

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, 2020.

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.

For the transition period from to

Commission file number: 001-33768

FANHUA 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)

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

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

Title of Each Class	Ticker Symbol(s)	Name of Each Exchange on Which Registered
Ordinary shares, par value US\$0.001 per share* American depositary shares, each representing 20 ordinary shares	FANH	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.

1,073,891,784 ordinary shares, par value US\$0.001 per share as of December 31, 2020

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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Emerging growth company ☐

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

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

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

U.S. GAAP ☒

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 “Fanhua” refer to Fanhua Inc., formerly known as CNinsure Inc., its subsidiaries and consolidated affiliated entities, if applicable;
- “China” or “PRC” refers to the People’s Republic of China, excluding, solely for the purpose of this annual report, Taiwan, Hong Kong Special Administrative Region and Macau Special Administrative Region;
- “provinces” of China refers to the 22 provinces, the four municipalities directly administered by the central government (Beijing, Shanghai, Tianjin and Chongqing), the five autonomous regions (Xinjiang, Tibet, Inner Mongolia, Ningxia and Guangxi), excluding, solely for the purpose of this annual report, Taiwan, Hong Kong Special Administrative Region and Macau Special Administrative Region;
- “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;
- “customer” refers to policyholder or our insurance company partner which we define as customer under ASC 606; 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.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected consolidated statements of income data for the years ended December 31, 2018, 2019 and 2020 and the consolidated balance sheets data as of December 31, 2019 and 2020 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of income data for the years ended December 31, 2016 and 2017 and the selected consolidated balance sheets data as of December 31, 2016, 2017 and 2018 have been derived from our consolidated financial statements, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

In November 2017, we disposed of Fanhua Bocheng Insurance Brokerage Co., Ltd., or Bocheng, which was the primary operating entity of our insurance brokerage segment. Accordingly, the insurance brokerage segment was accounted as discontinued operations. Consolidated statements of operations for the year ended 2016 as presented below have been restated to conform to the current presentation.

	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except shares, per share and per ADS data)					
Consolidated Statements of Income Data						
Net revenues:						
Agency	3,746,471	3,780,217	3,143,873	3,335,397	2,834,997	434,482
Life insurance business	990,541	2,424,444	2,870,776	3,193,625	2,703,584	414,342
P&C insurance business	2,755,930	1,355,773	273,097	141,772	131,413	20,140
Claims adjusting	336,413	308,256	327,390	370,606	433,148	66,383
Total net revenues	4,082,884	4,088,473	3,471,263	3,706,003	3,268,145	500,865
Operating costs and expenses:						
Agency	(2,906,791)	(2,864,882)	(2,151,856)	(2,263,952)	(1,953,744)	(299,425)
Life insurance business	(673,230)	(1,636,340)	(1,943,053)	(2,166,126)	(1,866,227)	(286,012)
P&C insurance business	(2,233,561)	(1,228,542)	(208,803)	(97,826)	(87,517)	(13,413)
Claims adjusting	(199,810)	(194,525)	(194,159)	(219,496)	(260,121)	(39,865)
Total operating costs	(3,106,601)	(3,059,407)	(2,346,015)	(2,483,448)	(2,213,865)	(339,290)
Selling expenses ⁽¹⁾	(502,802)	(221,785)	(231,075)	(278,085)	(288,460)	(44,208)
General and administrative expenses ⁽¹⁾	(387,362)	(448,989)	(481,947)	(534,145)	(463,634)	(71,055)
Total operating costs and expenses	(4,091,350)	(3,815,337)	(3,045,520)	(3,236,640)	(2,965,959)	(454,553)
Income (loss) from continuing operations	(8,466)	273,136	425,743	469,363	302,186	46,312
Other income, net:						
Investment income	115,275	191,784	195,456	79,070	34,789	5,332
Interest income	6,901	25,891	34,207	2,828	13,420	2,057
Others, net	10,341	14,284	11,807	9,664	11,907	1,825
Income from continuing operations before income taxes, share of income and impairment of affiliates, net and discontinued operations						
	124,051	505,095	667,213	560,925	362,302	55,526
Income tax expense	(27,249)	(167,803)	(224,586)	(143,816)	(83,387)	(12,780)
Share of income of affiliates	48,293	108,944	174,468	(224,555)	(2,738)	(420)
Net income from continuing operations	145,095	446,236	617,095	192,554	276,177	42,326
Net income from discontinued operations, net of tax	22,543	5,480	—	—	—	—
Net income	167,638	451,716	617,095	192,554	276,177	42,326
Less: Net income attributable to the noncontrolling interests	10,591	2,488	7,180	3,622	7,923	1,214
Net income attributable to the Company's shareholders	157,047	449,228	609,915	188,932	268,254	41,112
Net income per share:						
Basic:						
Net income from continuing operation	0.12	0.36	0.49	0.17	0.25	0.04
Net income from discontinued operation	0.02	0.00	0.00	0.00	0.00	0.00
Net income	0.14	0.36	0.49	0.17	0.25	0.04
Diluted:						
Net income from continuing operation	0.11	0.36	0.49	0.17	0.25	0.04
Net income from discontinued operation	0.02	0.00	0.00	0.00	0.00	0.00
Net income	0.13	0.36	0.49	0.17	0.25	0.04
Net income per ADS:						
Basic:						
Net income from continuing operation	2.32	7.20	9.84	3.46	5.00	0.77
Net income from discontinued operation	0.39	0.09	0.00	0.00	0.00	0.00
Net income	2.71	7.29	9.84	3.46	5.00	0.77
Diluted:						
Net income from continuing operation	2.23	7.20	9.83	3.46	4.99	0.77
Net income from discontinued operation	0.37	0.09	0.00	0.00	0.00	0.00
Net income	2.60	7.29	9.83	3.46	4.99	0.77
Shares used in calculating net income per share:						
Basic	1,160,592,325	1,231,698,725	1,239,264,464	1,092,601,338	1,073,891,784	1,073,891,784
Diluted	1,208,821,796	1,261,223,049	1,240,854,034	1,093,229,436	1,074,291,360	1,074,291,360

(1) Including share-based compensation expenses of RMB4.9 million, nil, nil, RMB0.4 million and negative RMB0.4 million for the years ended December 31, 2016, 2017, 2018, 2019 and 2020, respectively.

	As of December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	236,952	363,746	772,823	169,653	245,428	37,613
Total current assets	3,694,564	4,132,527	3,061,107	2,681,751	2,311,780	354,296
Total assets	4,238,568	4,737,742	3,866,611	3,440,843	3,080,999	472,184
Total current liabilities	747,119	661,860	905,583	947,974	929,210	142,408
Total liabilities	834,474	749,349	1,119,885	1,396,375	1,126,335	172,618
Noncontrolling interests	117,242	111,342	113,543	113,182	121,105	18,560
Total equity	3,404,094	3,988,393	2,746,726	2,044,468	1,954,664	299,566
Total liabilities and shareholders' equity	4,238,568	4,737,742	3,866,611	3,440,843	3,080,999	472,184

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 RMB6.5250 to US\$1.00, the noon buying rate in effect as of December 31, 2020 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 23, 2021, the noon buying rate was RMB6.4945 to US\$1.00.

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 Industry

If and when our contracts with insurance companies are suspended or changed, our business and operating results will be materially and adversely affected.

We primarily act as agents for insurance companies in distributing their products to retail customers. We also provide claims adjusting services principally to insurance companies. Our relationships with the insurance companies are governed by agreements between us and the insurance companies. We have entered into strategic partnership agreements with most of our major insurance company partners for the distribution of life, property and casualty insurance products and the provision of claims adjusting services at the corporate headquarters level. While this approach allows us to obtain more favorable terms from insurance companies by combining the sales volumes and service fees of all of our subsidiaries and branches operating insurance agency and claims adjusting businesses, 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 subsidiaries and branches operating insurance agency and claims adjusting businesses 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 relevant subsidiaries and branches, 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 certain contracts 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 material terms, including the amount of commissions and fees we receive, which could reduce our revenues to be generated from that contract.

For the year ended December 31, 2020, our top five insurance company partners were Huaxia Life Insurance Co., Ltd., or Huaxia, Aeon Life Insurance Co., Ltd., or Aeon, Sinatay Life Insurance Co., Ltd., or Sinatay, Evergrande Life Insurance Co., Ltd., or Evergrande and Tian'an Life Insurance Co., Ltd., or Tian'an by net revenues. Among these top five partners, each of Huaxia, Aeon, Sinatay and Evergrande accounted for more than 10% of our total net revenues individually in 2020, with Huaxia accounting for 18.6%, Aeon accounting for 17.1%, Sinatay accounting for 15.4% and Evergrande accounting for 10.4%, respectively.

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

All of our sales of life insurance products and a substantial portion of our sales of property and casualty insurance products are conducted through our individual sales agents. 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 adjustment requires technical skills, the technical competence of claims adjustors is essential to establishing and maintaining our brand image and relationships with our customers.

As of December 31, 2020, we had 362,580 sales agents and 1,736 claim adjustors. Out of the 362,580 sales agents, 222,203 were performing agents, who have sold at least one insurance policy in 2020. The number of performing agents who have sold at least one life insurance policy in 2020 was 80,768. 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.

If our digitalization initiative are not successful, our business and results of operations may be materially and adversely affected.

We have devoted significant efforts to developing and managing our online platforms and digital toolkits. In 2012, we launched Baowang (www.baoxian.com), an online insurance distribution platform which allows customers to search for and purchase a wide range of commoditized insurance products, including accident insurance, indemnity medical insurance, travel insurance, homeowner insurance, and a limited number of internet-specific regular life insurance products from various insurance carriers. In October 2012, we launched CNpad Auto, an application to enable our sales agents to help their clients place auto insurance policies which was subsequently discontinued in 2020. In August 2014, we unveiled eHuzhu (www.ehuzhu.com), an online mutual aid platform that provides risk-protection programs on a mutual commitment basis among program members. In August 2014, we also rolled out Chetong.net (www.chetong.net), an online-to-offline platform that integrates claims services and auto service resources. In September 2017, we launched Lan Zhanggui, an internet-based all-in-one application which integrates the functions of several of our existing online platforms and allows our agents to access and help their clients to place a wide variety of insurance products, including life and health insurance, indemnity medical insurance, lifestyle insurance and auto insurance products from multiple insurance companies. In 2020, we announced an initiative to empower our operation by utilizing digital technologies such as artificial intelligence and big data to gain more customer insight, match sales leads with the most suitable sales agents and maximize their productivity and help customers find the products that suit their different needs throughout different stages of their lifecycle. However, our digitalization efforts may not be successful or yield the benefits that we anticipate. In addition, our expansion may depend on a number of factors, many of which are beyond our control, including but not limited to:

- the effectiveness of our marketing campaigns to build brand recognition among consumers and our ability to attract and retain customers;

- the acceptance of third-party e-commerce platforms as an effective channel for underwriters to distribute their insurance products;
- the acceptance of Lan Zhanggui as effective tools by 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; increased competition from third party insurance technology companies
- 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.

Since online insurance distribution has emerged only recently in China and is evolving rapidly, the Chinese Banking and Insurance Regulatory Committee, or CBIRC may promulgate and implement new rules and regulations to govern this sector from time to time. On December 7, 2020, the Chinese Banking and Insurance Regulatory Committee, or the CBIRC, promulgated the Measures for the Supervision of the Internet Insurance Business, or the Measures, which became effective on February 1, 2021 and replaces the Interim Measures for the Regulation of Internet Insurance Business. The Measures provides clarity on the qualifications for entities to operate online insurance business in China and sets higher requirements on entities which intend to engage in online insurance business. For example, the Measures requires that both insurance institutions and their self-operated online platforms shall make ICP filing and insurance institutions engaged in online insurance business shall have IT systems that are certified as Safety Level III Computer Information Systems, or Safety Level III. We operate part of our online insurance distribution business through Baowang (www.baoxian.com), which accounted for 3.4% of our total net revenues in 2020. Our wholly-owned subsidiary Fanhua Century Insurance Sales & Service Co., Ltd., or Fanhua Century, which owns the domain name of www.baoxian.com, holds an ICP license. Baowang's system was certified as Safety Level III Computer Information System on December 24, 2020. As advised by our PRC counsel, we have obtained the necessary approvals and licenses and our operations meet the qualification requirements of the Measures. If we are unable to adapt to any new changes to regulation governing internet insurance business and remain fully compliant, the business operation of Baowang could be suspended which may adversely impact our business results of operation.

There are uncertainties with regard to how the changing laws, regulations and regulatory requirements would apply to our business. We cannot assure you that our operations will remain fully compliant with the changes in and further development of regulations applicable to us or we will be able to obtain the necessary approvals and licenses as required in a timely manner.

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.

We may not be successful in implementing our new strategic initiatives, which may have an adverse impact on our business and financial results.

There is no assurance that we will be able to implement important strategic initiatives in accordance with our expectations, which may result in an adverse impact on our business and financial results. In late 2020, we launched new strategic initiatives to upgrade our sales organization by developing high-caliber, productive and professional insurance advisor teams in economically developed cities in China. We also intend to build an integrated digital platform utilizing artificial intelligence, big data and cloud computing to optimize the use of data to provide the most appropriate products for existing and potential customers and increase agent productivity. In addition, we intend to build an open platform to facilitate a closer cooperation with various third parties who can monetize their existing customer resources and to strengthen our value proposition to the market. We expect these new strategic initiatives to be new engines to drive our long-term growth. However, our management may lack required experience, knowledge, insight, or human and capital resources to carry out the implementation of these new strategic initiatives. As such, we may not be able to realize our expected growth, and our business and financial results will be adversely impacted.

All of our personnel engaging in insurance agency, or claims adjusting activities are required under relevant PRC regulations to register with the CBIRC's Insurance Intermediaries Regulatory Information System. If our sales personnel fail to finish practice registration, our business may be materially and adversely affected.

All of our personnel who engage in insurance agency and claims adjusting activities are required under relevant PRC regulations to be registered with the CBIRC's Insurance Intermediary Regulatory Information System, or the IIRIS through by 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, under the relevant PRC regulations, such as the Provisions on the Supervision and Administration of Insurance Agents issued on November 12, 2020 and Provisions on the Supervision of Insurance Claims Adjusting Firms issued by the CBIRC (formerly CIRC) in February 2018, an insurance agency or claims adjusting firm that retains a personnel who has not been registered with the IIRIS through the insurance agency or claims adjusting firm to engage in insurance intermediary activities may be subject to rectification request, warning and fines up to RMB10,000 per intermediary by the CBIRC. If a substantial portion of our sales force were found to have not been properly registered with the IIRIS, our business may be adversely affected. Moreover, we may be subject to fines and other administrative proceedings for the failure by our sales agents or sales representatives to register with the CBIRC. Such fines or administrative proceedings could adversely affect our business, financial condition and results of operations.

Material changes in the regulatory environment could change the competitive landscape of our industry or require us to change the way we do business. The administration, interpretation and enforcement of the laws and regulations currently applicable to us could change rapidly. If we fail to comply with applicable laws and regulations, we may be subject to civil and criminal penalties or lose the ability to conduct our business.

We operate in a highly regulated industry. The laws and regulations applicable to us are evolving and may change rapidly, which could change the competitive environment of our industry significantly and cause us to lose some or all of our competitive advantages. In recent years, the CBIRC and its predecessor has increasingly tightened regulations and supervision of the Chinese insurance market. For example, on April 2, 2019, the CBIRC issued a Notice to Rectify the Irregularities in the Insurance Intermediary Market in 2019 and subsequently on May 26, 2020, the CBIRC issued similar guidelines requiring all insurance companies and insurance intermediaries to conduct self-check on various practices in violation of relevant regulations. Although we believe we have not had any material violations to date, we could be required to spend significant time and resources in complying with the requirement and the attention of our management team and key employees could be diverted to these efforts, which may adversely affect our business operations.

On July 10, 2017, the CIRC, the predecessor of CBIRC, promulgated the Interim Measures on Retrospective Management of Insurance Sales Behaviors, effective November 1, 2017 which required ancillary insurance agencies to take video and audio-recording, or double-recording for the sales of all insurance products that they facilitate and other insurance distribution channels to take double-recording for the sales of investment linked insurance products and for the sale of life insurance products with a payment period of more than one year to the elderly of over 60 years old. On June 11, 2019, Jiangsu Branch of the CBIRC published the Notice on Deepening the Implementation of the Retrospective Management of Personal Insurance Sales Behaviors or the Notice, requiring all insurance companies and insurance intermediary companies to start double-recording process for all long-term personal insurance products in Jiangsu Province starting from October 1, 2019. Ningbo Branch of the CBIRC implemented similar rule in Ningbo, Zhejiang Province starting from January 1, 2020. Similar rule was also implemented in certain part of Shandong since mid 2020. As substantially all of the life and health insurance products we distribute are long-term personal insurance products, our sales activities in these regions have been materially adversely impacted. If similar rules are implemented nationwide, our compliance cost may be increased and our business and results of operations may be adversely affected.

On March 13, 2018, the CIRC and CBRC merged to form the CBIRC. The CBIRC has extensive authority to supervise and regulate the insurance industry in China. In exercising its authority, the CBIRC is given wide discretion, and the administration, interpretation and enforcement of the laws and regulations applicable to us involve uncertainties that could materially and adversely affect our business and results of operations. The People's Bank of China and other government agencies may promulgate new rules governing online financial services. In July 2015, ten government agencies including the People's Bank of China, the Ministry of Finance and CIRC promulgated a guidance letter on how to promote the healthy growth of internet financial services, which set forth the principles of supervision based on the rule of law, appropriate level of regulation, proper categorization, cooperation among different government agencies and promoting innovation. Not only may the laws and regulations applicable to us change rapidly, but also it may sometimes be unclear how they apply to our business. For example, the laws and regulations applicable to our online and mobile platforms may be unclear. Our products or services may be determined or alleged to be in violation of the applicable laws and regulations. Any failure of our products or services to comply with these laws and regulations could result in substantial civil or criminal liability, adversely affect demand for our services, invalidate all or a portion of our customer contracts, require us to change or terminate some of our businesses, require us to refund a portion of our services fees, or cause us to be disqualified from serving customers, and therefore could have a material and adverse effect on our business.

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

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

China's insurance regulatory regime is undergoing significant changes. Some of these changes and the further development of regulations applicable to us may result in additional restrictions on our activities or more intensive competition in this industry.

For example, the CIRC, the predecessor of CBIRC, issued notices in September 2016 and May 2017 to further reinforce the regulation of life insurance products by requiring insurance companies to revise or improve the design of a number of insurance products. For instance, insurance companies are required to (i) increase the death benefit coverage for insurance products including individual term life insurance, individual endowment insurance and individual whole life insurance products, and (ii) seek CIRC approval for universal insurance products with a guaranteed interest rate of above 3%. CIRC also required that (i) whole life insurance, annuity insurance and care insurance products must not be designed as short-to-medium term products, (ii) the first payment of survival insurance benefits for endowment products and annuity products must only occur after five years since the policy has become effective, and the annual payment or partial payment must not exceed 20% of the paid premiums, and (iii) insurance companies must not design universal insurance products or investment-linked insurance products in the form of riders. These new requirements apply to a number of annuity products sold by us. As a result, sales of annuity products dropped significantly in 2018.

Pursuant to a notice issued by the CBIRC in August 2019, insurance companies must seek approval for annuity insurance products with the assumed valuation interest rate of above 3.5%. In November 2019, the CBIRC requested 13 insurance companies to terminate the sales of their annuity insurance products with 4.025% interest rate by December 31, 2019. Several of our major insurance company partners have subsequently terminated their high-interest rate annuity products. While the cessation of higher interest-rate annuity products boosted the sales of annuity products in December, the sales of annuity products dropped substantially in 2020.

On November 5, 2020, China Insurance Industry Association and China Medical Doctor Association jointly published Definition Framework 2020, announcing changes to the definition of critical illnesses, or CI, which will be adopted after a transition period until January 31, 2021. After January 31, 2021, all critical illness products based on the previous definition framework will not be sold in China. Major changes to the CI definition framework include, among others, (i) setting the upper limit for insurance benefits for mild illness at no more than 30% of total insured amount; (ii) expanding the types of illnesses covered from 25 types to 28 types of critical illnesses and three types of mild illness; (iii) exclusion of cancer that is in situ from the scope of CI coverage; and (iv) categorizing thyroid cancer at different stages into critical illness category and mild illness category. The expected cessation of the critical illness products under the previous CI definition framework has resulted in strong growth in our sales of critical illness policies in January 2021 followed by a drop afterwards. Any future change in regulatory requirements that make our products less attractive to consumers or disrupt product supply, our business results of operations could fluctuated significantly and be adversely affected.

Our mutual-aid platform eHuzhu currently is not subject to any license requirement or any other supervision by the CBIRC as the mutual aid plans offered on the platform are not technically insurance. If the CBIRC determines to include mutual aid platform into its supervision in the future, our compliance cost could be increased, and if we are unable to meet the qualification requirement to obtain proper license, the operation of eHuzhu could be disrupted which could harm the interests of the members of eHuzhu and damage our reputation.

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

We may pursue acquisition of companies that can complement our existing business, diversify our product offerings and improve our customers' experience in the future. However, there is no assurance that we can successfully identify suitable acquisition candidates. Even if we identify suitable candidates, we may not be able to complete an acquisition on terms that are commercially acceptable to us. 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.

Competition in our industry is intense and, if we are unable to compete effectively with both existing and new market participants, 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 as more internet giants and other online insurance intermediaries enter the market. 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, 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 traditional or online 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, both existing and newly emerging, 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.

Because the commission and fee 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 life and health insurance, property and casualty insurance and claims adjusting businesses and derive revenues primarily from commissions and fees paid by the insurance companies whose policies our customers purchase and to whom we provide claims adjusting services. Our commission and fee rates are set by insurance companies and are based on the premiums that the insurance companies charge or the amount recovered by 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 CBIRC.

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

Quarterly and annual variations in our commission and fee revenue may unexpectedly impact our results of operations.

Our commission and fee revenue is subject to both quarterly and annual fluctuations as a result of the seasonality of our business, the timing of policy renewals and the net effect of new and lost business. Life insurance commission revenue is usually the highest in the first quarter and lowest in the fourth quarter of any given year as much of the jumpstart sales activities of life insurance companies occurs in January and February during which life insurance companies would increase their sales efforts by offering more incentives for insurance agents and insurance intermediaries to increase sales, while the preparation for the jumpstart sales starts in the fourth quarter of each year. However, the general seasonality trend in 2020 has been affected by the outbreak of Coronavirus Disease 2019, or COVID-19 as it hit China the hardest in the first quarter of 2020. Apart from the outbreak of epidemic, some other factors that cause the quarterly and annual variations are not within our control. Specifically, regulatory changes to product design may result in cessation of products from time to time and cause quarterly fluctuation in the results of our operations. In addition, consumer demand for insurance products can influence the timing of renewals, new business and lost business, which generally includes policies that are not renewed, and cancellations. As a result, you may not be able to rely on quarterly or annual comparisons of our operating results as an indication of our future performance.

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

We currently operate through our wholly-owned or majority-owned insurance agencies and claims adjusting firms and their branches located in 31 provinces in China. These companies report their financial 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 future success depends on the continuing efforts of our senior management team and other key personnel, and our business may be harmed if we lose their services.

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

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

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

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

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

We have internal policies and procedures to deter salesperson or employee misconduct. However, the measures and precautions we take to prevent and detect these activities may not be effective in all cases. Therefore, salesperson or employee misconduct could lead to a material adverse effect on our business, results of operations or financial condition. In addition, the general increase in misconduct in the industry could potentially harm the reputation of the industry and have an adverse impact on our business.

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

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

If we fail to maintain an effective system of internal control 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.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of the internal control over financial reporting as of December 31, 2020 using criteria established in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission and concluded that our internal control over financial reporting was effective as of December 31, 2020. If we fail to achieve and maintain an effective internal control environment for our financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002, which could result in inaccuracies in our consolidated financial statements and could also impair our ability to comply with applicable financial reporting requirements and make related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially and adversely affected. Moreover, if we are not able to conclude that we have effective internal control over financial reporting, investors may lose confidence in the reliability of our financial statements, which would negatively impact the trading price of our ADSs. Our reporting obligations as a public company, including our efforts to comply with Section 404 of the Sarbanes-Oxley Act, will continue to place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

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

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

If we are required to write down goodwill and investment in affiliates, our financial condition and results may be materially and adversely affected.

