Shenzhen Xinbao to be merged or consolidated with, acquire or invest in, any person;
- 10.4 Promptly inform Party A of any existing or potential litigation, arbitration or administrative proceedings relating to Party B’s equity interest in Shenzhen Xinbao;
- 10.5 Execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defenses against all claims in order to maintain the ownership over its equity interest in Shenzhen Xinbao;
- 10.6 Not do any act and/or omission that may materially affect the assets, business and liabilities of Shenzhen Xinbao without Party A’s prior written consent;
- 10.7 At Party A’s request, appoint any person nominated by Party A as the director of Shenzhen Xinbao;
- 10.8 When Party A exercises its Call Option described herein, transfer all of Party B’s equity interest in Shenzhen Xinbao promptly and unconditionally to Party A and/or its designee subject to the permission of and to the extent permitted by the PRC laws;

- 10.9 Not request Shenzhen Xinbao to distribute dividends or profits to it;
- 10.10 In case its equity interest in Shenzhen Xinbao is transferred to Party A or its designee, Party B will, subject to compliance with legal requirements, pay all equity transfer proceeds to Party A as the loan principal and as the loan interests or fund utilization costs permitted by laws;
- 10.11 Comply strictly with the provisions of this Agreement, fully perform its obligations under this Agreement and not do any act/omission that affects or impairs the validity and enforceability of this Agreement.
11. Party B undertakes that within the term of this Agreement, it will, in the capacity of the shareholder of Shenzhen Xinbao, cause Shenzhen Xinbao:
- 11.1 Not to supplement, amend or modify its articles of association in any way, or to increase or decrease its registered capital, or to change its capital structure in any way without Party A's prior written consent;
- 11.2 To maintain its existence, and to operate its business and deal with matters prudently and effectively, subject to good financial and business rules and practices;
- 11.3 Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial interests in any of its assets, business or income at any time after the signing of this Agreement without Party A's prior written consent;
- 11.4 Not to create any liability, without Party A's prior written consent, except (i) the liability arising from the normal course of business, but not arising from the loan; and (ii) the liability disclosed to Party A and approved by Party A in writing;
- 11.5 To operate persistently all the business in the normal course of business to maintain the value of its assets;
- 11.6 Not to execute any material contracts (a contract will be deemed material if its value exceeds One Hundred Thousand Renminbi (RMB100,000)), without Party A's prior written consent, other than those executed during the normal course of business;
- 11.7 To provide information concerning all of its operations and financial performance at Party A's request;
- 11.8 Not to be merged or consolidated with, acquire or invest in, any other person without Party A's prior written consent;

- 11.9 Not to distribute dividends to each shareholder in any way without Party A's prior written consent. However, Shenzhen Xinbao shall promptly distribute all its distributable profits to Party A's shareholders upon Party A's request;
- 11.10 To inform promptly Party A of any existing or potential litigation, arbitration or administrative proceedings concerning its assets, business or income;
- 11.11 To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate lawsuits or to make all necessary and appropriate defenses against all claims in order to maintain the ownership over all its assets;
- 11.12 To comply strictly with the agreements with respect to the technological support and consulting services (the "**Service Agreements**") and other agreements executed by it with Party A's affiliates, to perform its obligations under the Service Agreements and other agreements, and not to do any act/omission that affects the validity and enforceability of such agreements.
12. This Agreement shall be binding on and inure to the benefit of both parties hereto and their respective successors, heirs and permitted assignees. Without the prior written approval of Party A, Party B shall not transfer, pledge or otherwise assign any of its rights, benefits or obligations under this Agreement.
13. Party B hereby agrees that Party A may assign its rights and obligations under this Agreement to any other third parties when necessary. Party A shall only be required to notify Party B in writing when such transfer occurs and no further consent from Party B shall be needed in respect of the transfer.
14. The formation, validity, interpretation, performance, amendment and termination of and resolution of disputes in connection with this Agreement shall be governed by the PRC laws.
15. Arbitration
- 15.1 Any dispute, controversy or claim arising from the interpretation and performance in connection with this Agreement (including any question regarding its existence, validity or termination) shall be settled by both parties through friendly consultations. In case no settlement can be reached within thirty (30) days after one party makes a request for settlement, either party may submit such dispute to the China International Economic and Trade Arbitration Commission ("**CIETAC**") for arbitration in accordance with its arbitration rules then in effect at the time of applying for arbitration. The arbitration award shall be final and binding upon both parties;
- 15.2 The seat of arbitration shall be Shenzhen;
- 15.3 The language of arbitration proceedings shall be Chinese.

16. This Agreement shall be formed on its signing date. This Agreement shall be effective as of the date on which the loan is released until both parties have performed their obligations under this Agreement.
17. Party B shall not terminate or revoke this Agreement unless Party A commits a gross negligence, fraud or other material illegal acts; or Party A goes bankrupt.
18. This Agreement shall not be amended or modified except with the written consent of both parties. In case of anything not covered herein, both parties may make supplements hereto by signing a written agreement. Any amendment, modification, supplement or annex to this Agreement shall form an integral part of this Agreement.
19. This Agreement constitutes the entire agreement between both parties with respect to the transactions contemplated herein and supersedes all prior oral discussions or written agreements reached by both parties with respect to the transactions mentioned above.
20. This Agreement is severable. If any provision of this Agreement is held to be invalid or unenforceable, such provision shall not affect the validity and enforceability of the remainder of this Agreement.
21. Each party hereto shall keep in strict confidence the information concerning the other party's business, operation, financial performance or other confidential data obtained under this Agreement or during the performance of this Agreement.
22. Any obligation arising out of this Agreement or that is due before the expiration or early termination of this Agreement shall survive such expiration or early termination. Articles 14, 15 and 21 hereof shall survive the termination of this Agreement.
23. This Agreement is executed in four originals, with each of Party A and Party B holding one original. All originals have the same legal effect.

[No text below]

[No text below]

**IN WITNESS WHEREOF**, Party A's legal representative or authorized representative and Party B have executed this Agreement as of the date as first above written.

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

Party B: Yuan Tian

Signature: /s/ Yuan Tian

## EQUITY PLEDGE AGREEMENT

THIS EQUITY PLEDGE AGREEMENT (hereinafter “**this Agreement**”) is entered into in Shenzhen as of April 18, 2011 by the following parties:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Address: Rom 2108-2110-35, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

Party B: Yuan Tian

ID card No.:

Third Party: Shenzhen Xinbao Investment Management Co., Ltd.

Address: Rom 2108-2110-22, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

### WHEREAS:

1. Party A is a wholly foreign-owned enterprise incorporated in the People’s Republic of China (hereinafter the “PRC”).
2. Party B is a citizen of the PRC and holds 5% equity interest (“Pledged Equity Interest”) in Shenzhen Xinbao Investment Management Co., Ltd. (hereinafter “Shenzhen Xinbao”), a limited liability company incorporated in Shenzhen, China.
3. Party A and Party B signed the Loan Agreement on Aril 18, 2011, pursuant to which, Party A will provide an interest-free loan in the total amount of Five Hundred Thousand Renminbi (RMB500,000) (hereinafter the “Loan”) to Party B, and Party B will provide the Pledged Equity Interest to Party A as a guarantee for the Loan.