When we acquire a business, the amount of the purchase price that is allocated to goodwill 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, 2020, goodwill represented RMB109.9 million (US\$16.8 million), or 5.6% of our total shareholders' equity. Our management performs impairment assessment annually and we did not recognize any impairment loss between 2016 and 2020. Under current accounting standards, if we determine that goodwill is impaired, we will be required to write down the value of such assets and recognize corresponding impairment charges.

We account for our 18.5% of equity interests in CNFinance Holdings Limited ("CNFinance") using the equity method. We review our equity method investment periodically to determine whether a decline in fair value to an amount below the carrying value is other-than temporary. As of December 31, 2020, the fair value of the investment in CNFinance was below the carrying value although the investment in CNFinance generated positive equity income. Based on management's evaluation, it was concluded that the decline in fair value of our investment in CNFinance below its carrying value is deemed to be other-than-temporary. Accordingly, a provision of an impairment of RMB23.0 million (US\$3.5 million) on investment in CNFinance was recognized in 2020. Any future write-down related to such goodwill and equity method investments may adversely and materially affect our shareholders' equity and financial results.

Preparing and forecasting our financial results requires us to make judgments and estimates which may differ materially from actual results.

Given the evolving regulatory and competitive environment and the inherent limitations in predicting the future, forecasts of our revenues, operating income, net income and other financial and operating data may differ materially from actual results. Such discrepancies could cause a decline in the trading price of our stock. In addition, the preparation of the consolidated financial statements in conformity with U.S. GAAP requires management 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 reported period. Our management base their estimates on historical experience and various other factors which are believed to be reasonable under the circumstances, and the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in our consolidated financial statements included estimates of allowance for doubtful receivables and estimates associated with equity-method investment impairment assessments. Actual results could differ from those estimates, which could negatively affect our stock price.

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, branches and our main offices in Guangzhou, is critical to our business and our ability to compete effectively. Our business activities could be materially disrupted in the event of a partial or complete failure of any of these primary information technology or communication systems, which could be caused by, among other things, software malfunction, computer virus attacks or conversion errors due to system upgrading. In addition, a prolonged failure of our information technology system could damage our reputation and materially and adversely affect our future prospects and profitability.

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

Our customer database holds confidential information concerning our customers. We may be unable to prevent third parties, such as hackers or criminal organizations, from stealing information provided by our customers to us. Confidential information of our customers may also be misappropriated or inadvertently disclosed through employee misconduct or mistake. We may also in the future be required to disclose to government authorities certain confidential information concerning our customers. In addition, many of our customers pay for our insurance services through third-party online payment services. In such transactions, maintaining complete security during the transmission of confidential information, such as personal information, is essential to maintaining consumer confidence. We have limited influence over the security measures of third-party online payment service providers. In addition, our third-party merchants may violate their confidentiality obligations and disclose information about our customers. Any compromise of our security or third-party service providers' security could have a material adverse effect on our reputation, business, prospects, financial condition and results of operations.

Though we have not experienced any material cybersecurity incidents in the past, if our database were compromised by outside sources or 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 remedying the situation, defending against these accusations and we may face potential liability. Any negative publicity, especially concerning breaches in our cybersecurity systems, may adversely affect our public image and reputation. Though we take proactive measures to protect against these risks and we believe that our efforts in this area are sufficient for our business, we cannot be certain that such measures will prove effective against all cybersecurity risks. 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.

Our business is subject to insurance company partner concentration risks arising from dependence on a single or limited number of insurance company partners.

We derive a significant portion of net revenues from distributing insurance products supplied by our important insurance company partners. Among the top five of our insurance company partners, each of Huaxia, Aeon, Sinatay and Evergrande contributed more than 10% of our total net revenues from continuing operations in 2020, with Huaxia accounting for 18.6% Aeon accounting for 17.1%, Sinatay accounting for 15.4% and Evergrande accounting for 10.4%.

Because of this concentration in the supply of the insurance products we distribute, our business and operations would be negatively affected if we experience a partial or complete loss of any of these insurance company partners. In addition, any significant adverse change in our relationship with any of these insurance company partners could result in loss of revenue, increased costs and distribution delays that could harm our business and customer relationships. In addition, this concentration can exacerbate our exposure to risks associated with the termination by key insurance company partners of our agreements or any adverse change in the terms of such agreements, which could have an adverse impact on our revenues and profitability.

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 a material 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 the use of the Internet to communicate benefits and related information to consumers and to facilitate information exchange, transactions and training. We believe that our future success will depend on our ability to anticipate and adapt to technological changes and to offer additional products and services that meet evolving standards on a timely and cost-effective manner. We may not be able to successfully identify new product and service opportunities or develop and introduce these opportunities in a timely and cost-effective manner. In addition, new products and services that our competitors develop or introduce may render our products and services uncompetitive. As a result, if we are not able to respond or adapt to technological changes that may affect our industry in the future, our business and results of operations could be materially and adversely affected.

We face risks related to health epidemics, including the ongoing COVID-19 outbreak, 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 health epidemics, severe weather conditions or other catastrophes. In December 2019, COVID-19 was first detected in China and then quickly in other countries. Since January 2020, the PRC government has taken various precautionary measures to contain the spread of the COVID-19, including extending the Chinese New Year Holiday into February 2020, temporarily closing offices, restricting travel, and avoiding public gatherings. The outbreak of the COVID-19 has caused material adverse impact on Chinese economy and China's insurance industry, disrupted our operations and adversely affected our business, financial condition and results of operations in 2020 as (i) the sales activities of our sales agents have been largely hindered due to the difficulty to interact with prospective customers face-to-face as result of the social distancing measures imposed in the first half of 2020; (ii) recruitment of agents slowed down due to the suspension of large-scale offline agent recruitment seminars until May 2020 and increased competition for agents in the insurance industry amid the challenging business environment; (iii) our plan to establish new branches in selected major cities were interrupted; and (iv) the epidemic has accelerated the trend of the young generation turning to the internet for insurance information and purchase of more affordable indemnity medical insurance products as an alternative to critical illness products.

The business operation of our non-consolidated affiliated investees has also been adversely impacted by the COVID-19 outbreak which had affected the fair value of our investment in affiliates.

Although COVID-19 has been considered to be largely contained in China and we have resumed normal business activities in the second half of 2020, the epidemic has had and could continue to have lingering adverse impact on our business results as consumers' confidence in purchasing regular large ticket-sized insurance policies has not yet fully recovered. The extent to which the COVID-19 outbreak will continue to impact our results will depend on its future developments, which are highly uncertain and cannot be predicted, including sporadic recurrence of local and imported COVID-19 cases from time to time and the actions to contain the disease or treat its impact, among others. For example, there has been occasional outbreaks in several cities in north China including Shijiazhuang, Hebei Province where we have significant market presence. Targeted restrictive measures were temporarily put in place in those cities, which had temporarily adversely impacted our business in those regions in January 2021. Even if the economic impact of COVID-19 gradually recedes, the pandemic will have a lingering, long-term effect on business activities and consumption behavior. There is no assurance that we will be able to adjust our business operations to adapt to these changes and the increasingly complex environment in which we operate.

In addition, our results of operations have been and could continue to be adversely affected to the extent the COVID-19 pandemic or any other epidemic harms the Chinese economy in general.

Any occurrence of other adverse public health developments or severe weather conditions may also 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.

We may be at risk of securities class action litigation.

Historically, securities class action litigation has often been brought against a company following periods of instability in the market price of its securities. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

Recently, U.S. public companies that have substantially all of their operations in China, have been the subject of intense scrutiny, criticism and negative publicity by some investors, financial commentators and regulatory agencies. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in some cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stocks of many U.S.-listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Some of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting or subject to internal and external investigations into the allegations. We had been targeted by short selling reports in the past and became subject to class action lawsuits which were subsequently dismissed or settled. Shortselling firms or others may in the future publish additional short seller reports with respect to our business, officers, directors and shareholders, and we may become subject to other unfavorable allegations, which might cause further fluctuations in the trading price of our ADSs. Such volatility in our share price could subject us to increased risk of securities class action lawsuits or derivative actions.

Any future class action lawsuit against us, whether or not successful, could harm our reputation and restrict our ability to raise capital. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations. Even if such allegations are ultimately proven to be groundless, the allegations or the process of dealing with them could severely impact our business operations and stockholder's equity, and any investment in our ADSs could be greatly reduced.

We may be subject, from time to time, to adverse actions taken by other parties, including lawsuits and negative reports and regulatory proceedings, which may divert resources and the time and attention of our management and may otherwise adversely affect us.

From time to time, we may become a party to litigations incidental to the operation of our business, including class action lawsuits and disputes with other third parties. Litigation usually requires a significant amount of management time and effort, which may adversely affect our business by diverting management's focus from the needs of our business and the development of strategic opportunities.

We cannot predict the outcome of these lawsuits. Regardless of the outcome, these lawsuits, and any other litigation that may be brought against us or our current or former directors and officers, could be time-consuming, result in significant expenses and divert the attention and resources of our management and other key employees. An unfavorable outcome in any of these matters could also exceed coverage provided under applicable insurance policies, which is limited. Any such unfavorable outcome could have a material effect on our business, financial condition, results of operations and cash flows. Further, we could be required to pay damages or additional penalties or have other remedies imposed against us, or our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows.

In addition, the CBIRC may from time to time make inquiries and conduct examinations concerning our compliance with PRC laws and regulations. These administrative proceedings have in the past resulted in administrative sanctions, including fines, which have not been material to us. While we cannot predict the outcome of any pending or future examination, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows.

Risks Related to Our Corporate Structure

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

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

In recent years, some rules and regulations governing the insurance intermediary sector in China have begun to encourage foreign investment. For instance, under the Closer Economic Partnership Arrangement, or CEPA, Supplement IV signed in June 29, 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, the predecessor of CBIRC, issued an Announcement on the Establishment of Wholly-owned Insurance Agencies in Mainland China by Hong Kong and Macao Insurance Agencies, which sets forth specific qualification criteria for implementation purposes. On August 26, 2010, the CIRC released a Circular on the Cancellation of the Fifth Batch of Administrative Approval Items, pursuant to which foreign ownership in a professional insurance intermediary in excess of 25% only requires a filing to be made with the relevant authorities and no longer requires prior approval. On March 1, 2015, the National Development and Reform Commission and Ministry of Commerce jointly issued the Catalogue for the Guidance of Foreign Investment Industries (Revision 2015), or the CGFII 2015 Revision, pursuant to which insurance brokerage firms are removed from the list of industries subject to foreign investment restriction.

We operate our online insurance distribution business through Baoxian.com which was subject to foreign investment restrictions. Foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunications service provider (except for e-commerce, domestic multi-party communication, storage and forwarding classes and call centers) under the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition), which was promulgated on June 23, 2020 and implemented on July 23, 2020. However, on June 19, 2015, the Ministry of Industry and Information Technology published a Notice on Removing the Foreign Ownership Restriction in Online Data Processing and Transaction Processing Business (Operating E-commerce), or the No. 196 Notice. Foreign ownership in online data processing and transaction process business (operating e-commerce) is allowed to increase to 100% as long as the foreign-invested entities obtain necessary licenses to conduct the business. However, there remains uncertainty with regards to the implementation of the No. 196 Notice and the administrative procedures with regards to the application of the data processing and transaction process business licenses.

Following the changes in applicable foreign investment regulations, we commenced a restructuring of our company in October 2011 and subsequently terminated all the contractual arrangements among our PRC subsidiaries and consolidated entities such as Meidiya Investment and Yihe Investment, which became our wholly-owned subsidiaries in 2015 and Xinbao Investment and Dianliang Information, which became our wholly-owned subsidiaries in 2016. As a result, we obtained direct controlling or significant equity ownership in each of our insurance intermediary companies and our online platforms in 2016. See “Item 4. Information on the Company — C. Organizational Structure.”

If our online insurance business operated through Baoxian.com is treated as value-added telecommunication service other than e-commerce business by relevant authorities, our direct ownership of our online platforms may be in violation of any existing or future PRC laws or regulations, or if our online platforms fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the CBIRC (formerly CIRC), will have broad discretion in dealing with such violations, including:

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

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

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

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

Any loans we make to any of our directly-held PRC subsidiaries (which are treated as foreign-invested enterprises under PRC law), namely, Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd., or Zhonglian Enterprise, and Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd., or Xinlian 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 amount of a foreign-invested enterprise's registered capital represents shareholders' equity investments over a defined period of time, and the foreign-invested enterprise's total investment 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 HK300 million (US\$38.7 million) in foreign debts as of March 31, 2021. 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 and Xinlian Information), all of which are treated as PRC domestic companies rather than foreign-invested enterprises under PRC law, are also subject to various PRC regulations and approvals. Under applicable PRC regulations, medium- and long-term international commercial loans to PRC domestic companies are subject to approval by the National Development and Reform Commission. Short-term international commercial loans to PRC domestic companies are subject to the balance control system effected by the SAFE. Due to the above restrictions, we are not likely to make loans to any of our indirectly-held PRC subsidiaries.

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

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

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

However, on June 9, 2016, SAFE promulgated Circular 16, a notice on reforming and standardizing the administrative provisions on capital account foreign exchange settlement, which became effective on June 9, 2016. The new notice states that domestic enterprises (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) shall be allowed to settle their foreign exchange capitals on a discretionary basis. The discretionary settlement by a foreign-invested enterprise of its foreign exchange capital shall mean that the foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the application of discretionary settlement has been specified by relevant policies (including capitals in foreign currencies, external debts, funds repatriated from overseas listing, etc.). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. The SAFE may adjust the foregoing percentage as appropriate according to balance of payments situations. As a result, Circular 16 will relax the limitation of our ability to provide additional funding to our PRC subsidiaries through our directly-held PRC subsidiaries in the PRC.

Risks Related to Doing Business in China

Adverse economic, political and legal developments in China could have a material adverse effect on our business.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years or so, growth has been uneven across different regions and among various economic sectors of China. Economic growth in China has been slowing in the past few years and China's GDP growth dropped to 2.3% in 2020 due to the COVID-19 outbreak. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. However, these measures may not be successful in transforming the Chinese economy or spurring growth. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

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

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

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

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

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

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

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

According to the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008, which was subsequently amended on February 24, 2017 and December 29, 2018, as further clarified by subsequent tax regulations implementing the EIT Law, foreign-invested enterprises and domestic enterprises are subject to enterprise income tax, or EIT, at a uniform rate of 25%, unless otherwise provided. Enterprises that were established and enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy such preferential tax treatments in the following manners: (1) in the case of preferential tax rates, for a five-year transition period starting from January 1, 2008, during which the EIT rate of such enterprises will gradually increase to the uniform 25% EIT rate by January 1, 2012; or (2) in the case of preferential tax exemption or reduction with a specified term, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make a profit, its term for preferential treatments will be deemed to start from 2008.

As a result of the implementation of the EIT Law, certain preferential tax treatments enjoyed by some of our subsidiaries expired on January 1, 2008. According to the EIT Law and related regulations, such as the Circular on Issues Regarding Tax-related Preferential Policies for Further Implementation of Western Development Strategy jointly issued by the State Ministry of Finance, General Administration of Customs, China and State Administration for Taxation, enterprises located in the western China regions that fall into the encouraged industries are entitled to 15% EIT preferential tax treatment from January 1, 2011 to December 31, 2020. The preferential tax treatment is subsequently extended to December 31, 2030, according to the Announcement Concerning the Extension of the EIT Policies for Enterprises Located in the Western China issued by the Ministry of Finance on April 28, 2020. The preferential tax rates enjoyed by some of our PRC subsidiaries incorporated in such regions, will increase to the uniform 25% EIT rate after 2030. An increase in the EIT rates for those entities pursuant to the EIT Law could result in an increase in our effective tax rate, which could materially and adversely affect our results of operations.

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

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

We have been advised by our PRC counsel, Global Law Office, that pursuant to the EIT Law and the Implementation Rules, dividends payable by a foreign-invested enterprise in China to its foreign investors will be subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. However, 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 and was subsequently amended on January 30, 2008, May 27, 2010, April 1, 2015 and July 19, 2019, dividends from our PRC subsidiaries paid to us through our Hong Kong wholly-owned subsidiary CNinsure Holdings Ltd. are subject to a withholding tax at a rate of 5% since CNinsure Holdings Ltd. is treated as a Hong Kong resident enterprise for taxation purpose. 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.

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

We are a holding company, and we rely principally on dividends from our subsidiaries in China for our cash requirements, including any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, according to the PRC Company Law, 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. In addition, according to the Regulation on the Supervision of Insurance Agents, our insurance agency subsidiaries are required to either procure professional liability insurance with minimum compensation for each accident under the one-year professional liability insurance policy no less than RMB1 million, and accumulative compensation under the one-year insurance policy no less than RMB10 million and the total core business revenue of the professional insurance agency company in the previous year, or make a contribution to deposit which shall represent 5% of its registered capital. These reserves are not distributable as cash dividends.

As of December 31, 2020, the total retained earnings of our PRC subsidiaries available for dividend distributions were RMB1.1 billion (US\$175.7 million). Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity, or otherwise adversely affect us. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws. We may also face regulatory uncertainties that could restrict our ability to adopt additional equity compensation plans for our directors and employees and other parties under PRC law.

On October 21, 2005, the SAFE issued a Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, generally known in China as SAFE Circular 75, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China, referred to in the notice as an “offshore special purpose company,” for the purpose of raising capital backed by assets or equities of PRC companies. PRC residents that are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. On July 4, 2014, the SAFE issued the Notice on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies, or SAFE Circular 37, simultaneously repealing SAFE Circular 75. SAFE Circular 37 also requires PRC residents to register with relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment before making contribution to a special purpose company, or SPC, with legitimate holdings of domestic or overseas assets or interests. See “Item 4. Information on the Company — B. Business Overview — Regulation — Regulations on Foreign Exchange — Foreign Exchange Registration of Offshore Investment by PRC Residents.”

We have requested our beneficial owners who to our knowledge are PRC residents to make the necessary applications, filings and amendments as required under SAFE Circular 37 and other related rules. We attempt to comply, and attempt to ensure that our beneficial owners who are subject to these rules comply with the relevant requirements. However, we cannot assure you that all of our beneficial owners who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements under SAFE Circular 37 or other related rules. The failure of these beneficial owners to timely amend their SAFE registrations pursuant to SAFE Circular 37 or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute dividends to our company or otherwise adversely affect our business.

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

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. No. 7 Notice covers all forms of equity compensation plans including employee stock ownership plans, employee stock option plans and other equity compensation plans permitted by relevant laws and regulations. According to the No. 7 Notice, all participants of such plans who are PRC citizens shall register with and obtain approvals from SAFE prior to their participation in the equity incentive plan of an overseas listed company. Domestic individuals, which include any directors, supervisors, senior managerial personnel or other employees of a domestic company who are PRC 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. 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, which will depend on how the SAFE interprets, applies and enforces Circular 7. 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. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or United States government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

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

Certain PRC regulations could also make it more difficult for us to pursue growth through acquisitions.

Among other things, Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investor, or the M&A Rule, also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. To date, we have conducted our acquisitions in China exclusively through subsidiaries that used to be our PRC consolidated affiliated entities. In the future, we may grow our business in part by directly acquiring complementary businesses. Complying with the requirements of the new regulations to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may prevent us from completing such transactions on a timely basis, or at all, which could affect our ability to expand our business or maintain our market share.

Risks Related to Our ADSs

The trading price of our ADSs may be volatile.

The trading price of our ADSs may be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. [U.S. government's recent policies concerning Chinese companies listed in the U.S. may also cause great uncertainty in the listing status of companies like us and result in fluctuation in the trading price of our ADSs]. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material and adverse effect on the trading price of our ADSs.

In addition to the above factors, the price and trading volume of our ADSs may be highly volatile due to multiple factors, including the following:

- changes in the economic performance or market valuations of other insurance intermediaries;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the Chinese insurance industry;
- announcements by us or our competitors of acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the RMB and the U.S. dollar or other foreign currencies;
- potential litigation or administrative investigations;
- sales or perceived potential sales of additional ordinary shares or ADSs; and
- general economic or political conditions in China and abroad.

Any of these factors may result in large and sudden changes in the volume and trading price of our ADSs. In addition, the stock market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies and industries.

The volatility resulting from any of the above factors may affect the price at which you could sell the 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 or perceived potential sales of our ordinary shares, ADSs or other equity securities in the public market could cause the price of our ADSs to decline.

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

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

As of March 31, 2021, our executive officers and directors beneficially owned approximately 27.0% 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.

Holders of our ADSs may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights as our registered shareholders. The holders of our ADSs will not have any direct right to attend general meetings of our shareholders or to directly cast any votes at such meetings. The holders of our ADSs will only be able to exercise the voting rights which are carried by the underlying ordinary shares represented by their ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement (“unrestricted deposit agreement”), and the deposit agreement for restricted securities (as defined below) (each also referred to as a “deposit agreement”, and together the “deposit agreements”). Under the deposit agreements, the holders of our ADSs may vote only by giving voting instructions to the depositary. Upon receipt of the voting instructions from the holders of our ADSs, the depositary will vote the underlying ordinary shares represented by their ADSs in accordance with these instructions. The holders of our ADSs will not be able to directly exercise their right to vote with respect to the underlying ordinary shares unless they withdraw such shares and become the registered holder of such shares prior to the record date for the general meeting. Under our amended and restated memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders to convene a general meeting is fourteen calendar days. When a general meeting is convened, the holders of our ADSs may not receive sufficient advance notice of the meeting to permit the holders of our ADSs to withdraw the underlying ordinary shares represented by their ADSs and become the registered holder of such shares to allow the holders of our ADSs to attend the general meeting and to cast their vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. Furthermore, under our amended and restated memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent the holders of our ADSs from withdrawing the underlying ordinary shares represented by their ADSs and becoming the registered holder of such shares prior to the record date, so that they would not be able to attend the general meeting or to vote directly. If we ask for their instructions, the depositary will notify the holders of our ADSs of the upcoming vote and will arrange to deliver our voting materials to them. We cannot assure the holders of our ADSs that they will receive the voting materials in time to ensure that they can instruct the depositary to vote the ordinary shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out the voting instructions of the holders of our ADSs. This means that the holders of our ADSs may not be able to exercise their right to direct how the underlying ordinary shares represented by their ADSs are voted and they may have no legal remedy if the underlying ordinary shares represented by their ADSs are not voted as they requested. In addition, in their capacity as an ADS holder, the holders of our ADSs will not be able to call a shareholders’ meeting. Furthermore, 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.

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.

Right of holders of our ADSs to participate in any future rights offerings may be limited, which may cause dilution to their holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreements, the depositary will not make rights available to holders of our ADSs unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption 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.

Holders of our restricted ADSs may be subject to limitations on transfer of their ADSs.

Restricted ADSs are transferable on the books of the depository. However, the depository 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 depository may refuse to deliver, transfer or register transfers of restricted ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems 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 agreements, or for any other reason.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, substantially all of our directors and officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult or impossible for our shareholders to bring an action against us or against them in the United States in the event that our shareholders believe that their rights have been infringed under the U.S. federal securities laws or otherwise. Even if our shareholders are successful in bringing an action of this kind, the laws of the Cayman Islands, the PRC or other relevant jurisdiction may render our shareholders unable to enforce a judgment against our assets or the assets of our directors and officers.

Since we are a Cayman Islands company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States.

Under the laws of some jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith, and actions by controlling shareholders which are obviously unreasonable may be declared null and void. Cayman Island law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in some U.S. jurisdictions. In addition, the circumstances in which a shareholder of a Cayman Islands company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a Cayman Islands company being more limited than those of shareholders of a company organized in the United States.

Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions. The directors of a Cayman Islands company, without shareholder approval, may implement a sale of any assets, property, part of the business, or securities of the company. Our ability to create and issue new classes or series of shares without shareholder approval could have the effect of delaying, deterring or preventing a change in control of our Company without any further action by our shareholders, including a tender offer to purchase our ordinary shares at a premium over prevailing market prices.

The audit reports included in this annual report have been prepared by our independent registered public accounting firm whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection. In addition, various legislative and regulatory developments related to U.S.-listed China-based companies due to lack of PCAOB inspection and other developments may have a material adverse impact on our listing and trading in the U.S. and the trading prices of our ADSs.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. 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), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it relates to those operations without the approval of the Chinese authorities, our independent registered public accounting firm is not currently inspected fully by the PCAOB. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our independent registered public accounting firm's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections. Inspections of other firms that the PCAOB has conducted outside the PRC 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. The inability of the PCAOB to conduct full inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

On May 24, 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. On inspection, it appears that the PCAOB continues to be in discussions with the Mainland China regulators to permit inspections of audit firms that are registered with PCAOB in relation to the audit of Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in this issue. On April 21, 2020, the SEC and the PCAOB issued a joint statement reiterating the greater risks of insufficient disclosures from companies in many emerging markets, including China, compared to those from U.S. domestic companies. In discussing the specific issues related to these risks, the statement again highlighted the PCAOB's inability to inspect audit work and practices of accounting firms in China with respect to U.S. reporting companies. On June 4, 2020, the U.S. President issued a memorandum ordering the President's Working Group on Financial Markets, or the PWG, to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch and by the SEC or the PCAOB on Chinese companies listed on U.S. stock exchanges and their audit firms. On August 6, 2020, the PWG released the report. In particular, with respect to jurisdictions that do not grant the PCAOB sufficient access to fulfill its statutory mandate, or NCJs, the PWG recommended that enhanced listing standards be applied to companies from NCJs for seeking initial listing and remaining listed on U.S. stock exchanges. Under the enhanced listing standards, if the PCAOB does not have access to work papers of the principal audit firm located in a NCJ for the audit of a U.S.-listed company as a result of governmental restrictions, the U.S.-listed company may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines that it has sufficient access to the firm's audit work papers and practices to inspect the co-audit. The report recommended a transition period until January 1, 2022 before the new listing standards apply to companies already listed on U.S. stock exchanges. Under the PWG recommendations, if we fail to meet the enhanced listing standards before January 1, 2022, we could face de-listing from the Nasdaq Global Select Market, deregistration from the SEC and/or other risks, which may materially and adversely affect, or effectively terminate, our ADS trading in the United States. There were recent media reports about the SEC's proposed rulemaking in this regard. It is uncertain whether the PWG recommendations will be adopted, in whole or in part, and the impact of any new rule on us cannot be estimated at this time.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, would require the SEC to maintain a list of issuers for which the PCAOB is not able to inspect or investigate auditor reports issued by foreign public accounting firms. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. stock exchanges of issuers included on the SEC's list for three consecutive years. On December 18, 2020, the "Holding Foreign Companies Accountable Act", or the Act, was signed by the then U.S. President into law. The Act requires foreign issuers to establish that they are not owned or controlled by a foreign government and requires the SEC to prohibit foreign companies from listing securities on U.S. securities exchanges or trading "over-the-counter" if a company retains a foreign accounting firm that cannot be inspected by the PCAOB for three consecutive years, beginning in 2021. On March 24, 2021, the SEC adopted interim final amendments to implement the requirements of the ACT, which require any identified registrant to submit documents to the SEC establishing that the registrant is not owned or controlled by a foreign governmental entity, and will also require disclosure in a foreign issuer's annual report regarding the audit arrangements of, and governmental influence on, such a registrant. The amendments will become effective on April 23, 2021. The enactment of Act, implementation of the amendments and any additional rule making efforts to increase U.S. regulatory access to audit information in China could cause investor uncertainty for affected SEC registrants, including us, the market price of our ADSs could be materially adversely affected, and we could be delisted if we are unable to meet the PCAOB inspection requirement in time.

If the settlement reached between the SEC and the Big Four PRC-based accounting firms (including the Chinese affiliate of our independent registered public accounting firm), concerning the manner in which the SEC may seek access to audit working papers from audits in China of U.S.-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the United States, we could be unable to timely file future financial statements in compliance with the requirements of 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 Chinese affiliate of our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the Chinese accounting firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents would normally be made to the CSRC. The Chinese accounting firms would receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and would be required to abide by a detailed set of procedures with respect to such requests, which in substance would require them to facilitate production via the CSRC. The CSRC for its part initiated a procedure whereby, under its supervision and subject to its approval, requested classes of documents held by the accounting firms could be sanitized of problematic and sensitive content so as to render them capable of being made available by the CSRC to US regulators.

Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was on February 6, 2019. Despite the final ending of the proceedings, the presumption is that all parties will continue to apply the same procedures: i.e. the SEC will continue to make its requests for the production of documents to the CSRC, and the CSRC will normally process those requests applying the sanitization procedure. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law. If additional challenges are imposed on the Chinese affiliates of the "big four" accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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

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

Our articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including ordinary shares represented by our ADSs, at a premium.

Our amended and restated memorandum and articles of association contain provisions which have the potential to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions 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 other rights, 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, at such time and on such terms as they may think appropriate. In the event these preferred shares have better voting rights than our ordinary shares, in the form of ADSs or otherwise, they 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 primarily on price appreciation of our ADSs for any return on your investment.

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. Although our board of directors has announced a policy to declare and pay dividends on a quarterly basis, the amount and form of future dividends 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 primarily 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.

As a foreign private issuer, we are exempt from certain disclosure requirements under the Exchange Act, which may afford less protection to our shareholders than they would enjoy if we were a domestic U.S. company.

As a foreign private issuer, we are exempt from, among other things, the rules prescribing the furnishing and content of proxy statements under the Exchange Act. In addition, our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit and recovery provisions contained in Section 16 of the Exchange Act. We are also not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act although we have voluntarily filed and will continue to file period reports and financial statements. As a result, our shareholders may be afforded less protection than they would under the Exchange Act rules applicable to domestic U.S. companies.

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 the majority of our officers reside outside the United States

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our subsidiaries in China. Most of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. The legal system in Cayman, the PRC or other relevant jurisdictions may not afford our shareholders the same level of protection as the legal system in the United States would. For instance, the Securities Laws of the PRC regulates only security issuances and trading outside of the PRC to the extent that such issuance and trading disrupts domestic markets and negatively affects the interest of domestic investors in the PRC. As such, investors in the United States may not be able to file a lawsuit under the Securities Law in the PRC. Even if you are successful in bringing an action in the PRC, shareholder claims that are common in the United States, including class action suits securities law and fraud claims, may be difficult or impossible to pursue as a matter of law or practicality in the PRC. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind outside the Cayman Islands or China, the laws of the Cayman Islands and of China may render you unable to effect service of process upon, or to enforce a judgment against our assets or the assets of our directors and officers.

The SEC, U.S. Department of Justice, or the DOJ, and other relevant regulatory authorities in the United States play vital roles in enforcing laws and regulations that protect securities investors. These U.S. authorities may face significant legal and other obstacles to obtaining information needed for investigations or litigation. Further, these U.S. authorities may have substantial difficulties in bringing and enforcing actions against non-U.S. companies and non-U.S. persons, including company directors and officers, which will further limit protections available to our shareholders. According to the Securities Laws of the PRC, without the approval of securities regulator and other actors within the Chinese government, no entity or individual in China may provide documents and information relating to securities business activities to overseas regulators. In addition, local authorities in Cayman, the PRC or other relevant jurisdictions often are constrained in their ability to assist U.S. authorities and overseas investors more generally. There are also legal or other obstacles to seeking access to funds in a foreign country.

There is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, although a judgment obtained in the federal or state courts of the United States will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment: (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine, or a penalty, and (d) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and most other Western countries.

Our corporate affairs are governed by our amended and restated memorandum and articles of association and by the Companies Law (2020 Revision) (the “Company Law”) and the common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority 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, the Cayman Islands has a less developed body of securities laws as compared to the United States, and 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 investors may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

We may be a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States Holders of our ADSs or ordinary shares.

We will be a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if, applying applicable look-through rules, either (1) at least 75% of our gross income for such year is passive income or (2) at least 50% of the value of our assets (generally determined 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. Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we do not believe that we were a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2020. However, we believe we were a PFIC for 2017 and prior years. In addition, we believe that it is likely that one or more of our subsidiaries were also PFICs for such prior years. 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. If our market capitalization declines, we may be or become a PFIC because our liquid assets and cash (which are for this purpose considered assets that produce passive income) may then represent a greater percentage of our overall assets. In addition, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the United States Internal Revenue Service, or the IRS, will agree with any positions that we ultimately take. Accordingly, we cannot assure you that we will not be treated as a PFIC for any taxable year or that the IRS will not take a contrary position to any determination we make.

If we are a PFIC for any taxable year (as we believe we were for 2017 and prior years) during which a United States Holder (as defined in “Item 10. Additional Information — E. Taxation — United States Federal Income Taxation”) holds our ADSs or ordinary shares, certain adverse United States federal income tax consequences could apply to such United States Holder. See “Item 10. Additional Information — E. Taxation — United States Federal Income Taxation — Passive Foreign Investment Company.”

Item 4. Information on the Company

A. History and Development of the Company

History of Our Corporate Structure

We started our operation in 1999 through Guangzhou Nanyun Car Rental Services Co., Ltd. and Guangdong Nanfeng Automobile Association Co., Ltd. In 2001, we formed China United Financial Services Holdings Limited, or China United Financial Services, a British Virgin Islands company, as the offshore holding company of our PRC subsidiaries. In June 2004, CISG Holdings Ltd., or CISG Holdings was incorporated in British Virgin Islands and became our holding company through share exchanges with China United Financial Services.

In anticipation of our initial public offering, we incorporated CNinsure Inc. in the Cayman Islands in April 2007. After a series of restructuring transactions, 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.

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

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

History of Our Business Operation

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

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

In October 2017, we sold Fanhua Times Sales & Service Co., Ltd., and all of its subsidiaries, including 18 P&C insurance agencies and one insurance brokerage firm, to a third party and divested our insurance brokerage segment in November 2017.

In recent years, we have devoted significant efforts to developing and managing our mobile and online platforms. In 2010, we started to build an online insurance distribution platform Baowang (www.baoxian.com). In April 2014, we established Dianliang Information, as the holding company for eHuzhu (www.ehuzhu.com), an online mutual aid platform that we launched in July 2014. In October 2012, we launched CNpad application, a mobile sales support system, which was later divided into CNpad Auto which focused on facilitating auto insurance transaction and Lan Zhanggui which served as an integrated one-stop sales support system that facilitate transactions for a wider range of products including life insurance, auto insurance, accident and health insurance with toolkits for training and agent management. CNpad Auto App was discontinued in the third quarter of 2020 after its core functionalities were integrated into Lan Zhanggui. Chetong. Net, an online claims services resource aggregating platform, was launched in 2014.

We have also made investments in complementary business areas, such as consumer finance and wealth management since 2009. We currently own an 18.5% equity interest in CNFinance (NYSE: CNF), a leading home equity loan service provider in China, and a 4.5% equity interest in Puyi Inc. (NASDAQ: PUYI), a leading third-party wealth management service provider in China which beneficially owns 100% in Fanhua Puyi Fund Distribution Co., Ltd., or Fanhua Puyi.

Our principal executive offices are located at 27/F, Pearl River Tower, No. 15 West Zhujiang Road, Guangzhou, Guangdong 510623, People's Republic of China. Our telephone number at this address is +86-20-8388-6888. Our registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Capital Expenditure

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

B. Business Overview

Overview

Driven by our cutting-edge technologies and insurance industry expertise, we are the leading independent insurance intermediary group in China. We connect millions of individual customers to our 104 insurance company partners as of March 31, 2021. As an independent insurance agency, we possess unique advantages over the exclusive distribution channels of insurance companies. We offer not only a broad range of insurance products underwritten by multiple insurance companies to address the needs of increasingly sophisticated customers with diverse needs and preferences but also quality services backed by our nationwide network.

We focus on offering long-term life and health insurance products including critical illness, annuity, whole life, term life and endowment life insurance and distribute property and casualty insurance products including individual accident insurance, homeowner insurance, liability insurance and travel insurance. We also provide insurance claims adjusting services such as damage assessment and loss estimations.

With strategic focus on long-term life and health insurance products and services, we were one of the first independent insurance agencies to enter China's life insurance agency market. We began distributing long-term life and health insurance products in 2006 and have become an industry leader after accumulating valuable industry experience for over 10 years.

We have adopted an integrated offline-to-online ("O2O") operating model. We use our technology platforms to boost efficiency and improve user experience, and rely on our extensive offline distribution and service network to facilitate sales of complex insurance products and offer reliable after-sales services.

We began building online platforms to sell insurance products as early as 2010 and pioneered the adoption of digital technologies in China's insurance agency industry. To meet demand for different insurance products and services, we have established industry-leading online platforms including Lan Zhanggui, Baowang (www.baoxian.com), eHuzhu (www.ehuzhu.com) and Chetong.net. Our technology platforms enable intelligent deal management to help customers find the products that best match their needs and streamline and expedite transaction processes, while our offline distribution and service network provides an effective channel for us to engage with and serve our clients. This O2O model significantly enhances our operational efficiency and scalability.

We have an extensive independent insurance product distribution network and comprehensive insurance service network in China. With 362,580 sales agents, 763 sales outlets which include our branches and sub-branches in 23 provinces as of December 31, 2020, our distribution network was the largest among independent insurance agencies in China. With 1,736 claims adjusters in 118 service outlets as of December 31, 2020, our claims adjustment service network covered 31 provinces in China. Our extensive distribution and service network and sizable sales and service work force allow us to engage and serve customers nationwide and serve as a substantial entry barrier to China's insurance agency industry.

We operate in a fast-growing industry with abundant opportunities. The separation of insurance underwriting and distribution is a significant trend in China's insurance industry. Historically dominated by in-house sales forces and exclusive agents, insurance distribution channels in China have gradually shifted towards independent insurance agencies, as demand for insurance products and services has diversified in recent years. With strong brand recognition, established relationships with major insurance companies, an extensive distribution and sales network and cutting-edge technology, we intend to take advantage of the opportunities resulting from the growth and transformation of the insurance agency industry in China to increase our market share by professionalizing our sales force, enhancing digital capabilities and opening up our platform to more market participations.

Our Platforms

Technological developments and the growth of mobile internet access have significantly changed the way we operate our business. We operate several online platforms, which we define as websites and Internet-enabled applications that aggregate insurance product offerings from various insurance companies:

- *Lan Zhanggui* - an internet-based all-in-one platform which integrates our existing online platforms and allows our agents to access and purchase a wide variety of insurance products, including long term life and health insurance accident insurance, travel insurance, and standard medical insurance products from multiple insurance companies, through one integrated account on their mobile devices. The platform is available in mobile application and WeChat official account versions. As of March 31, 2021, Lan Zhanggui had approximately 1.8 million registered users.
- *Baowang* (www.baoxian.com) - an online insurance platform that allows customers to directly compare and shop for hundreds of accident, standard short term health, travel and homeowner insurance products from dozens of insurance companies online. The platform is available in PC-based website, mobile application and WeChat official account versions. As of March 31, 2021, Baowang had over 3.1 million registered members.
- *eHuzhu* (www.ehuzhu.com) - an online non-profit mutual aid platform that provides low-cost alternative risk-protection programs on a mutual aid basis among program members. eHuzhu primarily offers programs that provide mutual aid for cancer in three different age groups and accidental death. The platform is accessible primarily through its WeChat official account. When a member signs up for a program offered by eHuzhu, he or she agrees to evenly contribute to and is entitled to receive payout from other program members in case of any claims covered under such program. The amount of fund that each member can claim is up to RMB500,000, with the maximum contribution from each member limited to RMB3 for each valid claim. As of March 31, 2021, eHuzhu had attracted approximately 2.8 million paying members.

As of March 31, 2021, we, through FISSG, operated one e-commerce insurance platform and one online mutual aid platform, and controlled twelve insurance intermediary companies in the PRC, of which nine were insurance agencies including two with national operating licenses and three were insurance claims adjusting firms. As of March 31, 2021, we also owned (i) 18.5% of the equity interests in CNFinance Holdings Ltd. (NYSE:CNF), a leading home equity loan service provider, (ii) 4.5% of the equity interests in Puyi Inc. (NASDAQ:PUYI), a leading third party wealth management services provider focusing on mass affluent and emerging middle class population, and (iii) 14.9% of the equity interests in Shenzhen Chetong Network Co., Ltd., an online insurance claims services provider.

Segment Information

As of December 31, 2020, we operated two segments: (1) the insurance agency segment, which mainly consists of providing agency services for distributing life insurance products and P&C insurance products on behalf of insurance companies, and (2) the claims adjusting segment, which consists of providing pre-underwriting survey services, claim adjusting services, disposal of residual value services, loading and unloading supervision services, and consulting services.

Insurance Agency Segment

Our insurance agency segment accounted for 90.0% and 86.7% of our net revenues in 2019 and 2020, respectively. Revenue from this segment is derived from two broad categories of insurance products: (i) property and casualty insurance products, and (ii) life and health insurance products, both primarily focused on meeting the insurance needs of individuals.

Life and health Insurance Products

Our life and health insurance business accounted for 82.7% of our net revenues in 2020. We expect the sale of life insurance products to be the major source of our revenue in the next several years. The life and health insurance products we distribute can be broadly classified into the categories set forth below. Due to constant product innovation by insurance companies, some of the insurance products we distribute combine features of one or more of the categories listed below:

- *Individual Health Insurance.* The individual health insurance products we distribute primarily consist of critical illness insurance products, which provide guaranteed benefits when the insured is diagnosed with specified serious illnesses, and medical insurance products, which provide conditional reimbursement for medical expenses during the coverage period. In return, the insured makes periodic payment of premiums over a pre-determined period.
- *Individual Annuity.* The individual annuity products we distribute generally provide annual benefit payments after the insured attains a certain age, or for a fixed time period, and provide a lump sum 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 payments of premiums during a pre-determined accumulation period.
- *Individual Whole Life Insurance.* The individual whole life insurance products we distribute provide insurance coverage 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 plus accumulated interest is paid upon the death of the insured.

- *Individual Term Life Insurance.* The individual term life insurance products we distribute provide insurance coverage for the insured for a specified time period or until the attainment of a certain age, in return for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years. Term life insurance policies generally expire without value if the insured survives the coverage period.
- *Individual Endowment Life Insurance.* The individual endowment products we distribute generally provide insurance coverage for the insured for a specified time period and maturity benefits if the insured reaches a specified age. The individual endowment products we distribute also 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.
- *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 on an annual basis over the life of the policy. In return, the insured makes periodic payments of premiums over a pre-determined period, generally ranging from five to 25 years.

The life insurance products we distributed in 2020 were primarily underwritten by Huaxia, Aeon, Sinatay, Evergrande and Tian'an.

Property and Casualty Insurance Products

Our property and casualty insurance business accounted for 4.0% of our net revenues in 2020, primarily representing insurance products we distributed through Baowang. Our main property and casualty insurance product in terms of net revenues contribution in 2020 is individual accident insurance and indemnity medical insurance which we distribute through Baowang. We also offer lifestyle insurance such as travel insurance, homeowner insurance, and other innovative products on Baowang. In addition, we have started to offer certain long term life and health insurance products specifically designed for internet distribution channel since 2019. The major insurance products we offer or facilitate to individual customers through Baowang can be further classified into the following categories:

- *Individual Accident Insurance.* The individual accident insurance products we distribute generally provide a guaranteed benefit during the coverage period, which is usually 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.
- *Homeowner Insurance.* The homeowner insurance products we distribute primarily cover damages to the insured house, along with furniture and household electrical appliance in the house caused by a number of incidents such as fire, flood and explosion.
- *Indemnity medical insurance.* The indemnity medical insurance products we facilitate typically have a one-year term and provide conditional reimbursement for medical and surgical expenses incurred for treating illnesses during the coverage period. These products typically require only a single premium payment for each coverage period. Because most of these medical insurance products we distribute are underwritten by property and casualty insurance companies, we classify indemnity medical products as property and casualty insurance products.

We primarily partnered with Zhong An Online Property and Casualty Insurance Company Limited, Ping An Property and Casualty Insurance Company Limited, or Ping An, JD Alliance Property and Casualty Insurance Company Limited, Taikang Online Property and Casualty Insurance Company Limited, and Ping'an Health Insurance Company Limited for the distribution of property and casualty insurance products in 2020.

Claims Adjusting Segment

Total net revenues derived from our claims adjusting segment accounted for 13.3% of our total net revenues in 2020. We offer the following insurance claims adjusting services:

- *Pre-underwriting Survey.* Before an insurance policy is sold, we conduct a survey of the item to be insured to assess its current value and help our clients determine the insurable value and the amount to be insured. We also help our clients assess the underwriting risk with respect to the item to be insured through surveys, appraisals and analysis.
- *Claims Adjusting.* When an accident involving the insured subject matter has occurred, we conduct an onsite survey to determine the cause of the accident and assess damage. We then determine the extent of the loss to the insured subject matter and prepare and submit a report to the insurance company summarizing our preliminary findings. Upon final conclusion of the case, we prepare and submit a detailed report to the insurance company setting forth details of the accident, cause of the loss, details of the loss, adjustment and determination of loss, an indemnity proposal and, where appropriate, a request for payment.
- *Disposal of Residual Value.* In the course of providing claims adjusting services, we also can appraise the residual value of the insured property and offer suggestions on the disposal of such property. Upon appointment by the insurance company, we handle the actual disposal of the insured property through auction, discounted sale, lease or other means.
- *Loading and Unloading Supervision.* Upon appointment by ship owners, shippers, consignees or insurance companies, we can monitor and record the loading and unloading processes of specific cargos.
- *Consulting Services.* We provide consulting services to both the insured and the insurance companies on risk assessment and management, disaster and damage prevention, investigation, and loss assessment.

We primarily provided claims adjusting services to Ping An, Xianghu Bang Health Technology (Beijing) Co., Ltd., China Pacific Property and Casualty Insurance Company Limited, Shanghai Nuanwa Technology Co., Ltd., and China Life Property and Casualty Insurance Company Limited in 2020.

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

Seasonality

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

Distribution and Service Network and Marketing

We have an offline distribution and service network that, as of March 31, 2021, consisted of one insurance sales and service group, nine insurance agencies including two with national operating licenses, and three claims adjusting firms, with 881 sales and service branches and outlets, 350,565 registered independent sales agents and 1,829 in-house claims adjusters. Our distribution and service network consisted of 771 sales outlets in 23 provinces and 113 claims services outlets in 31 provinces.

The following table sets forth additional information concerning our distribution and service network as of March 31, 2021, broken down by provinces:

Province	Number of Sales and Service Outlets	Number of Sales Agents	Number of In-house Adjustors
Shandong	165	88,911	52
Guangdong	77	30,073	361
Guangxi	24	28,383	35
Jiangsu	42	28,268	170
Hebei	89	25,213	26
Henan	32	19,998	48
Anhui	49	19,110	45
Sichuan	93	15,688	49
Inner Mongolia	17	14,401	15
Yunan	20	12,507	19
Chongqing	15	11,603	37
Liaoning	24	10,404	61
Zhejiang	50	10,230	166
Shaanxi	16	8,966	71
Hunan	68	6,758	41
Shanxi	9	5,652	21
Fujian	31	5,570	45
Hubei	21	3,134	93
Heilongjiang	2	1,685	4
Tianjin	10	1,452	30
Jiangxi	7	1,334	61
Beijing	4	1,205	130
Shanghai	8	19	93
Guizhou	3	—	59
Ningxia	1	—	44
Hainan	1	—	13
Qinghai	1	—	10
Jilin	2	—	21
Xinjiang	1	—	4
Gansu	1	—	4
Tibet	1	—	1
Total	884	350,565	1,829

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

Customers

We sell life and health insurance products including critical illness, annuity insurance, whole life insurance and term life insurance and endowment insurance primarily to individual customers as well as property and casualty insurance products including individual accident insurance, homeowner insurance products, liability insurance and travel insurance. Customers for the life and health insurance products we distribute are primarily individuals under 50 years of age. For the year ended December 31, 2020, no single individual customer who has purchased insurance products through us accounted for more than 1% of our net revenues. Our customers for the claims adjusting services are primarily insurance companies and online mutual-aid platforms.

As of December 31, 2020, we had accumulated approximately 12 million individual customers, of which approximately 1.8 million have purchased at least one regular long term life and health insurance policy. By providing certain value-added services to these customers at no additional charge, we seek to build a loyal customer base that generates referrals and cross-selling opportunities.