NOW THEREFORE, Party A (hereinafter the “Pledgee”) and Party B (hereinafter the “Pledgor”) hereby enter into this Agreement after friendly negotiation.

### 1. Right of Pledge

The Pledgor pledges all of his Pledged Equity Interest in Shenzhen Xinbao to the Pledgee as a guarantee for all of his liabilities under the Loan Agreement. The “Right of Pledge” refers to the right owned by the Pledgee to be first compensated from the money converted from, or the proceeds from the auction or sale of, such equity interest pledged by the Pledgor to the Pledgee.

### 2. Registration of Pledge

- 2.1 Within one (1) week after the signing of this Agreement, the Pledgor shall cause Shenzhen Xinbao to record the Pledgee’s Right of Pledge over his Pledged Equity Interest in the register of shareholders and deliver the copy of the register of shareholders bearing the common seal of Shenzhen Xinbao, as well as the original of equity contribution certificate of Shenzhen Xinbao to the Pledgee for safe-keeping.



- 2.2 Both parties agree that if conditions permit, they will make their best effort to file, and cause the pledge under this Agreement to be filed, with the industrial and commercial administrative department in the place where Shenzhen Xinbao is registered, but both parties confirm that unless compulsorily stipulated by the PRC laws and regulations, whether this Agreement is filed as above or not will not affect the validity of this Agreement.

**3. Rights of the Pledgee**

- 3.1 Where the Pledgor does not perform his liabilities, the Pledgee shall be entitled to be first compensated from the money converted from, or the proceeds from the auction or sale of, such Pledged Equity Interest.
- 3.2 The Pledgee shall be entitled to the bonus arising from the Pledged Equity Interest.

**4. Representation and Warranty of the Pledgor**

- 4.1 The Pledgor is the legal owner of the Pledged Equity Interest.
- 4.2 Except for the interest of the Pledgee, the Pledgor has not created other pledges or any other kinds of rights over the Pledged Equity Interest.
- 4.3 The pledge of the equity interest by the Pledgor has obtained the consent of the other shareholders of Shenzhen Xinbao, and other shareholders have unanimously agreed that they will give up the exercise of their respective preemptive right when the Pledgee actually exercises the Right of Pledge.

**5. Undertakings by the Pledgor**

- 5.1 During the term of this Agreement, the Pledgor undertakes to the Pledgee for the benefit of the Pledgee that he will:
- 5.1.1 Not transfer or dispose of the Pledged Equity Interest, nor create or cause to be created any pledge (except the pledge pursuant to this Agreement) on the Pledged Equity Interest without the prior written consent of the Pledgee.
- 5.1.3 Timely notify the Pledgee of any events or any received notices which may affect the Pledgor's right over the Pledged Equity Interest or any part thereof, or may change the Pledgor's any warranty and obligation under this Agreement or may have effects on it.
- 5.2 The Pledgor agrees that the Pledgee's right to exercise the Right of Pledge obtained pursuant to this Agreement shall not be interrupted or hindered by the Pledgor or any of its successors or principals or any other person through legal proceedings.
- 5.3 The Pledgor undertakes to the Pledgee that in order to protect or improve the guarantee for the repayment of the loan under this Agreement, the Pledgor will execute in good faith and cause other interested persons relating to the Right of Pledge to execute all right certificates and contracts required by the Pledgee and/or perform and cause other interested persons to perform the acts required by the Pledgee and facilitate the exercise of the rights and authority granted to the Pledgee under this Agreement.

- 5.4 The Pledgor undertakes to the Pledgee that he will execute all documents relating to any change in equity interest that is pledged with the Pledgee and any persons designated by it (natural persons/ legal persons) within a reasonable period.
- 5.5 The Pledgor undertakes to the Pledgee that for the purpose of the Pledgee's benefits, he will comply with and perform all warranties, undertakings, agreements, representations and conditions. Where the Pledgor does not perform, in whole or in part, his warranties, undertakings, agreements, representations and conditions, the Pledgor shall compensate all losses suffered by the Pledgee arising therefrom.

## **6. Event of Default**

- 6.1 The following events shall be regarded as the Events of Default:
- 6.1.1 The Pledgor fails to perform his obligations under the Loan Agreement;
- 6.1.2 Any representation or warranty made by the Pledgor in Article 4 hereof contains misleading or false information that is material and/or the Pledgor breaches any warranty in Article 4 hereof;
- 6.1.3 The Pledgor breaches the undertakings under Article 5 hereof;
- 6.1.4 The Pledgor breaches any of the other provisions of this Agreement;
- 6.1.5 Any borrowing, guarantee, compensation, undertaking or other debt liabilities of the Pledgor (1) is required to be repaid or performed in advance due to a default; or (2) has been due but cannot be repaid or performed on time, which, in the opinion of the Pledgee, would have affected the ability of the Pledgor in performing his obligations under this Agreement;
- 6.1.6 Shenzhen Xinbao is incapable of repaying the general debts or other debts;
- 6.1.7 The properties owned by the Pledgor have significant adverse changes, which, in the opinion of the Pledgee, would have affected the ability of the Pledgor in performing his obligations under this Agreement;
- 6.2 If the Pledgor knows or finds that any matter stated in Article hereof or any event possibly resulting in any of the above matters has occurred, he shall immediately inform the Pledgee in writing.
- 6.3 Unless the Events of Default listed in this Article 6.1 has been resolved to the satisfactory of the Pledgee, the Pledgee may give a written Notice of Default to the Pledgor at any time when the Pledgor is in default or thereafter, requesting the Pledgor to immediately pay the outstanding debts and other payables under the Loan Agreement or requesting to dispose of the Right of Pledge according to Article 7 hereof.

## **7. Exercise of the Right of Pledge**

- 7.1 The Pledgor shall not transfer the Pledged Equity Interest before his obligations under the Loan Agreement have been fully performed and without the prior written consent of the Pledgee.
- 7.2 The Pledgee shall give a notice to the Pledgor when the Pledgee exercises the Right of Pledge.
- 7.3 Subject to Article 6.3, the Pledgee may exercise the Right of Pledge when it gives a Notice of Default in accordance with Article 6.3 or at any time thereafter.
- 7.4 The Pledgee shall be entitled to be first compensated from the money converted from, or the proceeds from auction or sale of, all or part of the equity interest hereunder in accordance with statutory procedures until the outstanding debts and all other payables of the Pledgor under the Loan Agreement are repaid.
- 7.5 When the Pledgee disposes of the Right of Pledge in accordance with this Agreement, the Pledgor shall not pose any obstacles, and shall give necessary assistance in this regard so that the Pledgee can realize its Right of Pledge.