Insurance Company Partners

As of March 31, 2021, we had established business relationships with 104 insurance companies in the PRC. In the Chinese insurance market, local branches of insurance companies generally have the authority to enter into contracts in their own names with insurance intermediaries. Since 2007, we have sought to establish business relationships with insurance companies at the corporate headquarters level in order to leverage the combined sales volumes of all our subsidiaries located in different parts of China. For the distribution of insurance products, we had outstanding contracts with 32 life insurance companies, four health and pension insurance companies and 23 property and casualty insurance companies, which were all signed at the corporate headquarter level as of March 31, 2021. For the provision of claims adjusting services, we also had outstanding contracts with 59 insurance companies, and 13 other institutions as of March 31, 2021.

Insurance Aggregator Site Partners

In October 2017, we shifted to a platform business model for our auto insurance business. Under the new business model, we no longer enter into contracts with property and casualty insurance companies for the distribution of auto insurance products through our individual sales agents to earn profits from the commission spread. Rather, we operate CNpad Auto as an auto insurance transaction portal which connects insurance distributors with our sales agents and received technology service fees from distributors which provide auto insurance products on CNpad Auto based on the volume of insurance premiums they transact through CNpad Auto. A technology service fee is typically much smaller than the commission we previously received from insurance companies, though our costs are generally minimal. From 2018, we started partnering with third party online auto insurance platforms, for the facilitation of auto insurance products, by introducing agent traffic to these platforms. We stopped charging this technology service fee starting from the fourth quarter of 2019. CNPad Auto App was discontinued in the third quarter of 2020 after its key functionalities were integrated into Lan Zhanggui.

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 11.5% of the total insurance premiums generated in China in the first nine months of 2020, according to statistics quoted by an officer of the CBIRC at the 2020 Insurance China Insurance Innovation Development Conference. 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 with our long operating history, strong brand recognition, a strong and stable team of managers and sales professionals, leading online platforms and diversified product offerings. With increasing consolidation expected in the insurance intermediary sector in the coming years, we expect competition within this sector to intensify.
- *Insurance companies.* The distribution of individual life insurance products in China historically has been dominated by insurance companies, which usually use both in-house sales forces and exclusive sales agents to distribute their own products. In addition, in recent years several major insurance companies have increasingly used telemarketing and the Internet to distribute 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, Internet companies and professional insurance intermediaries have begun to engage in the Internet insurance business. 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 Internet companies have limited experience in insurance operation with limited or no offline sales and service support. Our better brand recognition, larger sales scale and broader sales and service network also differentiate us from other professional insurance intermediaries. We believe that we can compete effectively with these business entities because our online insurance platforms offer users access to a broad range of insurance products underwritten by multiple insurance companies' good after-sale services that are backed by our nation-wide service network and better user experience.
- *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.

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 medical-insurance, property insurance, auto insurance, marine and cargo insurance, and personal injury and accident insurance and are able to leverage the business relationships we have developed with insurance companies through the distribution of property and casualty insurance products.

Intellectual Property

Our brand, trade names, trademarks, trade secrets and other intellectual property rights distinguish our business platform, services and products from those of our competitors and contribute to our competitive advantage in the professional insurance intermediary sector. To protect our intellectual property, we rely on a combination of trademark, copyright and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. As of March 31, 2021, we had 34 registered trademarks in China, including our corporate logo. Our main website is www.fanhuaholdings.com.

Regulation

Regulations of the Insurance Industry

The insurance industry in the PRC is highly regulated. Between 1998 and March 2018, CIRC was the regulatory authority responsible for the supervision of the Chinese insurance industry. In March 2018, the CBIRC, was established as the result of the merger between CIRC and CBRC, replacing CIRC as the regulatory authority for the supervision of the Chinese insurance industry. Insurance activities undertaken within the PRC are primarily governed by the Insurance Law and the related rules and regulations.

Initial Development of Regulatory Framework

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

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

Establishment of the CIRC and 2002 Amendments to the Insurance Law

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

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

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

2009 Amendments to the Insurance Law

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

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

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

2014 Amendments to the Insurance Law

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

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

2015 Amendments to the Insurance Law

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

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

The CIRC and the CBIRC

The CBIRC, which was formed by the merger of China Banking Regulatory Commission (“CBRC”) and CIRC in March, 2018, inherits the authority of 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 Agents

The principal regulation governing insurance agents is the Provisions on the Supervision and Administration of Insurance Agents, or the PSAIA, issued by the CBIRC on November 12, 2020 and effective on January 1, 2021, replacing the Provision on the Supervision and Administration of Professional Insurance Agencies issued by the CIRC on September 25, 2009 and amended on April 7, 2013, the Measures on the Supervision and Administration of Insurance Salespersons issued on January 6, 2013 and the Interim Measures on the Administration of Ancillary-Business Insurance Agency issued on August 4, 2000.

The term of “insurance agent” refers to an entity or an individual entrusted by insurance companies to handle insurance business by and within the authorization of, and which collects commissions from insurance companies, and includes a professional insurance agency, ancillary-business insurance agency and individual insurance sales agent which refers to a captive insurance agent of an insurance company.

The practitioner of an insurance agency refers to an individual engaged in the sales of insurance products or loss assessment and claims settlement services for a professional insurance agency or ancillary-business insurance agency.

To engage in insurance agency business, a professional insurance agency shall obtain an insurance agency business permit issued by the CBIRC, after obtaining a business license, and satisfy the requirements prescribed by the PSAIA or other relevant regulations on shareholder and management qualification, capital contribution, articles of association, corporate governance and internal control procedures with viable business model and sound business and financial information system. An insurance agency may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company. The name of a professional insurance agency shall contain the words “insurance agency”.

The minimum registered capital for establishing a nationwide professional insurance agency is RMB50 million and that for a regional professional insurance agency is RMB20 million. The registered capital of a professional insurance agency must be paid-in monetary capital. To operate outside of its registration place, a nationwide professional insurance agency shall set up local provincial branches first before setting up additional sub-branches and sales offices.

Professional insurance agencies shall, within 5 days from the date of occurrence of any of the following circumstances, report to the CBIRC through the supervision information system and make public disclosure: (i) change of name, domicile or business address; (ii) change of shareholders, registered capital or the form of organization; (iii) change of name or capital contribution of a shareholder; (iv) amendments to the articles of association; (v) equity investment in, or establishment of offshore insurance institutions or non-operating institutions; (vi) division, merger, dissolution, or termination of insurance agency business activities of branches; (vii) change of the principal person-in-charge of a sub-branch; (viii) administrative punishment, civil punishment or pending investigation of suspected illegal crime; or (ix) other reportable events prescribed by the insurance regulatory body under the State Council.

A professional insurance agency may engage in all or part of the following businesses: (i) selling insurance products on behalf of insurance companies; (ii) collecting insurance premium on behalf of insurance companies; (iii) insurance-related loss survey and claims settlement on behalf of insurance companies; or (iv) other relevant businesses stipulated by the insurance regulatory body under the State Council. Insurance agents shall not engage in insurance agency business beyond the business scope and business area of the insurance companies for which they act as agents.

A professional insurance agency and its sales practitioners and individual insurance agents are not allowed to sell non-insurance financial products, except for non-insurance financial products approved by relevant financial regulatory authorities provided that all necessary qualification requirements are being met.

A professional insurance agency shall, within 20 days upon obtaining business permits, procure professional liability insurance or make contributions to security deposit. Minimum compensation for each accident under the one-year professional liability insurance policy shall be no less than RMB1 million, and accumulative compensation under the one-year insurance policy shall be no less than RMB10 million and the total core business revenue of the professional insurance agency company in the previous year. If a professional agency intends to pay deposit, the deposit shall be paid at 5% of its registered capital and when it increases its registered capital, the amount of the deposit shall be increased proportionately.

The senior managers of a professional insurance agency must meet specific qualification requirements in education background and relevant industry working experience set forth in the PSAIA.

An insurance agent shall perform sales practicing register with the CRIBC's Insurance Intermediaries Regulatory Information System for its individual insurance agent or sales practitioner. Each individual insurance agent or sales practitioner of an insurance agency can only be allowed to register with one institution.

Specific information disclosure requirements are also provided in the PSAIA. For example, it is required that a professional insurance agency or its branches shall place its business license and copies of permit in a prominent position in its domicile or business site. Insurance agents shall make full disclosure of all relevant information of insurance products to policyholders and make clear representation of the clauses in the insurance contract including liability, liability reduction or exemption, cancellation and other expense deductions, cash value, cooling-off period and etc.

Regulation of Insurance Brokerages

The principal regulation governing insurance brokerages is the Provisions on the Supervision and Administration of Insurance Brokers, or the POSAIB, promulgated by the CIRC on February 1, 2018 and effective May 1, 2018, replacing the Provisions on the Supervision of Insurance Brokerages issued on September 25, 2009, as amended on April 27, 2013, and the Measures on the Supervision and Administration of Insurance Brokers and Insurance Claims Adjustors issued by the CIRC on January 6, 2013.

The term of “insurance broker” refers to an entity which, representing the interests of insurance applicants, acts as an intermediary between insurance applicants and insurance companies for entering into insurance contracts, and collects commissions for the provision of such brokering services. The term of “insurance brokerage practitioner” refers to a person affiliated with an insurance broker who drafts insurance application proposals or handle the insurance application formalities for insurance applicants or the insured or assists insurance applicants or the insured in claiming compensation or who provides clients with disaster or loss prevention or risk assessment or management consulting services or engages in reinsurance brokerage, among others.

To engage in insurance brokerage business within the territory of the PRC, an insurance brokerage shall satisfy the requirements prescribed by the CIRC and obtain an insurance brokerage business permit issued by the CIRC, after obtaining a business license. An insurance brokerage may take any of the following forms: (i) a limited liability company; or (ii) a joint stock limited company.

The minimum registered capital of an insurance brokerage company whose business area is not limited to the province in which it is registered is RMB50 million while the minimum registered capital of an insurance brokerage company whose business area is limited to its place of registration is RMB10 million.

The name of an insurance broker shall include the words “insurance brokerage.” An insurance brokerage must register the information of its affiliated insurance brokerage practitioners with the IISIS. One person can only be registered with the IISIS through one insurance brokerage.

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.

An insurance brokerage shall submit a written report to the CIRC through the IISIS and make public disclosure within five days from the date of occurrence of any of the following matters: (i) change of name, domicile or business premises; (ii) change of shareholders, registered capital or form of organization; (iii) change of names of shareholders or capital contributions; (iv) amendment to the articles of association; (v) equity investment, establishment of offshore insurance related entities or non-operational organizations; (vi) division, merger and dissolution or termination of insurance brokering business activities of its branches; (vii) change of the primary person in charge of its branches other than provincial branches; (viii) being a subject of administrative or criminal penalties, or under investigation for suspected involvement in any violation of law or a crime; and (x) other reportable events prescribed by the CIRC.

Insurance brokerage and its practitioners are not allowed to sell non-insurance financial products, except for those products approved by relevant financial regulatory institutions and the insurance brokerage and its practitioners shall obtain relevant qualification in order to sell non-insurance related financial products that meets regulatory requirements.

Personnel of an insurance brokerage and its branches who engage in any of the insurance brokering businesses described above must comply with the qualification requirements prescribed by the CIRC. The senior managers of an insurance brokerage must meet specific qualification requirements set forth in the POSAIB.

Regulation of Insurance Claims Adjusting Firms

The principal regulation governing insurance adjusting firms is the Provisions on the Supervision and Administration of Insurance Claims Adjustors, or the POSAICA, issued by the CIRC on February 1, 2018 and effective on May 1, 2018, replacing the Provisions on the Supervision of Insurance Claims Adjusting Firms effective on October 1, 2009, as amended on September 29, 2013 and 2015, and the Regulation of Insurance Brokers and Insurance Adjustors effective on July 1, 2013.

According to the POSAICA, the term “insurance adjustment” refers to the assessment, survey, authentication, loss estimation and relevant risk assessment of the insured subject matters or the insurance incidents conducted by an appraisal firm and its professional appraisers upon the entrustment of the parties concerned. The term of “insurance adjusting firm” refers to an entity and any of its branches which engages in the aforementioned businesses.

The term “insurance adjustment practitioner” refers to a person retained by an insurance claims adjusting firm to conduct the following activities on behalf of an entruster: i) inspecting, appraising the value of and assessing the risks of the subject matter before and after it is insured; ii) surveying, inspecting, estimating the loss of, adjusting and disposing of the residual value of the insured subject matter after loss has been incurred; and iii) risk management consulting.

Insurance adjustment practitioners include claims adjustors and assessment practitioners with claims adjustment knowledge and practical experience. A claims adjustor refers to an individual who has passed the qualification examination for the insurance claims adjustors organized by the CIRC.

An insurance claims adjusting firm must meet the requirements prescribed by the China Asset Appraisal Law and applicable regulations issued by the CIRC and must file its business records with the CIRC and its local offices.

According to the regulation, an insurance adjusting firm should take the form of a company or a partnership in accordance with applicable law and retains claims adjustment practitioners to engage in insurance claims adjusting businesses. A claims adjusting firm in the form of a partnership must have at least two claims adjustors and two third of its partners should be claims adjustors who have least three years’ working experience in claims adjustment and have no record of administrative penalties in relations to claims adjustment activities in the past three years. A claims adjusting firm in the form of a company must have at least eight claims adjustors and two shareholders among which at least two third are claims adjustors who have least three years’ working experience in claims adjustment and have no record of administrative penalties in relations to claims adjustment activities in the past three years.

The establishment of an insurance claims adjusting firm only requires the application for a business license from and registration with the AIC, instead of both applying for business license and obtaining approval by the CIRC as previously required.

A claims adjusting firm may include a nationwide claims adjusting firm and regional claims adjusting firm. A nationwide claims adjusting firm can conduct business within the territory of the PRC and can establish branches in provinces other than its place of registration while a regional one can only conduct business and establish branches in the province where it is registered. A claims adjusting firm in the form of a company must file its business record with the CIRC if it is a nationwide claims adjusting firm or file with the local offices of the CIRC in the region where it is registered if it is a regional claims adjusting firm. A partnership firm must file its business record with the CIRC.

An insurance claims adjusting firm must meet certain requirements in order to engage in claims adjustment business which include, among others, i) its shareholders or its partners must meet the requirements mentioned above and its capital contribution must be self-owned, actual and lawful and must not be non-self-owned capital in various forms such as bank loan; and ii) it must have adequate working capital to support its day-to-day operation and risk undertaking in accordance with its business development plan. A nationwide entity must have at least RMB2 million working capital while a regional one must have at least RMB1 million.

An insurance adjusting firm may engage in the following businesses:

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 and after it is insured;
- surveying, inspecting, estimating the loss of, adjusting and disposing of 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. In any of the following situations, an insurance adjusting firm shall submit a written report to the CIRC when it within five days from the date the resolution for change has been passed: (i) change of name, domicile or business premises; (ii) change of shareholders or partners; (iii) change of registered capital or form of organization; (iv) change of names of shareholders or partners or capital contributions; (v) amendment to the articles of association or the partnership agreement; (vi) equity investment, establishment of offshore insurance related entities or non-operational organization; (vii) division, merger and dissolution or termination of insurance claims adjustment business of its branches; (viii) change of chairman of its board of directors, executive directors or senior management; (ix) being a subject of administrative or criminal penalties, or under investigation for suspected involvement in a crime; and (x) other reportable events specified by the CIRC.

Personnel of an insurance adjusting firm or its branches engaged in any of the insurance adjusting businesses described above must comply with the qualification requirements prescribed by the CIRC. The senior managers of an insurance adjusting firm must meet specific qualification requirements set forth in the POSAICA.

An insurance claims adjustment practitioner must join an insurance claims adjusting firm in order to conduct insurance claims adjustment activities. The insurance claims adjusting firm to which he or she belongs must register his or her information with the CIRC’s Insurance Intermediary Supervision Information System or IISIS. One person can only conduct insurance adjustment activities for one insurance claims adjusting firm and can only be registered with the IISIS through one insurance claims adjusting firm.

At least two insurance claims adjustment practitioners must be appointed to undertake each case of insurance claims adjustment businesses and the claims adjustment report shall be signed by at least two insurance claims adjustment practitioners engaged in the claims adjustment activities and chopped by the claims adjusting firm to which he or she belongs.

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;
- 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;
- chairman (Executive director) and the senior management with qualifications stipulated by the CIRC;
- perfect governance structure, sound organization, effective risk management and internal control management system;
- business premises and office equipment which are suitable for the development of the businesses; and
- other conditions stipulated by laws, administrative regulations and the CIRC.

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 June and 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 three years before application, there has been no serious misconduct or record of disciplinary action; and
- The applicant must have set up a representative office in mainland China for over one year

Regulations on Internet Insurance

The principal regulation governing the operation of internet insurance business is the Measures for the Supervision of the Internet Insurance Business, or the Measures, promulgated on December 7, 2020 and effective on February 1, 2021, replacing the Interim Measures for the Supervision of the Internet Insurance Business, or the Interim Measures, issued on July 22, 2015 and effective on October 1, 2015.

According to the Measures, the term of “internet insurance business” refers to the business of concluding insurance contracts and providing insurance services by insurance institutions with internet technologies. Insurance institutions refer to insurance companies and insurance intermediaries which include insurance agents (except individual insurance agents), insurance brokerage firms and insurance claims adjusting firms. Insurance agents (except individual insurance agents) refer to professional insurance agencies, bancassurance-related ancillary insurance agencies and internet companies that have obtained licenses for engaging in insurance agency business in accordance with applicable laws and regulations. Non-insurance institutions are not allowed to conduct internet insurance business, including but not limited to, providing insurance product consultancy services, providing insurance product comparison, price quotation and price comparison services, designing insurance plans for the insureds and handling insurance application formalities on behalf of the insureds and collecting premiums by proxy.

A self-operated internet platform refers to an internet platform established by insurance institutions for conducting insurance business, by which insurance institutions can operate business independently and have full access to the data on the platform. The internet insurance business of an insurance institution shall be operated and managed by its headquarter with standardized and centralized business platform, business procedures and management system.

To carry out internet insurance business, an insurance institution shall meet the following requirements, among others: (i) making ICP filing in the case of operating a mobile application or website; (ii) maintaining independent information management system and core business system to support its internet insurance business operation; (iii) equipped with a comprehensive working mechanism for network security monitoring, information alert, emergency management, and cybersecurity protection measures for border protection, intrusion detection, data protection and disaster recovery; (iv) equipped with certified Safety Level-III Computer Information System for a self-operated online platform that can facilitate insurance sales and application and no lower than Safety level-II Computer Information System for self-operated online platforms without insurance sales and application functions; (v) having designated department and personnel for managing the internet insurance business; (vi) maintaining sound management system and operating procedures; (vii) having a sound Internet insurance business management system and operating rules; (viii) when an insurance company carries out Internet insurance sales, it shall comply with the relevant regulations of the CBIRC on solvency, supervision and evaluation of consumer rights and interests protection, etc.; (ix) professional insurance intermediaries shall be national institutions, and their business areas shall not be limited to the provinces (autonomous regions, municipalities directly under the Central Government, cities separately listed on the State plan) where the head office’s business license is registered, and comply with the relevant provisions of the CBIRC on the classified supervision of insurance professional intermediary institutions; (x) other conditions prescribed by the Bancassurance Regulatory Commission.

Insurance institutions shall carefully evaluate their own risk management and control capacity and customer service capacity, and rationally determine and choose insurance products and the scope of sales activities suitable for internet operations.

Insurance institutions engaging in internet insurance business shall establish official website and set up internet insurance column for information disclosure.

The Measures also specifies requirements on disclosure of information such as information regarding insurance products sold on the internet, the qualification of the insurance institutions operating the internet insurance business, contact methods for local support and compliant provides guidelines for the operations of the insurance institutions that engage in internet insurance business.

Regulations on Foreign Exchange

Foreign Currency Exchange

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

- Foreign Currency Administration Rules (1996), as amended pursuant to the Decision on Revising the Foreign Currency Administration Rules promulgated by the State Council on January 14, 1997 and the Foreign Currency Administration Rules promulgated by the State Council on August 5, 2008; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange.

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

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

Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to the SAFE Circular 37, issued on July 4, 2014, prior to making contribution to a SPC with legitimate holdings of domestic or overseas assets or interests, a PRC resident (including PRC institutions and resident individuals) shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. A PRC resident who makes contribution with legitimate holdings of domestic assets or interests shall apply for registration to the Foreign Exchange Bureau at its place of registration or the Foreign Exchange Bureau at the locus of the assets or interests of the relevant PRC enterprise. A PRC resident who makes contribution with legitimate holdings of overseas assets or interests shall apply for registration to the Foreign Exchange Bureau at its place of registration or household register. Where a registered overseas SPC experiences changes of its PRC resident individual shareholder, its name, operating period or other basic information, or experiences changes of material matters, such as the increase or reduction of contribution by the PRC resident individual, the transfer or replacement of equity, or merger or division, the PRC resident shall promptly change the foreign exchange registration of overseas investment with the Foreign Exchange Bureau concerned. Under SAFE Circular 37, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV. See "Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity, or otherwise adversely affect us. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws and regulations, such as the Circular 19 promulgated by SAFE in March, 2015. The Circular 19 is designed with the view to further deepening the reform of the foreign exchange administration system, and better satisfying and facilitating the needs of foreign-invested enterprises for business and fund operations. It states the management of the payment of the amount of foreign exchanges settled shall be further standardized, and also the penalties of the foreign-invested enterprises and banks that violates this notice in handling the settlement, use and other business of the foreign exchange capitals of foreign-invested enterprises. The irregularities shall be investigated and punished by foreign exchange bureaus pursuant to the Regulations of the People's Republic of China on Foreign Exchange Administration and other relevant provisions.

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. 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 such as foreign exchange registration, account opening, funds transfer and remittance, and entrust an overseas institution to handle issues such as 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

Before January 1, 2020, 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 The Decision of the Standing Committee of the National People’s Congress on Revising the “Law of the People’s Republic of China on Foreign-invested Enterprises” which promulgated on September 3, 2016 and took effect on October 1, 2016; 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 Amending the Rules for the Implementation of the Law of the People's Republic of China on Foreign-capital Enterprises 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.

With the Foreign Investment Law becoming effective on January 1, 2020, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations are no longer applicable. The Foreign Investment Law and its implementation rule, named as Implementing Regulations of the Foreign Investment Law of the People's Republic of China, or the Implementing Regulations, does not specify the rules of dividend distribution of wholly foreign-owned companies, however, article 31 of the Foreign Investment Law states that the organizational form, organizational structure and their activities of a foreign-invested enterprise shall be governed by the provisions of the PRC Company Law, PRC Partnership Enterprise Law and other relevant laws, article 46 of the Implementing Regulations states that after the organizational forms, organizational structures, etc. of existing Foreign-invested Enterprises have been adjusted pursuant to the law, existing parties to Sino-foreign equity or cooperative joint ventures may continue to handle relevant matters according to the method of equity or interest transfer, the method of income distribution, the method of surplus assets distribution, etc. agreed in the relevant contracts. Therefore, relevant PRC laws such as PRC Company Law may apply to the dividend distribution of Foreign-owned companies, and the methods of dividend distribution stated in the current articles of association of the foreign-owned companies may still be applicable.

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 and was amended on June 22, 2009. The Order No. 10 (2006) purports, among other things, to require offshore SPVs, formed for overseas listing purposes and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings.

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

- the CSRC had jurisdiction over our initial public offering;
- the CSRC had not issued any definitive rule or interpretation concerning whether offerings like our initial public offering are subject to the M&A Rule; and

- despite the above, given that we had completed our inbound investment before September 8, 2006, the effective date of the M&A Rule, an application was not required under the M&A Rule to be submitted to the CSRC for its approval of the listing and trading of our ADSs on the Nasdaq Global Market, unless we are clearly required to do so by subsequent rules of the CSRC.

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

Regulations on Tax

PRC Enterprise Income Tax

The PRC EIT is calculated based on the taxable income determined under the PRC accounting standards and regulations, as well as the EIT law. On March 16, 2007, the National People’s Congress of China enacted the EIT Law, a new EIT law which became effective on January 1, 2008, which was subsequently amended on March 16, 2007, February 24, 2017 and December 29, 2018. On December 6, 2007, the State Council promulgated the Implementation Rules which also became effective on January 1, 2008. On December 26, 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the EIT Law, or the Transition Preferential Policy Circular, which became effective simultaneously with the EIT Law. The EIT Law imposes a uniform EIT rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain exceptions. Under the EIT Law, as further clarified by the Implementation Rules, the Transition Preferential Policy Circular and other related regulations, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them in the following manners: (i) in the case of preferential tax rates, for a five-year period starting from January 1, 2008, during which the tax rate will gradually increase to 25%; or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make a profit, its term for preferential treatment will be deemed to start from 2008. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — The PRC Enterprise Income Tax Law may increase the enterprise income tax rate applicable to some of our PRC subsidiaries which could have a material adverse effect on our result of operations.”