## **8. Assignment of this Agreement**

- 8.1 The Pledgor shall have no right to transfer any of his rights and obligations under this Agreement without the prior consent of the Pledgee.
- 8.2 The Pledgee may, at any time and to the extent permitted by laws, transfer or assign all or any of its rights and obligations under the Loan Agreement to any person designated by it (natural person or legal person). In this case, such assignee shall have the same rights and obligations hereunder as those of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the rights and obligations under the Loan Agreement, only a written notice shall be given by the Pledgee to the Pledgor, and the Pledgor shall, at the request of the Pledgee, execute the relevant agreements and/or documents with respect to such transfer or assignment.
- 8.3 This Agreement shall be binding upon the Pledgor and his successors or heirs, and shall be valid and binding upon the Pledgee and each of its successors, heirs or permitted assigns.

## **9. Termination**

This Agreement shall be terminated when the Loan under the Loan Agreement is paid off and the Pledgor ceases to undertake any obligations under the Loan Agreement, and the Pledgee shall, within the earliest reasonable and practicable time, offer assistance to complete necessary formalities so as to discharge the pledge of the Equity Interest.

## **10. Tax and Expenses**

The Pledgee shall be responsible for all the fees and actual expenses in relation to this Agreement, including but not limited to legal fees, cost of production, stamp tax and any other taxes and charges. If the Pledgee shall pay the relevant taxes in accordance with the laws, it shall compensate all such taxes paid by the Pledgor.

## **11. Force Majeure**

- 11.1 “Force Majeure” means any event that is beyond the reasonable control of either party and unavoidable or unpreventable and such event hinders, affects or delays any party to perform all or part of the obligations hereunder. Such events include but not limited to earthquake, typhoons, flood, fire and other disasters, wars, riots, strikes or any other similar events.
- 11.2 Both parties agree and acknowledge that the party who is affected by the “Force Majeure” and cannot perform this Agreement shall not constitute the default as set forth in Articles 6.1 hereto and shall not be required to assume any liabilities hereunder. However, the party who is affected by the “Force Majeure” shall inform the other party as soon as possible of the event and shall take appropriate measures to minimize or eliminate the impact of “Force Majeure”, and make endeavors to resume the performance of the obligations delayed or prevented by the “Force Majeure”. Both parties agree to make their best efforts to resume the performance of this Agreement once the “Force Majeure” is eliminated.

## **12. Confidentiality**

Both parties agree and acknowledge that any oral or written information exchanged between them in connection with this Agreement shall be confidential information. Each party shall keep confidential all such information, and shall not disclose any of the information to any third party without the prior written consent of the other party, except for the following: (a) the information that is or will be known to the public (provided that it is not disclosed to the public without authorization by the information receiving party); (b) the information required to be disclosed by applicable laws or stock exchange’s rules or regulations; or (c) the information required to be disclosed by either party to his/its legal or financial advisors with respect to the transaction contemplated under this Agreement, for which such legal or financial advisors shall also comply with the confidentiality obligations similar to those stated in this Article. Any divulgence of confidential information by any personnel of either party or any institutions engaged by him/it shall be deemed as the divulgence of confidential information by such party, and such party shall be liable for the breach pursuant to this Agreement.

## **13. Dispute Resolution**

- 13.1 This Agreement shall be governed by and construed in accordance with the PRC laws.
- 13.2 Any dispute between the parties arising from the interpretation and performance of the provisions of this Agreement shall be settled by both parties in good faith through negotiations. In case no settlement can be reached by both parties, either party may refer such dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration in accordance with its arbitration rules then in effect. The seat of arbitration shall be Shenzhen and the language of proceedings shall be Chinese. The arbitral award shall be final and binding upon both parties.

**14. Integrity of this Agreement**

This Agreement constitutes the entire representations and agreement between both parties with respect to the subject matter thereof and supersedes and replaces all prior oral and/or written representations, warranties, understandings and agreements reached by both parties made before the execution of the Agreement with respect to the subject matter thereof.

**15. Severability of this Agreement**

Should any provision of this Agreement be held invalid or unenforceable for any reasons, or violates any applicable laws, such provision shall not affect the legal effect of the other provisions hereof.

**16. Amendment or Supplement to this Agreement**

16.1 The parties hereto may make amendments or supplements to this Agreement by written agreement. All amendment agreements and supplemental agreements in relation to this Agreement that are duly signed by both parties shall form an integral part of this Agreement, and shall have the same legal effect as this Agreement.

16.2 This Agreement and any amendments, supplements or changes thereof shall be in writing and will come into effect upon being executed and sealed by both parties hereto.

**17. Counterparts**

This Agreement is executed in five originals in Chinese. Each of Party A and Party B shall hold one original, one original shall be held by Shenzhen Xinbao for filing and the other originals shall be provided for approval by or filing with the relevant authorities. Each original shall have the same legal effect.

[No text below]

[No text below]

**IN WITNESS WHEREOF**, legal representative of each party or its authorized representative has executed this Agreement as of the date first above written.

Pledgee: Ying Si Kang Information Technology (Shenzhen) Co, Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

**Pledgor:** Yuan Tian

Signature: /s/ Yuan Tian

**Third Party:** Shenzhen Xinbao Investment Management Co., Ltd.

Legal Representative/Authorized Representative: /s/ Chunlin Wang

Chop: *[Chop affixed]*

**EXCLUSIVE PURCHASE OPTION AGREEMENT**

THIS EXCLUSIVE PURCHASE OPTION AGREEMENT (hereinafter “**this Agreement**”) is entered into by the following Parties in Shenzhen as of April 18, 2011:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.  
Address: Rom 2108-2110-35, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

Party B: Yuan Tian  
ID card No.:

Party C: Shenzhen Xinbao Investment Management Co., Ltd.  
Address: Rom 2108-2110-22, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

In this Agreement, Party A, Party B and Party C are referred to individually as a “**Party**” and collectively as the “**Parties**”.

**WHEREAS:**

1. Party A is a wholly foreign-owned enterprise incorporated under the laws of the People’s Republic of China (hereinafter the “**PRC**”);
  2. Party C is a limited liability company incorporated in Shenzhen, the PRC;
  3. Party B is a shareholder of Party C. Party B holds 5% equity interest in Party C (hereinafter the “**Equity Interest**”);
  4. Party A and Party B signed the Loan Agreement on April 18, 2011, pursuant to which Party B will borrow a loan of Five Hundred Thousand Renminbi (RMB500,000) from Party A;
  5. Party A and Party B signed the Equity Pledge Agreement on April 18, 2011, pursuant to which Party B will pledge his Equity Interest in Party C as a guarantee for the loan under the Loan Agreement;
  6. Party B intends to grant an exclusive purchase option to Party A so that Party A may request Party B to sell his Equity Interest to it if certain conditions are met;
  7. Simultaneously with the execution hereof, Party A signed the Exclusive Purchase Option Agreements with Chunlin Wang, another shareholder of Party C, pursuant to the terms similar to this Agreement. In accordance with the Exclusive Purchase Option Agreement, Chunlin Wang will grant to Party A an exclusive purchase option for the purchase of his Equity Interest in Party C.
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**NOW, THEREFORE**, the Parties hereby agree as follows for mutual observance after friendly consultation:

**1. Purchase and Sale of Equity Interest**

**1.1 Grant of Option**

Party B hereby irrevocably grants to Party A an option to purchase or cause any person or persons designated by Party A (hereinafter the “**Designee**”) to purchase from Party B all or part of his Equity Interest in Party C (hereinafter the “**Call Option**”) at any time according to the steps determined by Party A at its own discretion to the extent permitted by PRC Laws and at the price specified in Article 1.3 of this Agreement. No Call Option shall be granted to any other third person other than Party A and/or the Designee. Party B shall not sell, offer to sell, transfer or offer as gift any Equity Interest to any other third person. Party C hereby agrees to the grant of the Call Option by Party B to Party A and/or the Designee. The “person” set forth in this Agreement includes an individual, corporation, joint venture, partnership, enterprise, trust or a non-corporate body.

**1.2 Exercising Steps**

Subject to the PRC laws and regulations, Party A and/or the Designee may exercise the Call Option by giving a written notice (hereinafter the “**Equity Purchase Notice**”) to Party B, which specifies the Equity Interest to be purchased from Party B (hereinafter the “**Purchased Equity**”) and the manner in which purchase is made.

**1.3 Purchase Price**

1.3.1 When Party A exercises the Call Option, the purchase price of the Purchased Equity (the “**Purchase Price**”) shall be equal to the actual capital contribution made by Party B for the Purchased Equity, unless an appraisal is required to be made in respect of the Equity Interest by applicable PRC laws and regulations then in effect or there are other restrictions imposed by such PRC laws and regulations on the price of Equity Interest.

1.3.2 If an appraisal is required to be made in respect of the Equity Interest by the PRC laws and regulations that are applicable at the time when Party A exercises its Call Option or there are other restrictions imposed by such PRC laws and regulation on the price of Equity Interest, the Parties agree that the Purchase Price shall be the lowest price permitted by applicable laws.

**1.4 Transfer of the Purchased Equity**

At each exercise of the Call Option:

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- 1.4.1 Party B shall cause Party C to convene a shareholders' meeting in a timely manner, during which a resolution approving the transfer by Party B of his Equity Interest to Party A and/or the Designee shall be passed;
- 1.4.2 Party B shall, pursuant to the requirements of this Agreement and the Equity Purchase Notice in connection with the Purchased Equity, enter into an equity transfer agreement with Party A and/or the Designee for each transfer;
- 1.4.3 Upon request by Party A, Party B shall execute all other necessary contracts, agreements or documents, obtain all necessary government approvals and consents and take all necessary actions to grant the valid ownership of the Purchased Equity to Party A and/or the Designee without any security interest being attached thereto and cause Party A and/or the Designee to be the registered owner of the Purchased Equity. In this Article and this Agreement, "Security Interest" includes guarantee, mortgage, pledge, third party right or interest, any share option, right of acquisition, right of first refusal, right of set-off, ownership detainment or other security arrangements, but excluding any security interest arising under the Equity Pledge Agreement.

## 1.5 Payment

The payment method of the Purchase Price shall be determined by Party A and/or the Designee and Party B through negotiation. The Parties hereby agree that any amount that is paid by Party A and/or the Designee to Party B with respect to the Purchased Equity shall be used to repay his loan principal under the Loan Agreement as well as the loan interest or fund utilization costs permitted by laws.

## 2. Each Party's Undertakings

### 2.1 Undertakings by Party B and Party C

- 2.1.1 Not to supplement, amend or modify Party C's articles of association in any way, or to increase or decrease its registered capital, or to change its registered capital structure in any way without Party A's prior written consent;
  - 2.1.2 To maintain the existence of Party C, and to operate the business of Party C prudently and effectively, subject to good financial and business rules and practices;
  - 2.1.3 Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial interests in any of Party C's assets, business or income at any time after the signing of this Agreement without Party A's prior written consent;
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- 2.1.4 Not to create any liability, without Party A's prior written consent, except (i) the liability arising from the usual or normal course of business, but not arising from the loan; and (ii) the liability disclosed to Party A and approved by Party A in writing;
- 2.1.5 To operate persistently all the business in the normal course of business to maintain the value of Party C's assets;
- 2.1.6 Without the prior written consent of Party A, not to enter into any material agreement, other than the agreements in the normal course of business (for the purpose of this Agreement, an agreement will be deemed material if its value exceeds One Hundred Thousand Renminbi (RMB100,000));
- 2.1.7 Without the prior written consent of Party A, not to provide loan or credit to any person;
- 2.1.8 To provide information concerning Party C's operations and financial condition at Party A's request;
- 2.1.9 To purchase and maintain the insurance at the insurance company acceptable to Party A, whose amount and type shall be the same as those of the insurance normally procured by the companies engaged in similar businesses and possessing similar properties or assets in the area where Party C is located;
- 2.1.10 Not to be merged or consolidated with, acquire or invest in, any other person without Party A's prior written consent;
- 2.1.11 To inform promptly Party A of any existing or potential litigation, arbitration or administrative proceedings concerning Party C's assets, business or income;
- 2.1.12 To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate claims or to make all necessary and appropriate defenses against all claims in order for Party C to maintain the ownership over all its assets;
- 2.1.13 Not to distribute dividends to Party C's shareholders in any way without Party A's prior written consent. However, Party C shall promptly distribute all or part of its distributable profits to Party A's shareholders upon Party A's request;
- 2.1.14 At the request of Party A, to appoint any person nominated by Party A as the director of Party C.

## 2.2 Undertakings by Party B

- 2.2.1 Not to sell, transfer, pledge or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial interest in his Equity Interest at any time after the signing of this Agreement without Party A's prior written consent, but except the right of pledge created on Party B's Equity Interest in accordance with the Equity Pledge Agreement;
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- 2.2.2 Without Party A's prior written consent, not to vote for or support or execute at shareholders' meetings of Party C any shareholders' resolution approving the sale, transfer, mortgage or otherwise disposal of, or causing any other security interest to be created on, his legal or beneficial interest in the Equity Interest of Party C, except to Party A or its Designee;
- 2.2.3 Without Party A's prior written consent, not to vote for or support or execute at shareholders' meetings of Party C any resolution approving Party C to be merged or consolidated with, acquire or invest in, any person;
- 2.2.4 To irrevocably agree to the grant by Party C's another shareholder, Chunlin Wang, of an exclusive Call Option to Party A, and to irrevocably waive his preemptive right to such Equity Interest to be transferred by Chunlin Wang to Party A;
- 2.2.5 To promptly inform Party A of any existing or potential litigation, arbitration or administrative proceedings with respect to his Equity Interest;
- 2.2.6 To cause the shareholders' meeting of Party C to approve the transfer of the Purchased Equity under this Agreement;
- 2.2.7 To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate claims or to make all necessary and appropriate defenses against all claims in order to maintain the ownership over his Equity Interest;
- 2.2.8 At Party A's request, to appoint any person nominated by Party A as the director of Party C;
- 2.2.9 To strictly comply with the provisions of this Agreement and other agreements entered into jointly or severally by and among Party B, Party C and Party A, to perform all obligations under these agreements and not to do any act/omission that affects or impairs the validity and enforceability of these agreements.