Under the New Income Tax law, enterprises are classified as either resident or non-resident. A resident enterprise refers to one that is incorporated under the PRC law or under the law of a jurisdiction outside the PRC with its “de facto management organization” located within the PRC. Non-resident enterprise refers to one that is incorporated under the law of a jurisdiction outside the PRC with its “de facto management organization” located also outside the PRC, but which has either set up institutions or establishments in the PRC or has income originating from the PRC without setting up any institution or establishment in the PRC. Under the New Enterprise Income Tax, Implementation Regulation, or the New EIT Implementation Regulations, “de facto management organization” is defined as the organization of an enterprise through which substantial and comprehensive management and control over the business, operations, personnel, accounting and properties of the enterprise are exercised. Under the New Income Tax Law and the New EIT Implementation Regulation, a resident enterprise’s global net income will be subject to a 25% EIT rate. On April 22, 2009, the State Administration of Taxation, or the SAT, issued SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. In addition, the SAT issued a bulletin on July 27, 2011 providing more guidance on the implementation of Circular 82 and clarifies matters such as resident status determination. Due to the present uncertainties resulting from the limited PRC tax guidance on this issue and because substantially all of our operations and all of our senior management are located within China, we may be considered a PRC resident enterprise for EIT purposes, in which case: (i) we would be subject to the PRC EIT at the rate of 25% on our worldwide income; and (ii) dividends income received by us from our PRC subsidiaries, however, would be exempt from the PRC withholding tax since such income is exempted under the EIT Law for a PRC resident enterprise recipient. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Our global income or the dividends we receive from our PRC subsidiaries may be subject to PRC tax under the EIT Law, which could have a material adverse effect on our results of operations.”

PRC Business Tax and VAT

Taxpayers providing taxable services in China are required to pay a business tax at a normal tax rate of 5% of their revenues, unless otherwise provided. According to the Announcement on the VAT Reform Pilot Program of the Transportation and Selected Modern Service Sectors issued by the State Tax Bureau in July 2012, the transportation and some selected modern service sectors, including research and development and technical services, information technology services, cultural creative services, logistics support services, tangible personal property leasing services, and assurance and consulting service sectors, should pay value-added tax instead of business tax based on a predetermined timetable (hereinafter referred to as the “VAT Reform”), effective September 1, 2012 for entities in Beijing and November 1, 2012 for entities in Guangdong. The VAT Reform expanded nation-wide from August 1, 2013.

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

Dividend Withholding Tax

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises are exempt from PRC withholding tax. Pursuant to the EIT Law and the Implementation Rules, dividends generated after January 1, 2008 and distributed to us by our PRC subsidiaries through our BVI subsidiary are subject to a 10% withholding tax, provided that we are determined by the relevant PRC tax authorities to be a “non-resident enterprise” under the EIT Law. Pursuant to the Double Taxation Arrangement, which became effective on January 1, 2007, which was subsequently amended on January 30, 2008, May 27, 2010, April 1, 2015 and July 19, 2019, dividends from our PRC subsidiaries paid to us through our Hong Kong wholly-owned subsidiary CNinsure Holdings Ltd. are 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. In July 2018, CNinsure Holdings Ltd. was determined by Hong Kong Taxation Bureau to be a Hong Kong resident enterprise and completed the application and filing process for enjoying the tax treaty in PRC Taxation Bureau therefore we have applied 5% withholding tax rate for the dividends paid by our PRC subsidiaries since then. As there remains uncertainty regarding the interpretation and implementation of the EIT Law and the Implementation Rules, it is uncertain whether any dividends to be distributed by us, if we are deemed a PRC resident enterprise, to our non-PRC shareholders and ADS holders would be subject to any PRC withholding tax. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Under the EIT Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation.”

C. Organizational Structure

Corporate Structure

Historically, PRC laws and regulations restricted foreign investment in and ownership of insurance intermediary companies and internet companies. In October 2011, we commenced a restructuring of our company. Through a series of equity transfers, we had obtained direct controlling equity ownership in all of our insurance intermediary companies and our online operations by May 2016. Accordingly, from December 2005 to May 2016, we conducted all or part of our business in China through contractual arrangements among our PRC subsidiaries, then-existing consolidated affiliated entities and their shareholders. We relied on contractual arrangements to control and receive economic benefits from our then-existing consolidated affiliated entities, which became our wholly-owned subsidiaries in 2016. The contractual arrangements were terminated between January 2015 and May 2016.

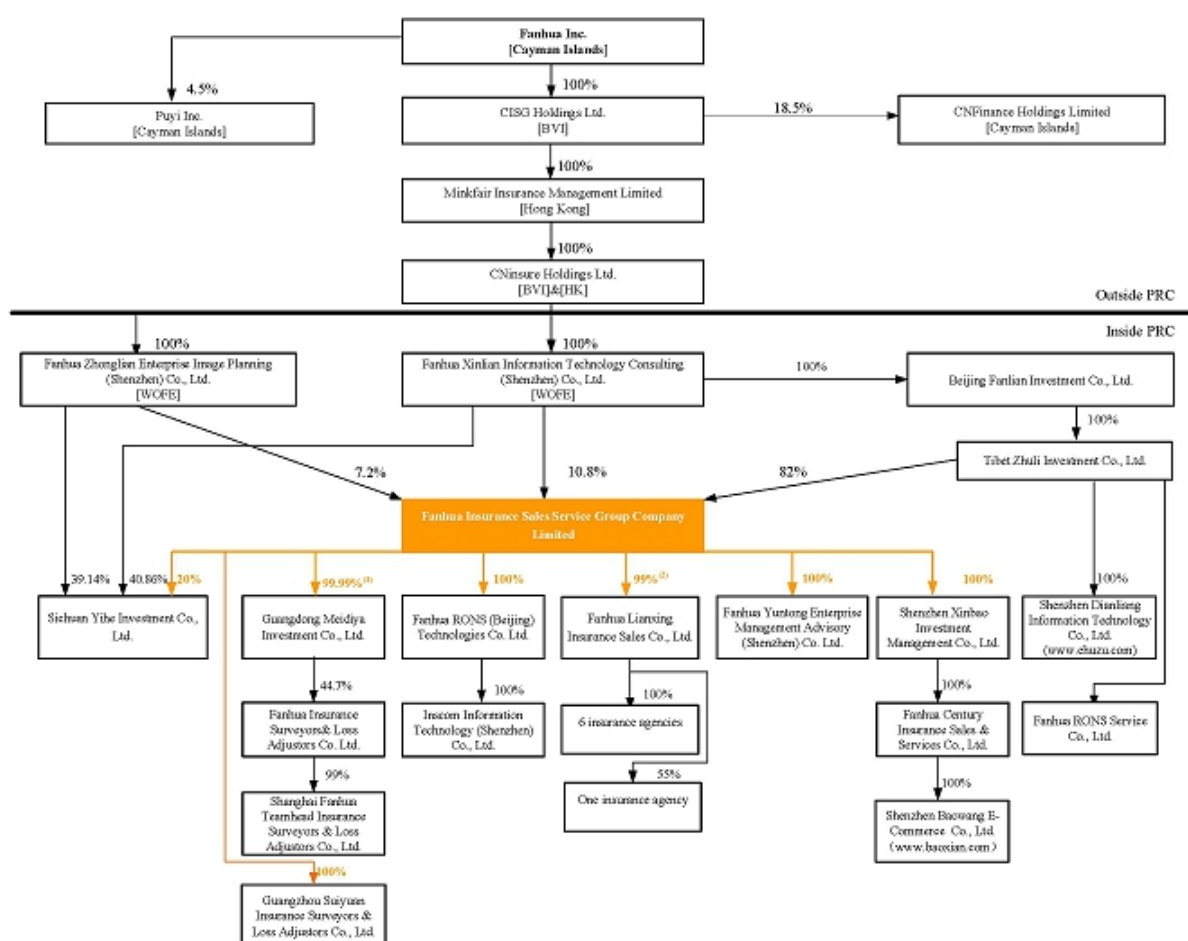
In October 2015, we, through our wholly-owned subsidiary Meidiya Investment Co., Ltd., or Meidiya Investment, entered into act-in-concert agreements with 5 equity interest holders of Fanhua Insurance Surveyors & Loss Adjustors Company Limited, or FHISLA and controls 69.0% of voting interests in aggregate. The act-in-concert agreements were effective from October 26, 2015 and will remain effective for as long as FHISLA is in operation, until and only when all contracting parties agree to cease the agreement. Per the act-in-concert agreements, all the disagreements will ultimately be determined by Meidiya Investment, the shareholder of the highest shareholding amongst the act-in-concert group in FHISLA. Accordingly, we control 69.0% of voting rights in aggregate, which exceeds the 2/3 of the voting requirement to pass all resolutions in shareholder meetings of FHISLA.

We currently conduct our insurance agency and claims adjusting business in China primarily through our wholly-owned subsidiary Fanhua Insurance Sales Service Group Company Limited, or FISSG, and its subsidiaries. As of March 31, 2021, we, through FISSG, have a controlling equity ownership in two insurance sales services companies with national operating licenses, 7 regional insurance agencies, and three insurance claims adjusting firms. We also own 18.5% equity interest of CNFinance, 4.5% equity interest of Puyi Inc. and 14.9% equity interest of one online claim adjusting service company.

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

The following diagram illustrates our corporate structure, including our principal subsidiaries, as of March 31, 2021:

Corporate Structure



(1) The remaining 0.01% is owned by an individual on behalf of the Company.
(2) The remaining 1% is owned by Xinlan Information.

The diagram above omits the names of subsidiaries that are immaterial individually and in the aggregate. For a complete list of our subsidiaries as of March 31, 2021, see Exhibit 8.1 to this annual report.

For the insurance agency business, we have obtained direct controlling voting rights in all of our insurance intermediary companies and our online operations and terminated all of the contractual arrangements. For the claims adjusting business, we control 69.0% of voting interests of FHISLA in aggregate per the act-in-concert agreements, which has exceeded the 2/3 of the voting requirement to pass all resolutions in shareholder meetings of FHISLA. In the opinion of Global Law Office, our PRC legal counsel, both the direct and indirect controlling equity ownership structures of our subsidiaries in China have complied with all existing PRC laws and regulations and the business operations of our PRC subsidiaries comply in all material respects with existing PRC laws and regulations.

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

D. Property, Plants and Equipment

Our headquarters are located in Guangzhou, China, where we leased approximately 2,669 square meters of office space as of December 31, 2020. Office space leased by our subsidiaries and consolidated affiliated entities, including certain space used and paid by sales teams, was approximately 183,192 square meters as of December 31, 2020. In 2020, our total rental expenses were RMB106.6 million (US\$16.3 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. For discussion of 2018 items and year-over-year comparisons between 2019 and 2018 that are not included in this annual report on Form 20-F, refer to “Item 5. – Operating and Financial Review and Prospects” found in our Form 20-F for the year ended December 31, 2019, that was filed with the Securities and Exchange Commission on April 29, 2020.

A. Operating Results

Factors Affecting Our Results of Operations

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

- business relationship with important insurance company partners;
- total premium payments to Chinese insurance companies;
- the extent to which insurance companies in the PRC outsource the distribution of their products and claims adjusting functions;
- premium rate levels and commission and fee rates;
- the size and productivity of our sales force;
- commission rates for individual sales agents;
- product and service mix;
- share-based compensation expenses;
- seasonality; and
- Impact on our business and financial results due to the COVID-19 pandemic;

Business Relationship with Important Insurance Company Partners

We derive significant revenue from our important insurance company partners. Among the top five of our insurance company partners, each of Huaxia, Aeon, Sinatay and Evergrande accounted for more than 10% of our total net revenues from continuing operations individually in 2020, with Huaxia accounting for 18.6%, Aeon accounting for 17.1%, Sinatay accounting for 15.4% and Evergrande accounting for 10.4%. As a result, any significant changes to our business relationship with the important insurance company partners could have a material impact on our revenue and profit.

Total Premium Payments to Chinese Insurance Companies

The Chinese insurance industry has grown substantially in the past decade. Between 2010 and 2020, total insurance premiums increased from RMB1.5 trillion to RMB4.5 trillion, representing a compound annual growth rate, or CAGR, of 12.0%, according to the CBIRC. Although the growth has slowed down significantly in 2020 due to the impact from COVID-19, among others, we believe that certain macroeconomic and demographic factors, such as increasing per capita GDP, and an aging population and people's increasing awareness for insurance protection, 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. Any downturn in the Chinese insurance industry, whether caused by a general slowdown of the PRC economy or otherwise, may adversely affect our financial condition and results of operations.

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

Historically, insurance companies in the PRC have relied primarily on their exclusive individual sales agents and direct sales force to sell their products. However, in recent years, as a result of increased competition, consumers' demand for more choices and regulatory focus on long term protection-oriented life insurance products, more and more insurance companies gradually expanded their distribution channels to include insurance intermediaries such as commercial banks, postal offices, professional insurance agencies and professional insurance brokerages. In addition, because of the increasingly high cost for establishing and maintaining distribution networks of their own, more and more medium-size 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 and 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 general, 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.

The Size and Productivity of Our Sales Force

As a distributor of insurance products, we generate revenue primarily through our sales force who are individual sales agents in our distribution and service network. Some entrepreneurial management staff or senior sales agents of major insurance companies in China have chosen to leave their employers or principals and become independent agents. We refer to these independent agents as "entrepreneurial agents." An entrepreneurial agent is usually able to assemble and lead a team of sales agents. We have been actively recruiting and will continue to recruit entrepreneurial agents to join our distribution and service network as our sales agents. Entrepreneurial agents have been instrumental to the development of our life insurance business. The size of our sales force and its productivity, as measured by the average number of insurance products sold per performing sales agent who refer to a sales agent who has sold at least one insurance policy, the average premium per product sold and the average premiums generated per performing sales agent during any specified period, directly affect our revenue and results of operations. In recent years, as the result of our efforts to streamline our sales force with more focus on better performing sales agents as well as the adverse impact of the COVID-19 on the sales activities of our sales agents, the size of our sales force has decreased substantially which had adversely affected our financial results. However, in late 2020, we have embarked on a series of strategic initiatives to professionalize our sales force which we expect to bring positive results on the number of our performing agents and their productivity and as a result have positive impact on our financial performance.

Commission Rates for Individual Sales Agents

A large component of our operating costs is commissions paid to our individual sales agents. In order to retain sales agents, we must pay commissions at a level comparable to the commissions paid by our competitors. Intensified competition for productive sales agents within the Chinese insurance industry and rising salaries in China may lead to a significant increase in commission rates which could have a negative impact on our results of operations.

Product and Service Mix

We began distributing auto insurance products in 1999, expanded our product offerings to other property and casualty insurance products in 2002, and started distributing long term individual life and health insurance products in 2006, primarily to individual customers. We further broadened our service offering to cover insurance claims adjusting services in 2008. In 2010, we started to offer insurance brokerage services for commercial line insurance to corporate clients and reinsurance brokerage services, which were subsequently disposed of in November 2017.

Insurance Agency Segment

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

Most individual life and health insurance policies we distribute require periodic payment of premiums, typically annually, during a pre-determined payment period, generally ranging from 5 to 25 years. For each of such policy that we distribute, insurance companies will pay us a first-year commission and fee based on a percentage of the first-year premiums, and subsequent commissions and fees based on smaller percentages of the renewal premiums paid by the insured throughout the renewal term of the policy. Therefore, once we distribute a life and health insurance policy with a periodic payment schedule, it can bring us a steady flow of commission and fee revenue throughout the renewal term as long as the insured fulfills his or her premium payment commitment and continuously renews the policy.

Because of the recurring nature of commissions derived from long term life and health insurance business, and the higher gross margin of our life insurance business than that of our property and casualty insurance business, we intend to focus our efforts on distributing more long term life and health insurance products, which we believe will have a positive impact on our revenue and gross margin in the long term.

The property and casualty insurance policies we distribute primarily consist of individual accident insurance, indemnity medical insurance, travel insurance, and homeowner insurance we distribute through Baoxian.com. Because the insurance products that we distribute through Baoxian.com are mostly underwritten by property and casualty insurance companies, we classify them as property and casualty insurance products. These property and casualty insurance policies we distribute are typically for a one-year term, with a single premium payable at the beginning of the term. As a result, the insured has to purchase new policies through us every year. Accordingly, we receive a single commission or fee for each property and casualty policy we distribute.

Claims Adjusting Segment

The fees we receive for our claims adjusting services are calculated based on the types of insurance products 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 services provided in connection with auto insurance, individual accident insurance and health insurance, our fees are generally fixed and the amounts collected are based on the types of services provided. In some cases, our fees are charged based on the number of claims adjusters involved in providing the services. We pay our in-house claims adjusters a base salary plus a commission calculated based on a small percentage of the service fees we receive from insurance companies or the insured. The claims adjusting business has become and likely will continue to be a steady source of our net revenues. The operating margin of our claims adjusting segment are generally lower than those of our insurance agency segment although its gross margin is relatively higher. We expect that revenues from our claims adjusting business as a percentage of our total net revenues to remain stable over the next few years.

Share-based Compensation Expenses

Our historical results of operations have been affected by the share-based compensation expenses incurred. In 2019 and 2020, we incurred share-based compensation expenses of RMB0.4 million and negative RMB0.4 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 issued an aggregate number of 136,874,658 ordinary shares which equaled to 15% of our total number of shares outstanding immediately after the closing of our initial public offering, to cover awards granted under the plan. See “Item 6. Directors, Senior Management and Employees — B. Compensation — Share Incentives — 2007 Share Incentive Plan.” All of the share-based compensation expenses related to the options granted under the 2007 Share Incentive Plan have been amortized as of December 31, 2016. On June 14, 2018, we announced the 521 Plan, which enabled the Participants, consisting of certain key employees and independent sales agent team leaders, to invest in the Company by purchasing a total of 280,000,000 ordinary shares of the Company, representing 14 million of the Company’s ADSs at the subscription price of US\$27.38 per ADS. Accordingly, we recognized share-based compensation expenses in 2019. In the third quarter of 2020, we concluded that the stock options related to the 521 Plan were not probable to be vested because the performance target was not probable to be met. Accordingly, RMB0.4 million of cumulative cost recognized in prior periods was reversed. In December 2020, we canceled the 521 Plan without any replacement awards. Therefore, we do not expect share-based compensation expenses to be a significant component of our operation expenses in the near future.

Seasonality

Our quarterly results of operations are affected by seasonal variations caused by business mix, insurance companies’ business practices and consumer demand. For life insurance business, much of the jumpstart sales activities of life insurance companies occur during the first quarter of a year, while business activities slow down in the fourth quarter of a year as life insurance companies focus on the preparation for the jumpstart sales season of the coming year by preparing to launch new products, making marketing plans and organizing training. During the jumpstart sales season, life insurance companies will offer incentives that are more attractive to insurance intermediaries and sales agents to boost sales. Accordingly, our commission and fee revenue derived from life insurance business is generally the highest in the first quarter of a year and the lowest in the fourth quarter of a year. For property and casualty insurance products that we distribute on Baoxian.com, there was no obvious seasonal fluctuation.

Impact on our business and financial results due to the COVID-19 pandemic

In December 2019, COVID-19 was first detected in China and then in other countries. The outbreak has caused wide-ranging economic disruption in China across various industries. As of March 31, 2021, the COVID-19 coronavirus outbreak in China has been under control and businesses in China have gradually resumed normal business activities since May 2020.

For fiscal year 2020, our business was negatively impacted due to the COVID-19 pandemic, particularly in the first half of 2020, primarily because (i) the sales activities of our sales agents have been largely hindered due to the difficulty to interact with prospective customers face-to-face as result of the social distancing measures imposed to contain the spread of the COVID-19 in the first half of 2020; (ii) recruitment of agents slowed down due to the suspension of large-scale offline agent recruitment seminars until May 2020 and increased competition for agents in the insurance industry amid the challenging business environment; (iii) our plan to establish new branches in selected major cities were put on hold; and (iv) the epidemic has accelerated the trend of the young generation turning to the internet for insurance information search and purchase of short-term medical insurance products.

As a result, our net revenues decreased by 11.8% from RMB3.7 billion in 2019 to RMB3.3 billion.

In addition, the business operation of our non-consolidated affiliated investees has also been adversely impacted by the COVID-19 outbreak which had affected the fair value of our investment in affiliates.

Key Performance Indicators

As of December 31, 2019 and 2020, we operated two segments: (1) the insurance agency segment, which mainly consists of providing agency services for distributing life insurance products and P&C insurance products on behalf of insurance companies, and (2) the claims adjusting segment, which consists of providing pre-underwriting survey services, claim adjusting services, disposal of residual value services, loading and unloading supervision services, and consulting services.

Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by our chief operating decision maker in deciding how to allocate resources and in assessing performance.

Net Revenues

Our revenues are net of PRC tax surcharges and value-added tax incurred. In 2019 and 2020, we generated net revenues of RMB3.7 billion and RMB3.3 billion (US\$500.9 million), respectively. We derive net revenues from the following sources:

- *Insurance agency segment*: commissions paid by insurance companies for the distribution of (i) life and health insurance products, and (ii) commoditized property and casualty products sold through Baoxian.com, which accounted for 90.0% and RMB86.7% of our net revenues for 2019 and 2020, respectively;
- *Claims adjusting segment*: commissions and fees primarily paid by the insurance companies for the provision of claims adjusting services, which accounted for 10.0% and 13.3% of our net revenues for 2019 and 2020, respectively;

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

	Year Ended December 31,				
	2019		2020		
	RMB	%	RMB	US\$	%
	(in thousands except percentages)				
Agency	3,335,397	90.0	2,834,997	434,482	86.7
Life insurance business	3,193,625	86.2	2,703,584	414,342	82.7
P&C insurance business	141,772	3.8	131,413	20,140	4.0
Claims adjusting	370,606	10.0	433,148	66,383	13.3
Total net revenues	3,706,003	100.0	3,268,145	500,865	100.0

Insurance agency segment primarily covers distribution of life and health insurance products and property and casualty insurance products to individuals. Net revenues from the insurance agency segment decreased from 2019 to 2020 in both absolute amount and as a percentage of our total net revenues.

Net revenues generated from distribution of long term life and health insurance products have become our primary source of revenue. We began distributing individual life and health insurance products in 2006. Net revenues generated from distribution of life and health insurance products decreased from 2019 to 2020, both in absolute amounts and as a percentage of our net revenues primarily due to the impact of COVID-19. We expect our life insurance business to grow and bring in significant revenue that will continue to represent a high percentage of our total net revenues in the next several years. We believe this growth will be driven by a number of factors including stronger demand for traditional life and health insurance products as a result of the aging population and the Chinese consumers' increasing awareness of the benefits of insurance.

Net revenues generated from distribution of property and casualty insurance products decreased from 2019 to 2020 in absolute amounts of our net revenues, primarily due to lower demand for travel and accident insurance products as travel activities were significantly adversely affected by COVID-19 pandemic. We expect our net revenues to be derived from distribution of property and casualty insurance products to remain stable in 2021.

We began providing claims adjusting services in 2008. Net revenues from our claims adjusting segment increased from 2019 to 2020, reflecting our increased efforts to expand individual medical and health insurance-related claims adjusting services. We expect that net revenues from claims adjusting services as a percentage of our total net revenues will be stable 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 additional 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 products 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 auto insurance, individual accident insurance and health insurance, our fees are generally fixed on a per claim basis, or in some cases, on a per head basis. These fees are typically paid to us on a quarterly basis. For services provided in connection with other property and casualty insurance, our fees are calculated as a percentage of the recovered amount from insurance companies plus travel expenses. We typically receive payment for these fees on a semi-annual or annual basis.