### **3. Representations and Warranties**

Party B and Party C hereby represent and warrant to Party A as follows:

- 3.1 They have the power to execute and deliver this Agreement. Once executed, this Agreement will constitute a legal, valid and binding obligation and shall be enforceable against them in accordance with the provisions thereof;
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- 3.2 The execution, delivery and performance of this Agreement shall not: (i) violate any relevant PRC laws and regulations; (ii) conflict with their Articles of Association or other organizational documents; (iii) violate any contract or instrument to which they are a party or that binds upon them;
- 3.3 Party C has good and saleable ownership over all assets. Party C has not created any security interest on the above assets;
- 3.4 Party C has no outstanding debts, except debts arising from its normal course of business; and debts disclosed to Party A and approved by Party A in writing;
- 3.5 Currently, there are no existing, pending or threatened litigation, arbitration or administrative proceedings related to the Equity Interest or Party C's assets; and
- 3.6 Party B has good and saleable ownership over all his Equity Interest and has not created any security interest on such Equity Interest, but excluding the security interest under the Equity Pledge Agreement.

#### **4. Assignment of this Agreement**

- 4.1 Party B and Party C shall not transfer any of their rights and obligations under this Agreement to any third party without the prior written consent of Party A.
- 4.2 Party B and Party C hereby agree that Party A shall have the right to transfer all of its rights and obligations under this Agreement to other third parties when necessary. Party A shall only be required to serve written notice to Party B and Party C when such transfer is made, and no consent shall be further required from Party B and Party C in respect of such transfer.

#### **5. Effectiveness and Term**

- 5.1 This Agreement shall become effective as of the date first above written.
- 5.2 The term of this Agreement shall be ten (10) years unless it is early terminated in accordance with the provisions of this Agreement or the relevant agreements separately signed by the Parties. The term of this Agreement may be extended with the written confirmation of Party A before its expiration. The extension thereof shall be agreed upon by the Parties through negotiation.
- 5.3 If the operation term (including any extension thereof) of Party A or Party C expires or terminates for other reasons within the term set forth in the preceding Article, this Agreement shall be terminated at the time of the termination of such Party, unless Party A has transferred its rights and obligations in accordance with Article 4.2 hereof.

#### **6. Applicable Law and Dispute Resolution**

##### **6.1 Applicable Law**

The formation, validity, interpretation and performance of and settlement of disputes under this Agreement shall be protected and governed by the laws of PRC.

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## 6.2 Dispute Resolution

Any dispute arising from the interpretation and performance of the provisions of this Agreement shall be resolved by the Parties through amicable negotiation. In case no resolution can be reached by the Parties within thirty (30) days after either party makes a request for dispute resolution through negotiation, either party may refer such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with its arbitration rules then in effect. The seat of arbitration shall be Shenzhen and the language of proceedings shall be Chinese. The arbitral award shall be final and binding upon the Parties.

## 7. Taxes and Expenses

Every Party shall bear any and all taxes, expenses and charges incurred by or levied on it in connection with the execution and performance of this Agreement.

## 8. Confidentiality

The Parties agree and acknowledge that any oral or written information exchanged between them in connection with this Agreement shall be confidential information. Each Party shall keep confidential all such information, and shall not disclose any of the information to any third party without the prior written consent of the other Party, except for the following:

- (a) the information that is or will be known to the public (provided that it is not disclosed to the public without authorization by the information receiving party);
- (b) the information required to be disclosed by applicable laws or stock exchange's rules or regulations; or
- (c) the information required to be disclosed by either Party to his/its legal or financial advisors with respect to the transaction contemplated under this Agreement, for which such legal or financial advisors shall also comply with the confidentiality obligations similar to those stated in this Article.

No matter what reason causes this Agreement to become invalid, dismissed, terminated or unenforceable, this Article shall become effective.

## 9. Miscellaneous

### 9.1 Amendment, Modification and Supplement

The Parties may make amendments or supplements to this Agreement by written agreement. All amendment agreements and supplemental agreements to this Agreement that are duly signed by the Parties shall form an integral part of this Agreement, and shall have the same legal effect as this Agreement.

### 9.2 Integrity of this Agreement

The Parties acknowledge this Agreement constitutes the entire representations and agreement between the Parties with respect to the subject matter hereof and supersedes all prior oral and/or written representations, warranties, understandings and agreements reached by the Parties made before the execution of the Agreement with respect to the subject matter hereof.

### 9.3 Severability of this Agreement

If any provision or provisions of this Agreement is/are held to be invalid or unenforceable or violate(s) any applicable laws, the validity, legality and enforceability of the other provisions hereof shall not be affected.

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9.4 Language and Counterparts

This Agreement is executed in Chinese in four (4) originals and each Party shall hold one original. All of the originals shall have the same legal effect.

9.5 Successors

This Agreement shall be binding upon the respective successors or heirs of the Parties and the permitted assignees of such Parties.

9.6 Survival

Any obligations that occur or are due as a result of this Agreement before the expiration or early termination of this Agreement shall survive the expiration or early termination hereof. The provisions of Articles 6 and 8 hereof shall survive the termination of this Agreement.

[No Text Below]

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[No Text Below]

**IN WITNESS WHEREOF**, legal representative of each Party or its authorized representative has executed this Agreement as of the date first above written.

**Party A:** Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

**Party B:** Yuan Tian

Signature: /s/ Yuan Tian

**Party C:** Shenzhen Xinbao Investment Management Co., Ltd.

Legal Representative/Authorized Representative: /s/ Chunlin Wang

Chop: *[Chop affixed]*

## POWER OF ATTORNEY

I, Yuan Tian, a citizen of the People's Republic of China (the "**PRC**") with the Chinese ID card No.: \_\_\_\_\_, is the shareholder of Shenzhen Xinbao Investment Management Co., Ltd ("**Shenzhen Xinbao**"), holding 5% equity interest of Shenzhen Xinbao. I hereby irrevocably appoint Ying Si Kang Information Technology (Shenzhen) Co., Ltd. ("**Ying Si Kang**") to exercise the following rights during the term of this Power of Attorney:

I hereby authorize the person designated by Ying Si Kang which it thinks fit to represent me with full power to exercise all voting rights of shareholder to which I shall be entitled in accordance with PRC laws and Shenzhen Xinbao's Articles at shareholders' meetings of Shenzhen Xinbao, including but not limited to the right to sell or transfer any or all of my equity interest in Shenzhen Xinbao, to vote on all important matters of Shenzhen Xinbao as my authorized representative at its shareholders' meetings, and to elect and appoint the directors and officers of Shenzhen Xinbao, etc. I will issue a power of attorney to the person designated by Ying Si Kang from time to time as per its request so as to facilitate the designee with full power to exercise all voting rights of shareholder at shareholders' meetings of Shenzhen Xinbao on my behalf.