Operating Costs and Expenses

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

	Year Ended December 31,				
	2019		2020		
	RMB	%	RMB	US\$	%
	(in thousands except percentages)				
Total net revenues	3,706,003	100.0	3,268,145	500,865	100.0
Operating costs	(2,483,448)	(67.0)	(2,213,865)	(339,290)	(67.7)
Selling expenses	(278,085)	(7.5)	(288,460)	(44,208)	(8.8)
General and administrative expenses	(475,107)	(12.8)	(463,634)	(71,055)	(14.2)
Total operating costs and expenses	(3,236,640)	(87.3)	(2,965,959)	(454,553)	(90.7)

Operating Costs

We incur costs primarily in connection with the distributions of insurance products and the provision of claims adjusting services. Our operating costs decreased from 2019 to 2020, which was in line with the decrease in revenue during the same period. We rely mainly on individual sales agents and to a much lesser degree, on Baoxian.com for the distributions of insurance products. For claims adjusting services, we rely mainly on our in-house claims adjustors and non-affiliated claims adjustors through Chetong.net. Operating costs incurred as a percentage of net revenues increased from 2019 to 2020, primarily due to the slower growth of our renewal life insurance business and the decrease in volume-based commission from new life insurance business. We anticipate that our operating costs as a percentage of our total net revenues to remain stable.

Selling Expenses

Our selling expenses primarily consist of:

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

We expect that our selling expenses will increase as we will establish new offices and enhance trainings as part of our efforts to establish a professional sales force in major cities. As we grow in size, we also intend to spend more on marketing and advertising to enhance our brand recognition and promote our online platforms. Selling expenses in 2020 remained stable as compared to 2019.

General and Administrative Expenses

Our general and administrative expenses principally comprise:

- salaries and benefits for our administrative staff;
- share-based compensation expenses for managerial and administrative staff;
- research and development expenses in relation to our mobile and online programs;
- professional fees paid for valuation, market research, legal and auditing services;
- bad debt expenses for doubtful receivables;
- compliance-related expenses, including expenses for professional services;
- depreciations and amortizations;
- office rental expenses;
- travel and telecommunications expenses;

- entertainment expenses;
- office supply expenses for our administrative staff; and
- foreign exchange loss.

We expect that our general and administrative expenses will increase as we hire additional administrative personnel, pay higher labor costs and incur additional costs in connection with the expansion of our business, and our efforts to invest in digital capabilities and develop our online insurance platforms.

Share-based compensation expenses

As share options granted under the 2012 Share Incentive Plan have all vested by 2016, there was no share-based compensation expenses incurred in 2017 and 2018. We recognized share-based compensation expenses of RMB0.4 million in 2019 as a result of the 521 Plan. The 521 Plan was initially recognized as a liability award, pursuant to the original Loan Agreement related to the 521 Plan and accordingly, share-based compensation expense related to the 521 Plan was variable based on the change of the fair value at the reporting date for each of the first, second and third quarter of 2019. Pursuant to the Second Supplement to the Loan Agreement entered into in November 2019, the 521 Plan was modified which resulted in a change of the award's classification from liability to equity. Accordingly, share-based compensation expenses in connection with the 521 Plan were recognized on a straight-line basis over the remaining vesting period from 2020 to 2023. In the third quarter of 2020, we concluded that the stock options related to the 521 Plan were not probable to be vested because the performance target was not probable to be met, and accordingly, RMB0.4 million of cumulative cost recognized in prior periods was reversed. In December 2020, we canceled the 521 Plan without any replacement awards. For more information about our share-based compensation expenses, please see Note (19)(b) to our audited consolidated financial statements included in this annual report.

Taxation

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

The Cayman Islands, the British Virgin Islands and Hong Kong

Under the current laws of the Cayman Islands and the British Virgin Islands, we and our subsidiaries incorporated in the British Virgin Islands are not subject to income or capital gains taxes. In addition, dividend payments are not subject to withholding tax in those jurisdictions.

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first 2 million Hong Kong Dollar of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The provision for current income taxes of the subsidiaries operating in Hong Kong has been calculated by applying the current rate of taxation of 8.25% for the years ended December 31, 2019 and 2020. Payment of dividends is not subject to withholding tax in Hong Kong.

PRC

EIT

According to the PRC Enterprise Income Tax Law, which became effective on January 1, 2008 and was subsequently amended on March 16, 2007, February 24, 2017 and December 29, 2018, as further clarified by subsequent tax regulations implementing the EIT law, foreign invested enterprises and domestic enterprises are subject to enterprise income tax, or EIT, at a uniform rate of 25%.

Pursuant to the relevant laws and regulations in the PRC, each of Ying Si Kang Information Technology (Shenzhen) Co., Ltd., or Ying Si Kang, and Shenzhen Huazhong United Technology Co., Ltd., or Shenzhen Huazhong, both our wholly-owned subsidiaries, was recognized as a software company 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 Ying Si Kang, year 2014 was the first profit-making year and accordingly it has made a 12.5% tax provision for its profits for the year ended December 31, 2018. For Shenzhen Huazhong, 2017 was the first profit-making year and accordingly it has made a 12.5% tax provision for its profits for the years ended December 31, 2019 and 2020.

Pursuant to the Circular on Issues Regarding Tax-related Preferential Policies for Further Implementation of Western Development Strategy jointly issued by the State Ministry of Finance, General Administration of Customs, China and State Administration for Taxation, enterprises located in the western China regions that fall into the encouraged industries are entitled to 15% EIT preferential tax treatment from January 1, 2011 to December 31, 2020. The preferential tax treatment is extended to December 31, 2030, pursuant to the Announcement Concerning the Extension of the EIT Policies for Enterprises Located in the Western China issued by the Ministry of Finance on April 28, 2020. In September 2018, our wholly-owned subsidiary, Fanhua Lianxin Insurance Sales Co., Ltd., which is the holding vehicle of our life insurance operations, was relocated to Tianfu New Area, Sichuan province, PRC. Subsequently, Lianxin will enjoy 15% EIT tax rate instead of unified 25% from September 1, 2018 to December 31, 2030. Tibet Zhuli Investment Co. Ltd. (“Tibet Zhuli”), our wholly-owned subsidiary, was entitled to a preferential tax rate of 9% for the period from January 1, 2015 to December 31, 2017 and 15% for from 2018 to 2020, as it was established with approval in Tibet, PRC, before January 1, 2018.

Business Tax and VAT

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

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

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

PRC Urban Maintenance and Construction Tax and Education Surcharge

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

Critical Accounting Policies

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

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

Revenue Recognition

Starting from January 1, 2018, we accounted for revenue in accordance with ASC 606, “Revenue from Contracts with Customers.”

Our revenue from contracts with insurance companies is derived principally from the provision of agency and claims adjusting services, and insurance companies are defined as our customers under ASC 606. We disaggregate our revenue from different types of service contracts with customers by principal service categories, as the we believe it best depicts the nature, amount, timing and uncertainty of revenue and cash flows.

Insurance agency services revenue

We derive agency revenue serving as a sales agent to distribute various life insurance and P&C insurance products on behalf of the insurance companies by which we are entitled to receive initial commission from the insurance companies based on the premium paid by the policyholders for the related insurance policy sold. For life insurance agency, we are also entitled to renewal commissions when the policyholder renews the policy within the renewal term of the original policy as such life insurance products are typically long-term products.

We have identified the promise to sell insurance products on behalf of an insurance company as the performance obligation in our contracts with the insurance companies. Our performance obligation to the insurance company is satisfied and revenue is recognized at a point in time when an insurance policy becomes effective. Specifically for life insurance agency business, certain contracts include the promise to provide certain post-sales administrative services to policyholders on behalf of the insurance company, such as responding to the policyholder inquiries, facilitating the renewal process and/or gathering information from the policyholder to assist the insurance companies to update the contact information of the policy holder, we have concluded such services are administrative in nature and immaterial, and none of these activities on their own results in a transfer of a good or services to the insurance company in the context of the contract. Accordingly, no performance obligation exists after a policy becomes effective.

Initial placement of an insurance policy.

We recognize agency revenue related P&C insurance products (which is short term in nature and related premium are collected upfront) when an insurance policy becomes effective. The commission to be earned is required to be partially refunded contingently on policy cancellations. Based on its past experience, subsequent commission adjustments in connection with P&C insurance policy cancellations have been de minimis to date, and are recognized upon notification from the insurance carriers. Actual commission and fee adjustments in connection with the cancellation of P&C insurance policies were 0.2%, 0.1% and 0.2% of the total commission and fee revenues during years ended December 31, 2018, 2019 and 2020, respectively.

For life insurance products, there is generally a 10 to 15 days hesitation period after an initial placement of a life insurance policy, during which the policyholder has a legal right to unconditionally cancel the effective policy regardless of the reasons. According to relevant terms of the insurance agency contracts with customers, we reconcile information of policies sold which also includes policies that have been cancelled by policyholders within the hesitation period, with the insurance companies on a monthly basis. Therefore, we estimate cancellation of policies that have become effective but still within the hesitation period based on subsequent actual data at each reporting date. The cancellation of an effective life insurance policy by the policyholder after the hesitation period does not require us to refund initial commission to insurance companies, but rather impacts our estimate on future commission related to renewal(s) of the policy.

In addition, for life insurance agency, we may receive a performance bonus from insurance companies as agreed and per contract provisions. Once we achieve a certain sales volume based on respective agency agreements, the bonus will become due. Performance bonus represent a form of variable consideration associated with certain sales volume, for which we earn commissions. We estimate the amount of consideration with a constraint applied that will be received in the coming year such that a significant reversal of revenue is not probable, and includes performance bonus as part of the transaction price. For the years ended December 31, 2018, 2019 and 2020, we recognized contingent performance bonus of RMB23.2 million, RMB58.1 million and RMB17.3 million, respectively.

Renewals of a life insurance policy.

For the long-term life insurance products, in addition to the initial commission earned, we are also entitled to subsequent renewal commission and compensation, and renewal performance bonus which represent variable considerations and are contingent on future renewals of initial policies or we achieve our performance target.

When making estimates of the amount of variable consideration to which we expect to be entitled, we use the expected value method and evaluates many factors, including but not limited to, insurance companies mix, product mix, renewal term of various products, renewal premium rates and commission rates, to determine the method(s) of measurement, relevant inputs and the underlying assumptions. We consider constraints as well as when determining the amount which should be included in the transaction price, which we refer to as “estimated constrained values”.

The following describes how we apply the expected value method and our key considerations and judgments under the expected value method:

- **Determining portfolio of contracts:** We set up portfolios segregated by renewal term of the underlying policies which we refer to as a “batch” under the expected value method, by splitting all the long-term life insurance policies into batches of policies with renewal term of 5 years, 10 years, 15 years, 20 years and 30 years.
- **Accumulating historical data and experiences:** We believe that we don’t have sufficient historical data to be utilized to estimate variable consideration of our portfolio of contracts at a confidence level that would not result in a significant reversal when we initially adopted ASC 606 and when we subsequently prepared the fiscal year 2018, 2019 and 2020 financial statements. Instead, we determined to accumulate three renewal years’ data for products sold starting in 2017 as the basis for the estimate, because the 2017 product mix is at a level of distribution and scale that is representative and comparable for those policies sold in subsequent periods, and majority of the renewal commissions are to be paid by the insurance companies within the first 5 years.
- **Estimating variability for each variable renewal consideration:** For each of the variable renewal commissions, there is only one underlying variability (i.e., the renewal rates for each of the subsequent years of policy period which is contingent on policyholders’ renewal). Given the payment term for each of the renewal commissions is different, we thus separately estimate the future renewal rates of batches of policies based on accumulated historical renewal information.
- **Considering constraints on estimates:** In estimating the variable consideration, we originally evaluated the following factors that could increase the likelihood or magnitude of a reversal:
 - we have limited history of selling our current life insurance products and co-operating with our current customers, such that our experience is of little predictive value in determining future renewal(s) of long-term life insurance policies;
 - the occurrence of a renewal is outside our control and the estimate of renewal rates is complex and requires significant judgement;
 - the estimate of variable consideration associated with policy renewals has a broad range of possible consideration amounts; and
 - the contingency is not expected to be resolved for a long period of time
- **Ongoing reassessment of the estimated constrained values:** We continue to reassess the estimated constrained values at the end of each reporting period on a quarterly basis, including continue to review and evaluate the reasonableness of the applied assumptions by comparing the original estimated constrained values with the actual renewal commissions collected to monitor and determine whether any changes to the assumptions are needed.

For years ended December 31, 2018, 2019 and 2020, revenue related to the variable consideration is recorded when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, i.e., when a policyholder pays the renewal premium to the insurance company, and the policy is renewed because we were not able to conclude a significant reversal to the estimated variable consideration not probable, considering factors such as a) we have limited history of selling our current life insurance products with our current customers, such that our past experience in outdated products is of little predictive value in renewal(s) rate estimate; b) the occurrence of a renewal is outside of our control and the estimate of renewal premium rates is complex and requires significant assumptions; and c) the contingency lasts across a long period of time.

Insurance claims adjusting services revenue

For insurance claims adjusting services, performance obligations are considered met and revenue is recognized when the services are rendered and completed, at the time loss adjusting reports are confirmed being received 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.

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses in the consolidated statements of operations and comprehensive income, as the amortization period is less than one year and we have elected the practical expedient included in ASC 606.

We have applied the optional exemption provided by ASC 606 to not disclose the value of remaining performance obligations not yet satisfied as of period end for contracts with original expected duration of one year or less.

Investment in Affiliates

We use the equity method of accounting for investments in which we have the ability to exercise significant influence, but do not have a controlling interest.

We continually review our investment in equity investees to determine whether a decline in fair value to an amount below the carrying value is other-than temporary. The primary factors we consider in our determination are the duration and severity of the decline in fair value; the financial condition, operating performance and the prospects of the equity investee; and other company specific information such as the stock price of the investee and its corresponding volatility, if publically traded, our intent and ability to hold the investment until recovery, and changes in the macro-economic, competitive and operational environment of the investee. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value.

The fair values of the investments in equity investees are determined based on valuation techniques using the best information available, including but not limited to such as quoted prices for the investments or similar investments in active markets, the investees' current and expected future performance, industry trend and projected revenue growth rates and profit margin, forecasted cash flows based on discounted rates and terminal growth rates, etc.

Recent Accounting Pronouncements

For a summary of recently issued accounting pronouncements not yet adopted that may potentially impact our financial position and results of operations, see Note (2)(ab) to the consolidated financial statements of Fanhua Inc. pursuant to Item 18 of Part III of this annual report.

Results of Operations

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

We are currently operating under two reporting operating segments: (1) insurance agency, and (2) claims adjusting.

	For the Year Ended December 31,			
	2019 to 2020		2020	
	Percentage Change			
	2019 RMB	%	RMB	US\$
(in thousands except percentages)				
Consolidated Statement of Income Data				
Net revenues:				
Agency	3,335,397	(15.0)	2,834,997	434,482
Life insurance business	3,193,625	(15.3)	2,703,584	414,342
P&C insurance business	141,772	(7.3)	131,413	20,140
Claims adjusting	370,606	16.9	433,148	66,383
Total net revenues	3,706,003	(11.8)	3,268,145	500,865
Operating costs and expenses:				
Operating costs:				
Agency	(2,263,952)	(13.7)	(1,953,744)	(299,425)
Life insurance business	(2,166,126)	(13.8)	(1,866,227)	(286,012)
P&C insurance business	(97,826)	(10.5)	(87,517)	(13,413)
Claims adjusting	(219,496)	18.5	(260,121)	(39,865)
Total operating costs	(2,483,448)	(10.9)	(2,213,865)	(339,290)
Selling expenses	(278,085)	3.7	(288,460)	(44,208)
General and administrative expenses	(475,107)	(2.4)	(463,634)	(71,055)
Total operating costs and expenses	(3,236,640)	(8.4)	(2,965,959)	(454,553)
Income from operations				
Insurance agency	537,746	(34.2)	353,778	54,218
Claims adjusting	9,132	85.1	16,907	2,591
Other	(77,515)	(11.6)	(68,499)	(10,497)
Income from operations	469,363	(35.6)	302,186	46,312
Other income, net:				
Investment income	79,070	(56.0)	34,789	5,332
Interest income	2,828	374.5	13,420	2,057
Others, net	9,664	23.2	11,907	1,825
Income from operations before income taxes and share of income and impairment of affiliates, net	560,925	(35.4)	362,302	55,526
Income tax expense	(143,816)	(42.0)	(83,387)	(12,780)
Share of income and impairment of affiliates, net	(224,555)	(98.8)	(2,738)	(420)
Net income	192,554	43.4	276,177	42,326
Less: Net income attributable to the noncontrolling interests	3,622	118.7	7,923	1,214
Net income attributable to the Company's shareholders	188,932	42.0	268,254	41,112

Year ended December 31, 2020 Compared to Year Ended December 31, 2019

Net Revenues

Our total net revenues decreased by 11.8% from RMB3,706.0 million in 2019 to RMB3,268.1 million (US\$500.9 million) in 2020.

- Net revenues from our insurance agency segment decreased by 15.0% from RMB3,335.4 million in 2019 to RMB2,835.0 million (US\$434.5 million) in 2020. The decrease was primarily due to decline in life insurance business, from RMB3,193.6 million in 2019 to RMB2,703.6 million (US\$414.3 million) in 2020, and a decrease in net revenues derived from P&C insurance business.

The decrease in net revenues generated from the life insurance agency business was mainly caused by a 22.9% year-over-year decline in first year premiums from RMB3,136.6 million to RMB2,417.6 million primarily due to the adverse impact of COVID-19 pandemic, partially offsetting the year-over-year growth of renewal commissions as a result of a 38.7% year-over-year growth in renewal premiums from RMB5,473.6 million to RMB7,594.3 million. Revenues generated from our life insurance business accounted for 82.7% of our total net revenues in 2020.

The decline of the property and casualty insurance agency business was primarily due to (i) the decline of sales on Baowang (www.baoxian.com) mainly resulting from the decline in the sales of accident insurance and travel insurance impacted by the COVID-19 offsetting the growth of medical insurance products and (ii) the termination of platform fees received for the auto insurance business. Revenues for the P&C insurance business were mainly derived from commissions generated from Baowang.

- Net revenues from our claims adjusting segment increased by 16.9% from RMB370.6 million in 2019 to RMB433.1 million (US\$66.4 million) for 2020. The increase was mainly due to the strong growth of our medical insurance-related claims adjusting business in 2020.

Operating Costs and Expenses

Operating costs and expenses decreased by 8.4% from RMB3,236.6 million in 2019 to RMB2,966.0 million (US\$454.6 million) for 2020.

Operating Costs. Our operating costs decreased by 10.9% from RMB2,483.4 million in 2019 to RMB2,213.9 million (US\$339.3 million) in 2020, primarily because of an increase in operating cost in life insurance business.

- Operating costs for our insurance agency segment decreased by 13.7% from RMB2,264.0 million in 2019 to RMB1,953.7 million (US\$299.4 million) in 2020, primarily due to a decrease of 13.8% in costs for the life insurance agency business from RMB2,166.1 million in 2019 to RMB1,866.2 million (US\$286.0 million) in 2020, which was mainly due to decline in revenue generated from our life business, and a decrease of 10.5% in costs for the property and casualty insurance agency business from RMB97.8 million in 2019 to RMB87.5 million (US\$13.4 million) in 2020, which is in line with the decrease in revenue generated from the property and casualty insurance agency business.
- Operating costs for our claims adjusting segment increased by 18.5% from RMB219.5 million in 2019 to RMB260.1 million (US\$39.9 million) in 2020, primarily due to business expansion of medical insurance-related claims adjusting service.

Selling Expenses. Our selling expenses increased by 3.7% from RMB278.1 million in 2019 to RMB288.5 million (US\$44.2 million) in 2020, primarily attributable to increased sales events in our claim adjusting segment.

General and Administrative Expenses. Our general and administrative expenses decreased by 2.4% from RMB475.1 million in 2019 to RMB463.6 million (US\$71.1 million) in 2020, primarily due to the decrease in contributions to employees' defined contribution plans because government waived the contribution from the company in 2020 in view of the impact of COVID-19.

Income from Operations

As a result of the foregoing factors, income from operations decreased by 35.6% from RMB469.4 million in 2019 to RMB302.2 million (US\$46.3 million) in 2020.

- Income from operations for our agency insurance segment decreased by 34.2% from RMB537.7 million in 2019 to RMB353.8 million (US\$54.2 million) in 2020, which was primarily due to the decline of life insurance business because of the impact from COVID-19.
- Income from operations for our claims adjusting segment increase by 85.1% from RMB9.1 million in 2019 to RMB16.9 million (US\$2.6 million) in 2020, which was primarily due to growth in our medical insurance-related claims adjusting business.
- Other loss from operations represented operating loss incurred by the headquarters, which was not allocated to each business segment. Operating loss incurred by the headquarters decreased by 11.6% from RMB77.5 million in 2019 to RMB68.5 million (US\$10.5 million) in 2020, primarily due to decrease in expenditures at the headquarters.

Other Income

Investment Income. Investment income represents income received from short-term investments in collective trust products and interbank deposits. Our investment income decreased by 56.0% from RMB79.1 million in 2019 to RMB34.8 million (US\$5.3 million) in 2020. The decrease in yields from short-term investments in financial products was mainly due to (i) change in composition of our short-term investment portfolio, with increased allocation to wealth management products issued by banks which offer relatively lower yields as compared to other financial products in the portfolio; (ii) a year-over-year decrease in yields from wealth management products issued by banks.

Interest Income. Our interest income increased by 374.5% from RMB2.8 million in 2019 to RMB13.4 million (US\$2.1 million) in 2020, primarily due to a loan to a third party with annual rate of 10%. The loan and related interest has been collected by end of 2020.

Income Tax Expense

Our income tax expense decreased by 42.0% from RMB143.8 million in 2019 to RMB83.4 million (US\$12.8 million) in 2020. The effective tax rate for 2020 was 23.0% compared with 25.6% in 2019. The decrease in effective tax rate was primarily due to (i) exemption from income tax for investment income derived from certain fund product and (ii) decrease of dividend income tax provision as compared with 2019.

Share of Income and Impairment of Affiliates, net

Our share of income and impairment of affiliates was negative RMB2.7 million (US\$0.4 million) for 2020, as compared to share of income and impairment of affiliates of negative RMB224.6 million in 2019. The share of income and impairment of affiliates mainly represented share of income from CNFinance in which we own 18.5% of the equity interest. The share of income and impairment from CNFinance included a RMB23.0 million (US\$3.5 million) impairment on investment in CNFinance as compared to the impairment loss of RMB322.7 million for the corresponding period in 2019, to reflect a write-down to the fair value of the investment as measured by the closing market price of CNFinance on December 31, 2020, offsetting the share of income of CNFinance of RMB21.2 million (US\$3.2 million) from CNFinance in 2020 as compared to share of income of RMB98.7 million in 2019.

Net Income Attributable to the Non-controlling Interests

The net income attributable to the non-controlling interests increased by 118.7% from RMB3.6 million in 2019 to RMB7.9 million (US\$1.2 million) in 2020, primarily due to the increase in profits from our subsidiaries operating claims adjusting business in which we currently own 44.7% equity interests.

Net Income Attributable to the Company's Shareholders

As a result of the foregoing factors, our net income attributable to our shareholders increased by 42.0% from RMB188.9 million in 2019 to RMB268.3 million (US\$41.1 million) for 2020.

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 RMB6.6235 per U.S. dollar in December 2020. The fluctuation of the exchange rate between the RMB and U.S. dollar and HK dollar resulted in foreign currency translation gain of RMB9.6 million (US\$1.5 million) in 2020, 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, 2020, we had RMB245.4 million (US\$37.6 million) in cash and cash equivalents, and RMB1.3 billion (US\$200.4 million) in short-term investments. Our cash and cash equivalents consist of cash on hand and bank deposits and our short term investments consist of 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 dividend distribution, maintenance and developments of online platforms including Lan Zhanggui, Baoxian.com, and eHuzhu, investment to digitalize our mid-office and back-office functions, establishment of new branches and sales outlets, working capital requirements, automobiles and office equipment purchases, office renovation and rental deposits.

We expect to require cash to fund our ongoing business needs, particularly the further expansion of our distribution and service network with the focus on developing a more professional sales force in major cities and development of digital capabilities.