If Ying Si Kang designates me to attend a shareholders' meeting of Shenzhen Xinbao, I promise that I will exercise the voting rights of shareholder according to the instructions of Ying Si Kang.

During the validly existing period of Shenzhen Xinbao and within the term of the Loan Agreement executed by myself and Ying Si Kang, this Power of Attorney shall have a term of ten (10) years from the execution date of this Power of Attorney.

/s/ Yuan Tian  
Yuan Tian

April 18, 2011



**SUPPLEMENTARY AGREEMENT**

THIS SUPPLEMENTARY AGREEMENT (“**Supplementary Agreement**”) is entered into by the following parties in Shenzhen as of March 6, 2013:

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.  
Address: F3, Hanfeng Building, 1 Xiameilin 1<sup>st</sup> Street, Futian District, Shenzhen

Party B: Yuan Tian  
ID Card No.:

Party C: Shenzhen Xinbao Investment Management Co., Ltd.  
Address: Rom 2108-2110-22, Jiahe Huaqiang Building, Shennan Road, Futian District, Shenzhen

**WHEREAS:**

1. A Loan Agreement was entered into between Party A and Party B on April 18, 2011, pursuant to which Party A agreed to grant an interest-free loan in an amount of Five Hundred Thousand Renminbi (RMB500,000) to Party B (“**Loan**”).
2. An Equity Pledge Agreement was entered into between Party A and Party B on April 18, 2011, pursuant to which Party B agreed to pledge all of his 5% equity interest in Party C to Party A as a security pledge for the Loan under the Loan Agreement..
3. An Exclusive Purchase Option Agreement was entered into between Party A and Party B on April 18, 2011, pursuant to which Party B agreed to grant an exclusive purchase option to Party A so that Party A may request Party B to sell his equity interest in Party C to it if certain conditions are met.
4. On March 6, 2013, upon unanimous approval of shareholders of Party C, the registered capital of Party C was decreased from RMB10 million to RMB8 million. As a result, Party B holds 6.25% of equity interest in Party C.

**NOW THEREFORE**, after friendly negotiations, both parties hereby enter into the Supplementary Agreement to amend the terms of the foresaid Equity Pledge Agreement and Exclusive Purchase Option Agreement as follows:

**1. Loan**

Both parties certify that Party A granted an interest-free loan in an amount of Five Hundred Thousand Renminbi (RMB500,000) to Party B and as of the date of this Supplementary Agreement, Party B has not yet repaid the loan.

**2. Equity Pledge**

The equity interest in Party C pledged by Party B to Party A as the security for the Loan was changed to 6.25%.

**3. Exclusive Purchase Option**

Party B intends to grant an exclusive purchase option to Party A so that Party A may request Party B to sell his 6.25% equity interest in Party C to Party A if certain conditions are met.

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**4. Validity**

The Supplementary Agreement constitutes an integral part of the Equity Pledge Agreement and Exclusive Purchase Option Agreement and shall have the same legal effect. In the event of conflict, the provisions of the Supplementary Agreement shall prevail.

**5. Language and Counterparts**

This Agreement is executed in Chinese in three (3) originals and each Party shall hold one original. All of them shall have the same legal effect.

[No text below]

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[Signature Page]

**IN WITNESS WHEREOF**, legal representative from each party or its authorized representative and Party B have executed this Agreement as of the date as first above written.

Party A: Ying Si Kang Information Technology (Shenzhen) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yuan Tian

Chop: *[Chop affixed]*

Party B: Yuan Tian

Signature: /s/ Yuan Tian

Party C: Shenzhen Xinbao Investment Management Co., Ltd.

Legal Representative/Authorized Representative: /s/ Chunlin Wang

Chop: *[Chop affixed]*

**List of Subsidiaries and Affiliated Entities**  
**(As of March 15, 2014)**

<b>Subsidiaries</b>	<b>Percentage Attributable to Our Company</b>	<b>Place of Incorporation</b>
1. CISG Holdings Ltd.	100%	BVI
2. Minkfair Insurance Management Limited	100%	Hong Kong
3. CNinsure Holdings Ltd.	100%	BVI & Hong Kong
4. CNinsure Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. (formerly known as Haidileji Enterprise Image Planning (Shenzhen) Co., Ltd. and Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd.).	100%	PRC
5. CNinsure Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. (formerly known as Yiqiman Enterprise Management Consulting (Shenzhen) Co., Ltd. and Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.)	100%	PRC
6. CNinsure Insurance Sales Service Group Company Limited (formerly known as Shenzhen Fanhua Nanfeng Investment Holding Co., Ltd.)	100%	PRC
7. Guangzhou Zhongqi Enterprise Management Consulting Co., Ltd.	100%	PRC
8. Beijing Ruisike Management Consulting Co., Ltd.	100%	PRC
9. Beijing Fanlian Investment Co., Ltd.	100%	PRC
10. Litian Zhuoyue Software (Beijing) Co., Ltd.	100%	PRC
11. Shenzhen Bangbang Auto Services Co., Ltd.	100%	PRC
12. InsCom Holdings Limited	65.1%	BVI
13. InsCom Group Limited <sup>(1)</sup>	65.1%	BVI
14. InsCom HK Limited <sup>(1)</sup>	65.1%	Hong Kong
15. Ying Si Kang Information Technology (Shenzhen) Co., Ltd. <sup>(1)</sup>	65.1%	PRC
16. Guangzhou Huajie Insurance Agency Co., Ltd. <sup>(2)</sup>	100%	PRC
17. Dongguan Zhongxin Insurance Agency Co., Ltd. <sup>(2)</sup>	100%	PRC
18. CNinsure Bocheng Insurance Brokerage Co., Ltd. (also known as Fanhua Bocheng Insurance Brokerage Co., Ltd.) <sup>(2)</sup>	100%	PRC
19. CNinsure Times Insurance Sales & Service Co., Ltd. (formerly known as Guangzhou Fanhua Insurance Agency Co., Ltd.) <sup>(2)</sup>	100%	PRC
20. CNinsure Lianxing Insurance Sales Co., Ltd.(also known as Fanhua Lianxin Insurance Sales Co., Ltd.) <sup>(3)</sup>	100%	PRC

<b>Subsidiaries</b>	<b>Percentage Attributable to Our Company</b>	<b>Place of Incorporation</b>
21. Sichuan CNinsure Insurance Agency Co., Ltd.( also known as Sichuan Fanhua Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
22. Beijing Fanlian Insurance Agency Co., Ltd. <sup>(4)</sup>	100%	PRC
23. Beijing CNinsure Insurance Agency Co.,Ltd.(also known as Beijing CNinsure Insurance Agency Co.,Ltd.) <sup>(4)</sup>	100%	PRC
24. Beijing CNinsure Fumin Insurance Agency Co., Ltd.(also known as Beijing Fanhua Fumin Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
25. Guangdong CNinsure Kafusi Insurance Brokerage Co., Ltd.( also known as Beijing Fanhua Fumin Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
26. Guangzhou Fanhua Yi'an Insurance Agency Co., Ltd. (also known as Guangzhou CNinsure Yi'an Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
27. Foshan Tuohua Insurance Agency Co., Ltd. <sup>(4)</sup>	100%	PRC
28. Dongguan Nanfeng Jiayu Insurance Agency Co., Ltd. <sup>(4)</sup>	100%	PRC
29. Guangdong CNinsure Nanfeng Insurance Agency Co., Ltd.( also known as Guangdong Fanhua Nanfeng Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
30. Shenzhen CNinsure Nanfeng Insurance Agency Co.,Ltd. (also known as Shenzhen Fanhua Nanfeng Insurance Agency Co.,Ltd.) <sup>(5)</sup>	100%	PRC
31. Hebei Lianda Insurance Agency Co., Ltd. <sup>(4)</sup>	100%	PRC
32. Fujian CNinsure Guoxin Insurance Agency Co., Ltd. (also known as Fujian Fanhua Guoxin Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
33. Hangzhou CNinsure Zhixin Insurance Agency Co., Ltd. (also known as Hangzhou Fanhua Zhixin Insurance Agency Co., Ltd.) <sup>(4)</sup>	100%	PRC
34. Tianjin CNinsure Xianghe Insurance Agency Co., Ltd. (also known as Tianjin Fanhua Xianghe Insurance Agency Co., Ltd.) <sup>(6)</sup>	70%	PRC
35. Changsha Lianyi Insurance Agency Co., Ltd. <sup>(6)</sup>	70%	PRC
36. Henan CNinsure Anlian Insurance Agency Co., Ltd. (also known as Henan Fanhua Anlian Insurance Agency Co., Ltd.) <sup>(6)</sup>	51%	PRC
37. Ninbo Baolian Insurance Agency Co., Ltd. <sup>(6)</sup>	51%	PRC
38. Shandong CNinsure Mintai Insurance Agency Co., Ltd. (also known as Shandong Fanhua Mintai Insurance Agency Co., Ltd.) <sup>(6)</sup>	51%	PRC

<b>Subsidiaries</b>	<b>Percentage Attributable to Our Company</b>	<b>Place of Incorporation</b>
39. Hunan CNinsure Insurance Agency Co., Ltd. (also known as Hunan Fanhua Insurance Agency Co., Ltd.) <sup>(7)</sup>	55%	PRC
40. Hubei CNinsure Insurance Agency Co., Ltd. (also known as Hubei Fanhua Insurance Agency Co., Ltd.) <sup>(7)</sup>	60%	PRC
41. Liaoning CNinsure Gena Insurance Agency Co., Ltd. (also known as Liaoning Fanhua Gena Insurance Agency Co., Ltd.) <sup>(7)</sup>	60%	PRC
42. Zhejiang CNinsure Tongchuang Insurance Agency Co., Ltd. (also known as Zhejiang Fanhua Tongchuang Insurance Agency Co., Ltd.) <sup>(7)</sup>	60%	PRC
43. Jiangsu CNinsure Lianchuang Insurance Agency Co., Ltd. (also known as Zhejiang Fanhua Tongchuang Insurance Agency Co., Ltd.) <sup>(7)</sup>	70%	PRC
44. Sichuan CNinsure Xintai Insurance Agency Co., Ltd. (also known as Sichuan Fanhua Xintai Insurance Agency Co., Ltd.) <sup>(7)</sup>	100%	PRC
45. Guangdong Meidiya Investment Co., Ltd. <sup>(8)</sup>	100%	PRC
46. Jiangmen CNinsure Zhicheng Insurance Agency Co., Ltd. (also known as Jiangmen Fanhua Zhicheng Insurance Agency Co., Ltd.) <sup>(9)</sup>	100%	PRC
47. Hebei Fanlian Insurance Agency Co., Ltd. <sup>(9)</sup>	51%	PRC
48. Shenyang Fangda Insurance Agency Co., Ltd. <sup>(9)</sup>	51%	PRC
49. Shanghai CNinsure Guosheng Insurance Agency Co., Ltd. (also known as Shanghai Fanhua Guosheng Insurance Agency Co., Ltd.) <sup>(9)</sup>	55%	PRC
50. Jiangxi CNinsure Insurance Agency Co., Ltd. (also known as Jiangxi Fanhua Insurance Agency Co., Ltd.) <sup>(9)</sup>	70%	PRC
51. Fujian CNinsure Investment Co., Ltd. (also known as Fujian Fanhua Investment Co., Ltd.) <sup>(10)</sup>	100%	PRC
52. Fujian CNinsure Xinheng Insurance Agency Co., Ltd. (also known as Fujian Fanhua Xinheng Insurance Agency Co., Ltd.) <sup>(10)</sup>	100%	PRC
53. Nanping CNinsure Jinying Insurance Agency Co., Ltd. (also known as Nanping Fanhua Jinying Insurance Agency Co., Ltd.) <sup>(11)</sup>	51%	PRC
54. Guangdong CNinsure Fangzhong Investment Management Co., Ltd. (also known as Guangdong Fanhua Fangzhong Investment Management Co., Ltd.) <sup>(9)</sup>	51%	PRC
55. CNinsure Insurance Surveyors & Loss Adjustors Co., Ltd. (also known as Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(12)</sup>	51%	PRC