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,		
	2019	2020	
	RMB	RMB	US\$
	(in thousands)		
Net cash generated from operating activities	178,324	402,300	61,654
Net cash generated from investing activities	11,959	325,336	49,861
Net cash used in from financing activities	(792,106)	(638,811)	(97,902)
Net (decrease) increase in cash and cash equivalents and restricted cash	(601,823)	88,825	13,613
Cash and cash equivalents and restricted cash at the beginning of the year	848,166	265,605	40,706
Cash and cash equivalents and restricted cash at the end of the year	265,605	350,098	53,655

Operating Activities

Net cash generated from operating activities amounted to RMB402.3 million (US\$61.7 million) for the year ended December 31, 2020, primarily attributable to (i) a net income of RMB276.2 million (US\$42.3 million), (ii) adjustments of depreciation expense of RMB17.6 million (US\$2.7 million), non-cash operating lease expense of RMB98.2 million (US\$15.0 million), allowance for credit losses on financial assets of RMB18.8 million (US\$2.9 million), and investment income of RMB14.3 million (US\$2.2 million), which were non-cash items and, (iii) a decrease of accounts receivable of RMB90.6 million (US\$13.9 million) which was in line with the decrease in our commission income and an increase of Insurance premium payables RMB17.5 million (US\$2.7 million) related to property and casualty insurance business contributed by channel vendors of Baowang offset by (i) decrease of other payables and accrued expenses of RMB32.2 million (US\$4.9 million), (ii) decrease of income tax payable of RMB9.3 million (US\$1.4 million), and (iii) decrease of lease liability of RMB98.8 million (US\$15.2 million).

Net cash generated from operating activities amounted to RMB178.3 million for the year ended December 31, 2019, primarily attributable to (i) a net income of RMB192.6 million, (ii) adjustments of depreciation expense of RMB16.3 million, non-cash operating lease expense of RMB69.5 million, investment income of RMB65.6 million and share of income and impairment of affiliates, net of RMB224.6 million representing share of net income generated by CNFinance offset by an impairment of the investment in CNFinance, which were non-cash items and, and (iii) an increase of accounts payable of RMB50.2 million offset by (i) an increase of accounts receivable of RMB180.2 million contributed by our major customers, Huaxia and Sinatay, which in aggregate accounted for 39.9% of our revenue and 44.8% of account receivable as of year end of 2019 as certain amount of sales bonus from Huaxia and Sinatay was settled quarterly and annually, among which the receivable from Sinatay has been fully settled in March 2020, (ii) decrease of other payables and accrued expenses of RMB25.5 million, (iii) decrease of income taxes payable of RMB50.0 million and (iv) decrease of lease liability of RMB76.6 million.

Investing Activities

Net cash generated from investing activities for the year ended December 31, 2020 was RMB325.3 million (US\$49.9 million), primarily attributable to proceeds from disposal of short term investments of RMB8,287.9 million (US\$1,270.2 million) that matured offset by cash used to purchase short term investment products of RMB7,947.7 million (US\$1,218.0 million) and purchase of property, plant and equipment of RMB15.3 million (US\$2.3 million).

Net cash generated from investing activities for the year ended December 31, 2019 was RMB12.0 million, primarily attributable to proceeds from disposal of short term investments of RMB7,523.3 million that matured offset by cash used to purchase short term investment products including collective trust funds and inter-bank deposits of RMB7,498.7 million and purchase of property, plant and equipment of RMB19.7 million.

Financing Activities

Net cash used in financing activities was RMB638.8 million (US\$97.9 million) for the year ended December 31, 2020, attributable to dividend payments of totaling RMB388.5 million (US\$59.5 million), and refund of share rights deposit to 521 plan participants of RMB250.3 million (US\$38.4 million).

Net cash used in financing activities was RMB792.1 million for the year ended December 31, 2019, attributable to (i) cash used for share repurchase program in 2019 of RMB484.0 million and (ii) dividend payments of totaling RMB435.1 million, partially offset by proceeds from employees and agents' share subscriptions of RMB111.3 million.

Capital Expenditures

We incurred capital expenditures of RMB22.8 million, RMB19.7 million and RMB15.3 million (US\$2.3 million) for the years ended December 31, 2018, 2019 and 2020, respectively. Our capital expenditures have been used primarily to construct our IT infrastructure and online platforms, and to purchase automobiles and office equipment for newly established sales outlets. We estimate that our capital expenditures will increase substantially in the following two or three years as we further expand our distribution and service network in China, and maintain and upgrade our IT infrastructure and digital platforms. We anticipate funding our future capital expenditures primarily with net cash flows from financing and operating activities.

Borrowings

As of each of December 31, 2019 and 2020, we had no short-term or long-term bank borrowings.

Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations through our subsidiaries in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries. If our subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. Our wholly owned subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits as reported in the PRC statutory financial statements each year, if any, to fund a statutory reserve until such reserve reach 50% of its registered capital, and before the Foreign Investment Law becomes effective on January 1, 2020, our wholly owned subsidiaries had to 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, 2020, our restricted net asset was RMB1,455.6 million (US\$223.1 million). This amount is composed of the registered equity of our PRC subsidiaries and the statutory reserves described above. Our ability to pay dividends primarily depends upon dividends paid by our subsidiaries. As of December 31, 2020, we had aggregate undistributed earnings of approximately RMB1,146.3 million (US\$175.7 million) that were available for distribution. 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.

See “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

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, 2020 to December 31, 2020 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us. As a result, as of December 31, 2020, we did not have any off-balance sheet arrangements that had or were reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2020:

	Payment Due by Period			
	Total	Less than 1 year	1-3 years	More than 3-5 years
	(in thousands of RMB)			
Undiscounted minimum lease payment included in the measurement of operating lease liabilities	219,393	92,382	98,692	23,523
Total	219,393	92,382	98,692	23,523

Not included in the table above are uncertain tax liabilities of RMB67.2 million (US\$10.3 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, 2020.

G. Safe Harbor

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

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

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

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

Directors and Executive Officers	Age	Position/Title
Chunlin Wang	51	Chief Executive Officer and Chairman of the Board of Directors
Peng Ge	49	Chief Financial Officer and Director
Yinan Hu	55	Director
Yunxiang Tang	75	Independent Director
Stephen Markscheid.	67	Independent Director
Allen Warren Lueth	52	Independent Director
Mengbo Yin	65	Independent Director

Mr. Chunlin Wang has been our chairman of the board of directors since September 2017 and has been our chief executive officer since October 2011. He has been our director since March 2016. From April 2011 to October 2011, he was our chief operating officer. From January 2007 to October 2011, he was vice president and head of the property and casualty insurance unit of our company. From 2003 to January 2007, he served as assistant to our chairman. From 2002 to 2005, he served as the general manager of Guangdong Nanfeng, one of our first affiliated insurance intermediaries in the PRC. From 1998 to 2002, Mr. Wang served as a branch manager at Guangzhou Nanyun Car Rental Services Co., Ltd. and later Guangdong Nanfeng Automobile Association Co., Ltd., our predecessors. Mr. Wang received his bachelor's degree in law from Central-Southern University of Politics and Law in China.

Mr. Peng Ge has been our chief financial officer since April 2008 and has been our director since December 2016. He is currently a member of the board of directors of CNFinance, which is a public company listed in the U.S. From 2005 to April 2008, he served as the general manager of the finance and accounting department and vice president of our company. From August 2007 to September 2008, he was also a director of our company. From 1999 to 2005, Mr. Ge headed our Beijing operations. From 1994 to 1999, Mr. Ge was a financial manager at a subsidiary of China National Native Produce and Animal By-Products Import & Export Corporation. Mr. Ge received his bachelor's degree in international accounting and his MBA degree from the University of International Business and Economics in China.

Mr. Yinan Hu is our co-founder and has been our director since our inception in 1998. He is currently a member of the board of directors of Puyi Inc., which is a public company listed in the U.S. From 1998 to September 2017, he was the chairman of our board of directors. From 1998 to October 2011, Mr. Hu served as our chief executive officer. From 1993 to 1998, Mr. Hu served as chairman of the board of directors of Guangdong Nanfeng Enterprises Co., Ltd., a company he co-founded that engaged in import and export, manufacturing of wooden doors and construction. From 1991 to 1995, Mr. Hu was an instructor of money and banking at Guangdong Institute for Managers in Finance and Trade. Mr. Hu received a bachelor's degree and a master's degree in economics from Southwestern University of Finance and Economics in China.

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

Mr. Stephen Markscheid has been our independent director since August 2007. Mr. Markscheid is chairman of Still Waters Greent Technology, a United Kingdom based renewable energy developer. He is a member of the board of directors of Jinko Solar, Inc. and Xiaobai Maimai Inc., which are public companies listed in U.S. and ZZ Capital International Limited, a public company listed in Hong Kong. He is also a trustee emeritus of Princeton-in-Asia, a nonprofit social service organization affiliated with Princeton University. He was a member of the board of directors of a number of other listed companies, including TTK Symphony Acquisition Corporation (currently named Glory Star New Media Group Holdings Limited), Ener-Core, Inc., China Ming Yang Wind Power Group and ChinaCast Education Corporation. He acted as a director and interim chief executive officer and chief financial officer of Fellazo Inc. in 2020. From 2014 to 2017, he was a partner of Wilton Partners, a Shanghai-based boutique investment bank. From 2007 to 2011, he was 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 worked for GE Capital. During his time with GE Capital, Steve led GE Capital's business development activities in China and Asia Pacific, primarily acquisitions and direct investments. Prior to joining GE, Mr. Markscheid worked with the Boston Consulting Group throughout Asia from 1994 to 1997. Prior to that, Mr. Markscheid had been a commercial banker for ten years in London, Chicago, New York, Hong Kong and Beijing with Chase Manhattan Bank and First National Bank of Chicago. Prior to that, he worked with the US-China Business Council in Washington D.C. and Beijing. Mr. Markscheid received his bachelor's degree in East Asian studies from Princeton University, a master's degree in international affairs and economics from the School of Advanced International Studies at Johns Hopkins University, and an MBA degree from Columbia University.

Mr. Allen Lueth has been our independent director since August 2007. Mr. Lueth is currently a member of the board of directors of Greatview Aseptic Packaging Company Limited, a company listed in Hong Kong. Since February 2021, Mr. Lueth has served as CEO of Great Leap Brewery, a company engaged in the brewing and selling of beer in the PRC through third-party sales and its restaurants. From September 2019 to February 2021 Mr. Lueth served as a president and chief financial officer of International Institute of Education Group, a company mainly engaged in language education in the PRC. From 2017 to 2019 and 2010 to 2017, Mr. Lueth served as a chief financial officer for Asia-Pacific region and a vice president of finance for the PRC region for Cardinal Health, a Fortune 500 company engaged in the healthcare industry, respectively. From 2005 to 2010, Mr. Lueth served as a vice president of finance and strategy for the PRC region for Zuellig Pharma China, which was then acquired by Cardinal Health in 2010. Mr. Lueth worked for GE Capital from 1998 to 2004 in a variety of roles, including chief financial officer and chief executive officer for the Taiwan operations, and the representative for China. Earlier, he served with Coopers & Lybrand as an auditor. Mr. Lueth obtained his certificate as a certified public accountant in 1991 and a certified management accountant in 1994. Mr. Lueth received his bachelor of science in accounting degree from the University of Minnesota and an MBA degree from the J.L. Kellogg School of Management.

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 RMB0.5 million, unless otherwise specifically required by applicable law.

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

B. Compensation

In 2020, the aggregate cash compensation, including reimbursement of expenses, to our executive officers which include executive directors was approximately RMB2.4 million (US\$0.4 million), and the aggregate cash compensation to our non-executive directors was approximately RMB2.7 million (US\$0.4 million). We did not set aside or accrue any amounts to provide pension, retirement or similar benefits for our executive officers and directors except for statutory social security payment.

Share Incentives

2007 Share Incentive Plan

Our 2007 Share Incentive Plan is intended to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. We have reserved 136,874,658 ordinary shares for issuance under our 2007 Share Incentive Plan, which was approximately 15% of our outstanding ordinary shares at the time we authorized the number of ordinary shares reserved for issuance. The 2007 Share Incentive Plan expired upon the tenth anniversary of the shareholder approval of the 2007 Share Incentive Plan.

On November 21, 2008, our board of directors approved the grant of options to purchase an aggregate of 32,000,000 ordinary shares to various directors, officers and employees pursuant to the 2007 Share Incentive Plan (the “2008 Option”). The exercise price of these options is US\$0.28 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Market at the grant date (after adjusting for the 20 ordinary shares to 1 ADS ratio). The options are scheduled to vest over a four-year period starting from March 31, 2010, subject to the achievement of certain key performance indicators by the option holders and their continued employment with us. As of March 31, 2018, all of the 2008 Option had been exercised or forfeited.

On March 9, 2009, our board of directors voted to grant options to purchase an aggregate of 10,000,000 ordinary shares to employees under the amended and restated 2007 Share Incentive Plan (the “2009 Option”). The exercise price of these options is US\$0.34 per ordinary share, equal to the closing price of our ADS on the Nasdaq Global Select Market at the grant date (after adjusting for the 20 ordinary shares to 1 ADS ratio). These options are scheduled to vest over a four-year period starting from March 31, 2010, subject to the achievement of certain key performance indicators by the option holders and their continued employment with us. As of March 31, 2018, all of the 2009 Option had been exercised or forfeited.

On March 12, 2012, pursuant to the amended and restated 2007 Share Incentive Plan, our board of directors approved the grant of options to certain directors, officers, key employees and sales agents to purchase an aggregate of 93,445,000 ordinary shares at an exercise price of US\$0.30 per ordinary share and approved the grant of options to two independent directors who are residents of the United States in an aggregate of 3,200,000 ordinary shares at an exercise price of US\$0.31 per ordinary share (the “2012 Options”). These options are scheduled to vest over a five-year period starting from May 31, 2012, subject to the achievement of certain key performance indicators by certain option holders and all option holders’ continued employment with us.

In November 2014, the board and compensation committee passed a resolution to modify the exercise price of the 2012 Options. Except for the 2012 Options granted to one of the independent directors who is a US resident, the exercise price of the rest of the 2012 Options was reduced from US\$0.30 per ordinary share (for certain directors, officers, key employees and sales agents) and US\$0.31 per ordinary share (for the other independent director who is a US resident) to US\$0.001 per ordinary share while the maximum aggregate award of 96,645,000 ordinary shares was reduced to 46,722,500 ordinary shares. The options are subject to the same service period. As of December 31, 2014, except for the options granted to one of the independent directors, outstanding options to purchase 91,327,722 ordinary shares were modified into 45,663,861 shares options. There was no incremental cost as a result of such option modification. As of March 31, 2020, except for the options to purchase 400,000 ordinary shares granted to one of the independent directors, all of the 2012 Options had been exercised or forfeited.

The following paragraphs describe the principal terms of our amended and restated 2007 Share Incentive Plan as currently in effect.

Types of Awards. The types of awards we may grant under our 2007 Share Incentive Plan include the following:

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

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

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

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

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

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

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

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

As of March 31, 2021, options to purchase 400,000 ordinary shares were outstanding. The following table summarizes the outstanding options as of March 31, 2020.

Name⁽¹⁾	Options Outstanding	Exercise Price (Per Ordinary Share)(US\$)	Grant Date	Expiration Date
Mengbo Yin	400,000	0.001	March 12, 2012	March 12, 2022

(1) Upon cash exercise of all of the share options beneficially owned by Mr. Chunlin Wang, Mr. Peng Ge and Mr. Yinan Hu in November 2017, 4,050,000, 5,350,000 and 6,500,000 ordinary shares have been issued to Kingsford Resources, Green Ease and Sea Synergy which were respectively 100% beneficially owned by Mr. Wang, Mr. Ge and Mr. Hu.

2014 Share Issuance to Employees

In November 2014, we entered into share purchase agreements with companies established on behalf of our employees, or the 2014 Employee Companies, for the issuance of up to 100,000,000 ordinary shares of our company. In December 2014, we increased the new shares issued to the employees to 150,000,000 ordinary shares, representing approximately 13.0% of our then enlarged total share capital upon completion of the transaction. The purchase price for the 100,000,000 ordinary shares was US\$0.27 per ordinary share or US\$5.40 per ADS, while the purchase price for the additional 50,000,000 ordinary shares was US\$0.29 per ordinary share or US\$5.80 per ADS, both of which are the average closing prices for the 20 trading days prior to the board approvals. As of March 31, 2021, there were 92,646,780 ordinary shares outstanding held by the 2014 Employee Companies.

521 Plan

On June 14, 2018, we obtained approval from our board of directors to implement the 521 Plan, which enabled eligible Participants to participate in our growth by purchasing a total of 14 million of the Company's ADSs at a price of US\$27.38 per ADS. The Participants in the 521 Plan include entrepreneurial team leaders, general managers of our provincial branches or subsidiaries, and key managerial personnel, excluding senior management.

In order to facilitate the purchase of the shares by the Participants, 90% of the total subscription cost of the shares under the 521 Plan was funded by loans granted to the individual Participants by us, while the remaining 10% was contributed directly by the individual Participants. The loans each bear interest at a rate of 8% per annum and is repayable by December 31, 2023 or upon the termination of employment or agent agreement, whichever is earlier.

As the performance targets were not met by the Participants, we entered into supplemental agreement with the Participants to cancel the 521 Plan in December 2020, upon which all the relevant original contractual agreements that we entered into relating to the 521 Plan were terminated and lapsed. Further, all subscribed shares have been returned and cancelled while the share right deposits contributed by the Participants were refunded back to the Participants, with termination of the Participants' obligation to repay us the non-recourse loan principal and interest.

C. Board Practices

Board of Directors

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

In compliance with Rule 5605 of the Nasdaq Listing Rules, a majority of our directors and all of the committee members of our board of directors are independent directors. During 2020, our board of directors met in person or passed resolutions by unanimous written consent eight times. In addition, our independent directors held executive sessions without the presence of non-independent directors or members of management twice during 2020. 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 four committees under the board of directors: the audit committee, the compensation committee, the corporate governance and nominating committee and financial reporting and disclosure 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 2020, our audit committee held meetings or passed resolutions by unanimous written consent four times.

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

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

In 2020, our compensation committee held meetings or passed resolutions by unanimous written consent twice.

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

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

In 2020, our corporate governance and nominating committee held meetings or passed resolutions by unanimous written consent twice.

Financial Reporting and Disclosure Committee. Our financial reporting and disclosure committee consists of Peng Ge (chairman), Allen Lueth, and two of our non-executive employees including our financial controller and our internal legal counsel. The financial reporting and disclosure committee assist our CEO and CFO (collectively, the “Senior Officers”) in fulfilling their responsibility to oversee the accuracy, completeness and timeliness of our public reporting and disclosure. The financial reporting and disclosure committee is responsible for, among other things:

- Review and, as necessary, help revise our controls and procedures that are designed to ensure that: (i) information required to be disclosed by us to the SEC and other information that our company publicly discloses is recorded, processed, summarized and reported accurately and on a timely basis; and (ii) information is accumulated and communicated to management, including the Senior Officers, as appropriate to allow timely decisions regarding such reporting and disclosure (collectively, the “Reporting and Disclosure Controls and Procedures”);
- Assist in documenting and monitoring the integrity and effectiveness of our Reporting and Disclosure Controls and Procedures; and
- Review the Company’s: (i) periodic and current reports, proxy statements, information statements, registration statements and any other information filed with or furnished to the SEC; (ii) press releases containing financial information, earnings guidance, information about material acquisitions or dispositions or other information material to the Company’s securityholders; (iii) correspondence broadly disseminated to securityholders; (iv) other relevant communications or presentations (collectively, the “Reporting and Disclosure Statements”); and (v) unusual and complex transactions, new accounting standard adoption and disclosure, new SEC reporting requirements.

In 2020, our financial reporting and disclosure committee held meetings by unanimous written consent four 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 have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated memorandum and articles of association as amended and restated from time to time. In certain limited circumstances, it may be possible for our shareholders to bring a derivative action on behalf of our company if a duty owed by our directors to our company is breached.

Terms of Directors and Executive Officers

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

D. Employees

Employees, Sales Agents and Training

We had 3,863, 4,746 and 4,926 employees as of December 31, 2018, 2019 and 2020, 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, 2020:

	Number of Employees	% of Total
Management and administrative staff	2,972	60.3
Financial and accounting staff	183	3.7
Professional claims adjusters	1,673	34.0
Information technology staff	98	2.0
Total	4,926	100.0

As of December 31, 2018, 2019 and 2020, we had 807,858 and 670,104 and 362,580 registered sales representatives, respectively. A majority of these sales representatives are independent sales agents who are not our employees and are only compensated by commissions. We have contractual relationships with these sales agents. We primarily distribute life insurance policy with a periodic premium payment schedule. For the sale of each of such life insurance policy, 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 companies for the sale and renewal of that policy, generally 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. For the sale of each life insurance policy with a single premium payment schedule or property and casualty insurance policy, 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 insurance companies for the sale of that policy. For the sale of each auto insurance policy facilitated through Lan Zhanggui, the sales agent who has generated the sale will be paid a single commission based on a percentage of the insurance premiums he or she generated by our third party auto insurance aggregator site partners.

Our life insurance sales agents are typically organized into sales teams with a multilevel hierarchy, typically with five layers. A life insurance sales agent not only receives a commission for the insurance policies that he or she sells, but also a commission for insurance policies sold by agents under his or her management. In selected major cities, we are currently experimenting establishing a sales force organized with a flatter hierarchy, under which a life insurance sales agent will only receive commissions for the insurance policies he or she sells.

Our sales agents, in-house sales representatives and claims adjusters are valuable to us and are instrumental in helping us build and maintain long-term relationships with our customers. Therefore, we place a strong emphasis on training our sales force. We provide trainings to both new sales agents and existing sales agents, on a monthly or quarterly basis, both offline and online. For new sales agents, we offer orientation courses that are designed to familiarize them with 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 and develop skills to build and manage their own sales teams. Online training courses are also available on Lan Zhanggui, which enable sales agents to attend the courses anytime anywhere.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares, as of March 31, 2021, by:

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

As of March 31, 2021, there were 1,073,891,784 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 ^{(1) (2)}	
	Number	%
Directors and Executive Officers:		
Chunlin Wang ⁽³⁾	39,252,100	3.7%
Peng Ge ⁽⁴⁾	48,562,260	4.5%
Yinan Hu ⁽⁵⁾	199,739,310	18.6%
Stephen Markscheid	*	*
Allen Warren Lueth	*	*
Mengbo Yin	*	*
All Directors and Executive Officers as a Group	289,973,670	27.0%
Principal Shareholders:		
Sea Synergy Limited ⁽⁶⁾	189,689,110	14.0%

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

† Except for our independent directors, the business address of our directors and executive officers is c/o 27/F, Pearl River Tower, No. 15 West Zhujiang Road, Guangzhou, Guangdong 510623, People's Republic of China.

- (1) The number of shares beneficially owned by each director and executive officer includes the shares beneficially owned by such person, the shares underlying all options held by such person that have vested.
- (2) Percentage of beneficial ownership of each director and executive officer is based on 1,073,981,784 ordinary shares outstanding as of March 31, 2021, and the number of ordinary shares underlying options held by such person that have vested.
- (3) Includes 39,252,100 ordinary shares held by Kingsford Resources Limited, or Kingsford Resources, which is 100% held by Better Rise Investments. Better Rise is 100% held by a family trust, of which Mr. Wang is the settlor and co-beneficiary. Pursuant to Section 13(d) of the Exchange Act and the rules promulgated thereunder, Better Rise Investments and Mr. Wang may be deemed to beneficially own all of the Ordinary Shares of the Issuer held by Kingsford Resources.
- (4) Includes 48,562,260 ordinary share held by Green Ease, which is 100% held by High Rank Investments Limited, or High Rank. High Rank was 100% held by a family trust, of which Mr. Ge is the settlor and co-beneficiary. Pursuant to Section 13(d) of the Exchange Act and the rules promulgated thereunder, High Rank Investments and Mr. Ge may be deemed to beneficially own all of the Ordinary Shares of the Issuer held by Green Ease.
- (5) Includes (i) 10,041,200 ordinary shares in the form of ADSs directly held by Mr. Hu, and (ii) 189,698,110 ordinary shares of our company directly held by Sea Synergy Limited, or Sea Synergy. Sea Synergy is 100% held by a family trust, of which Mr. Hu is the settlor and co-beneficiary. Pursuant to Section 13(d) of the Exchange Act and the rules promulgated thereunder, Mr. Hu may be deemed to beneficially own all of the Ordinary Shares of the Issuer held by Sea Synergy.
- (6) Includes 189,698,110 ordinary shares of the Company directly held by Sea Synergy. The registered address of Sea Synergy is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

None of our existing shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. As of March 31, 2021, 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 61.8% 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

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 and Regulatory Proceedings

“We are currently not a party to any material litigation or 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. In addition, the CBIRC may make inquiries and conduct examinations concerning our compliance with PRC laws and regulations from time to time. These administrative proceedings have resulted in administrative sanctions, including fines of RMB130,000 in aggregate in 2020, which were not material to us. While we cannot predict the outcome of any pending or future examination, we do not believe that any pending legal matter will have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure you that any future regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on our operating results or cash flows.