<b>Subsidiaries</b>	<b>Percentage Attributable to Our Company</b>	<b>Place of Incorporation</b>
56. Shanghai CNinsure Teamhead Insurance Surveyors & Loss Adjustors Co., Ltd. (also known as Shanghai Fanhua Teamhead Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(12)</sup>	51%	PRC
57. Shenzhen CNinsure Property and Casualty Insurance Surveyors & Loss Adjustors Co., Ltd. (also known as Shenzhen Fanhua Property and Casualty Insurance Surveyors & Loss Adjustors Co., Ltd.) <sup>(12)</sup>	51%	PRC
58. Shenzhen CNinsure Software Technology Co., Ltd. (also known as Shenzhen Fanhua Software Technology Co., Ltd.) <sup>(12)</sup>	51%	PRC
<b>Affiliated Entities</b>	<b>Percentage Attributable to Our Company</b>	<b>Place of Incorporation</b>
1. Sichuan Yihe Investment Co., Ltd. <sup>(13)</sup>	100%	PRC
2. Shenzhen Xinbao Investment Management Co., Ltd. <sup>(14)</sup>	65.1%	PRC
3. Shijiazhuang CNinsure Anxin Investment Co., Ltd. (also known as Shijiazhuang Fanhua Anxin Investment Co., Ltd.) <sup>(15)</sup>	100%	PRC
4. Hebei CNinsure Anxin Insurance Agency Co., Ltd. (also known as Hebei Fanhua Anxin Insurance Agency Co., Ltd.) <sup>(16)</sup>	100%	PRC
5. Shandong CNinsure Xintai Insurance Agency Co., Ltd. (also known as Shandong Fanhua Xintai Insurance Agency Co., Ltd.) <sup>(15)</sup>	100%	PRC
6. Jinan CNinsure Rongtai Insurance Agency Co., Ltd. (also known as Jinan Fanhua Rongtai Insurance Agency Co., Ltd.) <sup>(17)</sup>	100%	PRC
7. CNinsure Century Insurance Sales & Service Co., Ltd. (also known as Fanhua Shiji Insurance Co., Ltd.) <sup>(18)</sup>	65.1%	PRC
8. Shenzhen InsCom E-commerce Co., Ltd. <sup>(19)</sup>	65.1%	PRC
9. CNinsure Puyi Fund Sales Co., Ltd. (also known as Fanhua Puyi Investment Management Co., Ltd.) <sup>(20)</sup>	19.5%	PRC
10. Sincere Fame International Limited	20.6%	BVI
11. Shanghai Teamhead Automobile Surveyors Co., Ltd. <sup>(21)</sup>	20.4%	PRC
12. Jiaxing Baolian Insurance Agency Co., Ltd. <sup>(22)</sup>	30%	PRC

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- (1) 100% of the equity interests in each of these companies are held directly or indirectly by InsCom Holdings Limited.
  - (2) 100% of the equity interests in each of these companies are held directly by CNinsure Insurance Sales Service Group Company Limited.
  - (3) We beneficially own 100% equity interests in this Company, of which 99% of the equity interests are held directly by CNinsure Insurance Sales Service Group Company Limited and the the remaining 1% by Sichuan Yihe Investment Co., Ltd. in which we beneficially own 100% equity interests.
  - (4) 100% of the equity interests in each of these companies are held directly by CNinsure Times Insurance Sales & Service Co., Ltd..
  - (5) 100% of the equity interest in this company are held directly by Guangdong CNinsure Nanfeng Insurance Agency Co., Ltd..
  - (6) Majority equity interests in the range of 51-70% in each of these companies are are held directly by CNinsure Times Insurance Sales & Service Co., Ltd..
  - (7) Majority equity interests in the range of 51-100% in each of these companies are held directly by CNinsure Lianxing Insurance Sales Co., Ltd..
  - (8) We beneficially own 100% equity interests in this company, of which 90% of the equity interests are held directly by CNinsure Insurance Sales Service Group Company Limited and the remaining 10% by two individual shareholders.
  - (9) Majority equity interests in the range of 51-100% in each of these companies are held directly by Guangdong Meidiya Investment Co., Ltd..
  - (10) We beneficially own 100% equity interests in each of these company, of which 55% of the equity interests are held directly by Guangdong Meidiya Investment Co., Ltd. and the remaining by Sichuan Yihe Investment Co., Ltd. in which we beneficially own 100% equity interests.
  - (11) 51% of the equity interests in this companies are held directly by Fujian CNinsure Xinheng Insurance Agency Co., Ltd..
  - (12) 100% of the equity interests in each of these companies are held directly by Guangdong CNinsure Fangzhong Investment Management Co., Ltd..
  - (13) We beneficially own 100% equity interests in this company, of which 20% of the equity interests are held directly by CNinsure Insurance Sales Group Company Limited and the remaining 80% by two individual shareholders.
  - (14) We beneficially own 65.1% of the quity interests in this company.
  - (15) 100% of the equity interests in each of these companies are held directly by Sichuan Yihe Investment Co., Ltd..
  - (16) 100% of the quity interests in each of these company are held directly by Shijiazhuang CNinsure Anxin Investment Co., Ltd..
  - (17) 100% of the quity interests in this company are held directly by Shandong CNinsure Xintai Insurance Agency Co., Ltd.
  - (18) 100% of the equity interests in this company are held directly by Shenzhen Xinbao Investment Co., Ltd..
  - (19) 100% of the equity interest in this company are held directly by CNinsure Century Insurance Sales & Service Co., Ltd..
  - (20) 19.45% of the quity interests in this company are held directly by Sichuan Yihe Investment Co., Ltd..
  - (21) 40% of the equity interest in this company are held by Shanghai CNinsure Teamhead Insurance Surveyors & Loss Adjustors Co., Ltd..
  - (22) 30% of the equity interest in this company are held by Guangdong Meidiya Investment Co., Ltd..



**Certification by the Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Chunlin Wang, certify that:

1. I have reviewed this annual report on Form 20-F of CNinsure Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 29, 2014

By: /s/ Chunlin Wang  
Name: Chunlin Wang  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peng Ge, certify that:

1. I have reviewed this annual report on Form 20-F of CNinsure Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 29, 2014

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 CNinsure Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 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 29, 2014

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 CNinsure Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 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 29, 2014

By:           /s/ Peng Ge  
Name:       Peng Ge  
Title:       Chief Financial Officer

[Letterhead of Maples and Calder]

**Our ref** SSY/628018-000001/7011201v1  
**Direct tel** +852 3690 7498  
**Email** sophie.yu@maplesandcalder.com

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

29 April, 2014

Dear Sirs

**Re: CNinsure Inc. (the “Company”)**

We consent to the reference to our firm under the headings “Cayman Islands Taxation” and “Corporate Governance” in the Company’s Annual Report on Form 20-F for the year ended December 31, 2013, which will be filed with the Securities and Exchange Commission in the month of April 2014.

Yours faithfully

/S/ Maples and Calder  
Maples and Calder

[Letterhead of Global Law Office]

April 29, 2014

To: CNinsure Inc.

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

Dear Sirs,

We hereby consent to the reference to our firm under the headings "Risk Factors", "Regulation" and "Organizational Structure" in CNinsure Inc.'s Annual Report on Form 20-F for the year ended December 31, 2013, which will be filed with the Securities and Exchange Commission in April 2014.

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 No. 333-156486 and No. 333-151271 on Form S-8 of our reports dated April 29, 2014, relating to the consolidated financial statements and financial statement schedule of CNinsure Inc., its subsidiaries and variable interest entities (the “Group”) which report expresses an unqualified opinion and includes an explanatory paragraph relating to the translation of Renminbi amounts into U.S. dollar amounts for the convenience of the readers) and the effectiveness of the Group’s internal control over financial reporting, appearing in the Annual Report on Form 20-F of the Group for the year ended December 31, 2013.

/s/Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
April 29, 2014