Dividend Policy

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium account, and provided always that in no circumstances may a dividend be paid unless, immediately following the date on which it is to be paid, our company will be able to pay its debts as they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. The timing, amount and form of dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

On February 28, 2017, our board of directors approved a cash dividend policy, which provided for an annual cash dividend to shareholders of no less than 30% of our net income attributable to shareholders in the previous fiscal year. On April 20, 2017, our board of directors declared an annual cash dividend of US\$0.006 per ordinary share, or US\$0.12 per ADS, payable on or around May 18, 2017 to shareholders of record on May 8, 2017.

On September 18, 2017, our board of directors modified the dividend policy to adopt a quarterly payment schedule in lieu of an annual dividend, with the dividend payout ratio of no less than 50% of net operating income attributable to the Company's shareholders instead of no less than 30% under the annual dividend policy previously announced on April 20, 2017. The following table summarizes the quarterly dividend payments since the announcement of the quarterly dividend policy.

Declaration Date	Quarterly Dividend (Per Ordinary Share)(US\$)	Quarterly Dividend (Per ADS)(US\$)	Record Date	Payable Date
November 20, 2017	0.01	0.20	December 8, 2017	December 22, 2017
March 9, 2018	0.01	0.20	March 26, 2018	April 10, 2018
May 12, 2018	0.0125	0.25	June 4, 2018	June 11, 2018
August 18, 2018	0.0125	0.25	September 5, 2018	September 19, 2018
November 17, 2018	0.0125	0.25	December 5, 2018	December 20, 2018
March 18, 2019	0.0125	0.25	March 21, 2019	April 3, 2019
May 22, 2019	0.0150	0.30	June 6, 2019	June 20, 2019
August 20, 2019	0.0150	0.30	September 4, 2019	September 19, 2019
November 20, 2019	0.0150	0.30	December 5, 2019	December 19, 2019
March 18, 2020	0.0150	0.30	April 2, 2020	April 16, 2020
May 26, 2020	0.0125	0.25	June 10, 2020	June 24, 2020
August 24, 2020	0.0125	0.25	September 8, 2020	September 22, 2020
November 24, 2020	0.0125	0.25	December 9, 2020	December 23, 2020
March 22, 2021	0.0125	0.25	March 31, 2021	April 15, 2021

When we pay dividends, we 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 depository bank to the holders of our ADSs. Cash dividends on our ordinary shares, will be paid in U.S. dollars. Currently, we have no plan to repatriate the remaining undistributed earnings from our subsidiaries in China and we intend to retain all of our available funds held by subsidiaries in China and their future earnings to operate and expand our business.

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

B. Significant Changes

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

Item 9. The Offer and Listing

A. Offer and Listing Details

Not applicable

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing 20 ordinary shares, is listed on the Nasdaq Global Select Market under the symbol “FANH.” From October 31, 2007 until December 6, 2016, our ticker symbol was “CISG.” From October 31, 2007 until January 1, 2009, our ADSs were listed on the Nasdaq Global Market.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our amended and restated memorandum and articles of association, as adopted by our shareholders by special resolution at the extraordinary general meeting held on December 6, 2016, as well as the Cayman Companies Law insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

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

Board of Directors

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

Ordinary Shares

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

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

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

A quorum required for a meeting of shareholders consists of shareholders holding in aggregate not less than one-third of our issued voting share capital present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. We may, but are not obliged, to hold an annual general meeting of shareholders. General meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate not less than one-third of our voting share capital. Advance notice of at least 14 calendar 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 or may be approved in writing by all of the shareholders entitled to vote at 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 or may be passed as a unanimous written resolution. A special resolution is required for important matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including consolidating and dividing all or any of our share capital into shares of larger amount than our existing shares, and canceling any shares which have not been taken or agreed to be taken.

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

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

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

Redemption, Repurchase and Surrender of Shares. Subject to the provisions of the Companies Law and our articles of association, we may issue shares on terms that they are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as our board of directors may determine before the issue of such shares. We also may purchase our own shares, provided that our shareholders have approved the manner of purchase by ordinary resolution or the manner of purchase is in accordance with that specified in our articles of association. The manner of purchase specified in our articles of association, which cover purchases of shares listed on an internationally recognized stock exchange and shares not so listed, is in accordance with Section 37(2) of the Companies Law or any modification or reenactment thereof for the time being in force. In addition, our company may accept the surrender of any fully paid share for no consideration. Pursuant to the Companies Law, upon the repurchase, redemption or surrender of shares, the board of directors can determine whether or not to 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 prospective and retroactive change and is included here for information purposes only. This summary is not intended to be, and should not be construed as, legal or tax advice, does not consider any investor's particular circumstances, and does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

According to Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax, estate duty or gift tax. No Cayman Islands stamp duty will be payable unless an instrument is executed in, or after execution brought within the jurisdiction of the Cayman Islands, or produced before a court of the Cayman Islands. The Cayman Islands is a party to a double tax treaty with the United Kingdom but otherwise is not a party to any double tax treaties. 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, which was subsequently amended on March 16, 2007, February 24, 2017 and December 29, 2018, 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% or 5% 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% or 5% 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.

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% or 5% PRC withholding tax.

Income Tax and Withholding Tax

The EIT Law, applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. The EIT Law imposes a withholding tax of 10% on dividends distributed by a PRC foreign-invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered a “non-resident enterprise” without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Holding companies in Hong Kong, for example, are subject to a 5% withholding tax rate. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered a “non-resident enterprise” under the EIT Law.

Under the EIT Law and its implementation rules, any interest or premium with respect to the notes and any gains realized on the transfer of the notes by holders who are deemed under the EIT Law as non-resident enterprise may be subject to PRC enterprise income tax if such interest, premium or gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organization is not in the PRC but has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC.

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are therefore subject to PRC enterprise income tax at the rate of 25% with respect to their income sourced from both within and outside of China. The Implementing Regulation defines the term “de facto management body” as a management body that exercises substantial and overall control and management over the production and operations, personnel, accounting and properties of an enterprise. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. The Resident Enterprise Administrative Measures provide clarification for resident status determination and competent tax authorities. However, Circular 82 and the Resident Enterprise Administrative Measures apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our company. Currently there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “de facto management body” for the company of our type. It is still unclear if the PRC tax authorities would determine that we should be classified as a PRC “resident enterprise.”

Although we have not been notified that we are treated as a PRC resident enterprise, we cannot assure you that we will not be treated as a “resident enterprise” under the EIT Law, any aforesaid circulars or any amended regulations in the future. If we are treated as a PRC resident enterprise for PRC enterprise income tax purposes, among other things, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income. Furthermore, if we are treated as a PRC resident enterprise, payments of dividends and/or other expenses of similar nature by us may be regarded as derived from sources within the PRC and therefore we may be obligated to withhold PRC income tax at 10% on payments of dividends on the ADSs or shares and/or interest or other expenses of similar nature on the notes to non-PRC resident enterprise investors. In the case of non-PRC resident individual investors, the tax may be withheld at a rate of 20%.

In addition, if we are treated as a PRC resident enterprise, any gain realized on the transfer of the ADSs and/or ordinary shares by non-PRC resident investors may be regarded as derived from sources within the PRC and accordingly may be subject to a 10% PRC income tax in the case of non-PRC resident enterprises or 20% in the case of non-PRC resident individuals. The PRC tax on interest or gains may be reduced or exempted under applicable tax treaties between the PRC and the ADS holder’s home country. For example, according to an arrangement between the PRC and Hong Kong, for the avoidance of double taxation, ADS holders who are Hong Kong residents, including both enterprise holders and individual holders, may be exempted from PRC income tax on capital gains derived from a sale or exchange of the notes.

United States Federal Income Taxation

The following discussion describes the material United States federal income tax consequences to a United States Holder (as defined below), under current law, of an investment in our ADSs or ordinary shares. This discussion is based on the federal income tax laws of the United States as of the date of this annual report on Form 20-F, including the United States Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed Treasury Regulations promulgated thereunder, judicial authority, published administrative positions of the United States Internal Revenue Service (“IRS”) and other applicable authorities, all as of the date of this annual report on Form 20-F. All of the foregoing authorities are subject to change, which change could apply retroactively and could significantly affect the tax consequences described below. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in the following discussion and there can be no assurance that the IRS or a court will agree with our statements and conclusions. This summary does not discuss the so-called Medicare tax on net investment income, any United States federal non-income tax laws, including the United States federal estate and gift tax laws, or the laws of any state, local or non-United States jurisdiction.

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

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

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

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

For purposes of the discussion below, a “United States Holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if (i) a court within the United States is able to exercise primary jurisdiction over its administration and one or more United States persons have the authority to control all of its substantial decisions or (ii) in the case of a trust that was treated as a domestic trust under the law in effect before 1997, a valid election is in place under applicable Treasury Regulations to treat such trust as a domestic trust.

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

ADSs

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

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 do not believe we were a passive foreign investment company (“PFIC”) for United States federal income tax purposes for our taxable year ended December 31, 2020. However, we believe we were a PFIC for 2017 and prior years. In addition, we believe that it is likely that one or more of our subsidiaries were also PFICs for such prior years. The determination of PFIC status is based on an annual determination that cannot be made until the close of a taxable year, involves extensive factual investigation, including ascertaining the fair market value of all of our assets on a quarterly basis and the character of each item of income that we earn, and is subject to uncertainty in several respects. Accordingly, we cannot assure you that we will not be a PFIC for any taxable year or that the IRS will not take a contrary position to any determination we make.

We will be a PFIC for United States federal income tax purposes for any taxable year if, applying applicable look-through rules, either:

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

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than certain royalties and rents derived in the active conduct of a trade or business and not derived from a related person). We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% by value of the stock. Although the law in this regard is unclear, we treat our VIEs as being owned by us for United States federal income tax purposes, because we exercise effective control over the operation of such entities and because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated United States GAAP financial statements.

Changes in the composition of our income and assets may cause us to be or become a PFIC. The determination of whether we will be a PFIC for any taxable year may depend in part upon the value of our goodwill and other unbooked intangibles not reflected on our balance sheet (which may depend upon the market price of our ADSs or ordinary shares from time to time, which may fluctuate significantly) and also may be affected by how, and how quickly, we spend our liquid assets and the cash we generate from our operations and raise in any offering. Among other matters, if our market capitalization declines, we may be or become a PFIC because our liquid assets and cash (which are for this purpose considered assets that produce passive income) may then represent a greater percentage of our overall assets. Further, while we believe our classification methodology and valuation approach is reasonable, it is possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our being or becoming a PFIC for the current or one or more future taxable years.

If we are a PFIC for any taxable year (as we believe we were for 2017 and prior years) during which you hold ADSs or ordinary shares, we will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ADSs or ordinary shares, unless we cease to be a PFIC (as we believe we did in 2018) and you make a “deemed sale” election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the rules described in the following two paragraphs. After the deemed sale election, so long as we do not become a PFIC in a subsequent taxable year, the ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC and, as a result, you will not be subject to the rules described below with respect to any “excess distribution” you receive from us or any gain from an actual sale or other disposition of the ADSs or ordinary shares. **You are strongly urged to consult your tax advisors as to the possibility and consequences of making a deemed sale election as we believe we ceased to be a PFIC in 2018.**

If we are a PFIC for any taxable year (as we believe we were for 2017 and prior years) during which you hold ADSs or ordinary shares, then, unless you make a “mark-to-market” election (as discussed below), you generally will be subject to special and adverse tax rules with respect to any “excess distribution” that you receive from us and any gain that you recognize from a sale or other disposition, including a pledge, of the ADSs or ordinary shares. For this purpose, distributions that you receive in a taxable year that are greater than 125% of the average annual distributions that you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these rules:

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

If we are a PFIC for any taxable year (as we believe we were for 2017 and prior years) during which you hold our ADSs or ordinary shares and any of our non-United States subsidiaries that are corporations (or other corporations in which we own equity interests) is also a PFIC, you would be treated as owning a proportionate amount (by value) of the shares of each such non-United States entity classified as a PFIC (each such entity, “a lower tier PFIC”) for purposes of the application of these rules. You should consult your tax advisors regarding the application of the PFIC rules to any of our lower tier PFICs.

If we are a PFIC for any taxable year (as we believe we were for 2017 and prior years) during which you hold ADSs or ordinary shares, then in lieu of being subject to the tax and interest-charge rules discussed above, you may make an election to include gain on our ADSs or ordinary shares as ordinary income under a mark-to-market method, provided that our ADSs or ordinary shares constitute “marketable stock” (as defined below). If you make a mark-to-market election for our ADSs or ordinary shares, you will include in gross income for each year that we are a PFIC an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares you hold as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as any gain from the actual sale or other disposition of the ADSs or ordinary shares, will be treated as ordinary income. Ordinary loss treatment will apply to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss from the actual sale or other disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, any distributions we make would generally be subject to the tax rules discussed below under “—Dividends and Other Distributions on the ADSs or Ordinary Shares,” except the lower capital gains rate applicable to qualified dividend income generally would not apply.

The mark-to-market election is available only for “marketable stock.” Marketable stock is stock that is regularly traded on a qualified exchange or other market, as defined in applicable Treasury Regulations. Our ADSs, but not our ordinary shares, are listed on the Nasdaq Global Select Market, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs remain listed on the Nasdaq Global Select Market and are regularly traded, and you are a holder of ADSs, we expect that the mark-to-market election will be available to you, but no assurances are given in this regard.

If you make a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or other market, or the IRS consents to the revocation of the election. You are urged to consult your tax advisors regarding the availability of mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Because a mark-to-market election cannot be made for any lower tier PFICs that we may own, if we were a PFIC for any taxable year (as we believe we were for 2017 and prior years), a United States Holder that makes the mark-to-market election may continue to be subject to the tax and interest charges under the general PFIC rules with respect to such United States Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

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

A United States Holder that holds our ADSs or ordinary shares in any year in which we are a PFIC (as we believe we were for 2017 and prior years) will be required to file an annual report containing such information as the United States Treasury Department may require. **You are strongly urged to consult your tax advisors regarding the impact of our ceasing to be a PFIC in 2018 on your investment in our ADSs or ordinary shares, as well as the application of the PFIC rules to your investment in our ADSs or ordinary shares and the availability, application and consequences of the elections discussed above.**

Dividends and Other Distributions on the ADSs or Ordinary Shares

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

Dividends received by a non-corporate United States Holder may qualify for the lower rates of tax applicable to "qualified dividend income," if the dividends are paid by a "qualified foreign corporation" and other conditions discussed below are met. A non-United States corporation is treated as a qualified foreign corporation (i) with respect to dividends paid by that corporation on shares (or American depositary shares backed by such shares) that are readily tradable on an established securities market in the United States or (ii) if such non-United States corporation is eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program. However, a non-United States corporation will not be treated as a qualified foreign corporation if it is a passive foreign investment company in the taxable year in which the dividend is paid or the preceding taxable year.

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

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

You should consult your tax advisors regarding the availability of the lower tax rates applicable to qualified dividend income for any dividends that we pay with respect to the ADSs or ordinary shares, as well as the effect of any change in applicable law after the date of this annual report on Form 20-F.

Any PRC or other non-United States withholding taxes imposed on dividends paid to you with respect to the ADSs or ordinary shares generally will be treated as foreign taxes eligible for credit against your United States federal income tax liability, subject to the various limitations and disallowance rules that apply to foreign tax credits generally. For purposes of calculating the foreign tax credit, dividends paid to you with respect to the ADSs or ordinary shares will be treated as income from sources outside the United States and generally will constitute passive category income. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances.

Disposition of the ADSs or Ordinary Shares

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

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

Information Reporting and Backup Withholding

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

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

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

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

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

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

In accordance with Rule 5250(d) of the Nasdaq Listing Rules, we will post this annual report on Form 20-F on our website at <http://ir.fanhuaholdings.com/sec.cfm>. In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

For a list of our subsidiaries as of March 31, 2021, 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, 2020, 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 the cash and cash equivalent denominated in U.S. dollars that we keep offshore for dividend payments. We have not hedged exposures denominated in foreign currencies using any derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under such policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Removal of the U.S. dollar peg has resulted in an approximately more than 25.0% appreciation of the RMB against the U.S. dollar over the following eight years. In April 2012, the trading band has been widened to 1%, and in March 2014 it was further widened to 2%, which allows the Renminbi to fluctuate against the U.S. dollar by up to 2% above or below the central parity rate published by the PBOC. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. The PRC government may from time to time make further adjustments to the exchange rate system in the future. To the extent that we need to convert our U.S. dollar or other currencies-denominated assets into RMB for our operations, appreciation of the RMB against the U.S. dollar or other currencies would have an adverse effect on the RMB amount we receive from the conversion. We had U.S. dollar-denominated financial assets amounting to US\$10.7 million and HK dollar-denominated financial assets amounting to HK\$3.8 million as of December 31, 2020. A 10% appreciation of the RMB against the U.S. dollar and HK dollar would have resulted in a decrease of RMB7.3 million (US\$1.1 million) in the value of our U.S. dollar-denominated and HK dollar-denominated financial assets. Conversely, if we decide to convert our RMB denominated cash amounts into U.S. dollars amounts or other currencies amounts for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar or other currencies against the RMB would have a negative effect on the U.S. dollar or other currencies amount available to us.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees Payable by ADS Holders

We have appointed J.P. Morgan as our depositary. A copy of our Form of Deposit Agreement with J.P. Morgan was filed with the SEC as an exhibit to our Form F-6 registration statement initially filed on October 17, 2007 and amended on December 7, 2016 and November 28, 2017, or the Deposit Agreement. Pursuant to the Deposit Agreement, holders of our ADSs may have to pay to J.P. Morgan, either directly or indirectly, fees or charges up to the amounts set forth in the table below.

Category	Depositary Actions	Associated Fees
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of shares, including deposits and issuances in respect of: <ul style="list-style-type: none">• Share distributions, stock split, rights, merger• Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the Deposited Securities	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">• Other services performed by the depositary in administering the ADRs• Provide information about the depositary's right, if any, to collect fees and charges by offsetting them against dividends received and deposited securities	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	Expenses incurred on behalf of Holders in connection with <ul style="list-style-type: none">• Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment• The depositary's or its custodian's compliance with applicable law, rule or regulation• Stock transfer or other taxes and other governmental charges• Cable, telex, facsimile transmission/delivery• Expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency)• Any other charge payable by depositary or its agents	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

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, 2019 and 2020, the depositary reimbursed US\$1.7 million and US\$1.1 million, respectively. For the years ended December 31, 2019 and 2020, 30% of the depositary reimbursement has been deducted as withholding income tax, respectively. The amounts the depositary reimbursed are not perforce related to the fees collected by the depositary from ADR holders.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

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

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

None.

E. Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based upon this evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of December 31, 2020, 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 is recorded, processed, summarized and reported within the time periods specified in by the SEC's rules and forms, and that 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, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness 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 or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of the internal control over financial reporting as of December 31, 2020 using criteria established in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2020, based on the criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Fanhua Inc. and its subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated April 28, 2021, expressed an unqualified opinion on those financial statements and included explanatory paragraphs relating to the translation of Renminbi amounts into United States dollars amounts on those financial statements, the financial statements of the Company’s equity investment that were audited by other auditors, and the Company’s adoption of Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) and related ASUs using a modified-retrospective approach.

Basis for Opinion

The Company’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 Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness 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 or procedures may deteriorate.

/s/ Deloitte Touche Tohmatsu
Hong Kong
April 28, 2021

Changes in Internal Control over Financial Reporting

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

Based on the evaluation we conducted, management has concluded that except for the change due to adoption of the new accounting standards related to credit losses, there has been no such change during the period covered by this annual report on Form 20-F.

Item 16A. Audit Committee Financial Expert

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

Item 16B. Code of Ethics

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees. We have posted a copy of our code of business conduct and ethics on our investor relations website at <http://ir.fanhuaholdings.com/governance.cfm>.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu, our independent registered public accounting firm, for the periods indicated.

	For the Year Ended December 31,	
	2019	2020
	(in thousands of US\$)	
Audit fees ⁽¹⁾	1,693.3	1,600.0
Audit-related fees ⁽²⁾	250.8	—
Tax fees ⁽³⁾	—	—
All other fees ⁽⁴⁾	0.4	—

(1) “Audit fees” meant the aggregate fees billed and expected to be billed in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements and review of quarterly financial statements included in our reports on Form 6-K, services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) “Audit-related fees” meant the aggregate fees billed in each of the fiscal years listed for assurance and related services by our independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.”

(3) “Tax fees” meant the aggregate fees billed in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning.

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

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm, including audit services, audit-related services, tax services and other services as described above, 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

There was no purchase of equity securities by us and our affiliates in 2020.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

NASDAQ Stock Market Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. However, NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters. Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year. We followed home country practice with respect to annual meetings and did not hold an annual meeting of shareholders from 2009 to 2015 and from 2017 to 2020. However, we held an extraordinary general meeting on December 6, 2016 and obtained requisite shareholders' approval to change the Company name from "CNinsure Inc." to "Fanhua Inc.". We may hold annual or extraordinary shareholder meetings in the future if there are significant issues that require shareholders' approvals.

We obtained approvals from the board of directors on November 27, 2014 and December 12, 2014 to issue up to 150,000,000 ordinary shares of the Company (the "Shares") to our employees, excluding directors and officers. The purchase prices for the Shares are based on the average closing prices for the then 20 trading days prior to the board approvals.

On August 29, 2018, we obtained approvals from the board of directors to resell 28,475,480 ordinary shares, in the form of 1,423,774 ADS of treasury stocks and newly issue and sell 101,524,520 ordinary shares in the form of 5,076,226 ADSs to participants in our 521 plan consisting of our key employees and entrepreneurial team leaders, at \$25.52 per ADS, or the weighted average of the closing prices of the share repurchases under the 2018 Share Repurchase Program. The transactions were completed on January 24, 2019. Pursuant to the NASDAQ Stock Market Rule 5635(c), shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, except for a few situations stated thereunder. Maples and Calder (Hong Kong) LLP, our Cayman Island counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to obtain shareholder approval in respect of the issuance of securities in the circumstances set out in NASDAQ Stock Market Rule 5635(c). We follow home country practice accordingly.

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

Item 16H. Mine Safety Disclosure

Not applicable

PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

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

Item 19. Exhibits

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No. 333-146605), as adopted by special resolution dated December 6, 2016, initially filed with the Commission on October 10, 2007)
1.2	Amendments to the Articles of Association adopted by the shareholders of the Registrant on December 18, 2008 (incorporated by reference to Exhibit 99.2 of our report on Form 6-K furnished to the Commission on December 22, 2008)
1.3	Amendments to the Articles of Association adopted by the shareholders of the Registrant on December 6, 2016 (incorporated by reference to Exhibit 1.3 of our annual report on Form 20-F initially filed with the Commission on April 19, 2017)
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)
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, as amended and restated (incorporated by reference to Exhibit 99.(a) of our F-6 registration statement (File No. 333-146765), filed with the Commission on November 28, 2017)
2.4	Description of securities (incorporated by reference to Exhibit 2.4 of our annual report on Form 20-F filed with the Commission on April 29, 2020)
4.1	2007 Share Incentive Plan (as amended and restated effective December 18, 2008) (incorporated by reference to Exhibit 99.3 of our report on Form 6-K furnished to the Commission on December 22, 2008)
4.2	Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.3 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.3	Form of Director Agreement with Independent Directors of the Registrant (incorporated by reference to Exhibit 10.4 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)
4.4	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 4.4 of our annual report on Form 20-F filed with the Commission on May 15, 2009)
4.5*	English Translation of the Form of Supplementary Agreement, dated December 1, 2020, among Participants to the 521 Plan, CISG Holdings Ltd. and Fanhua Employees Holdings Limited, Treasure Chariot Limited, or Step Tall Limited.
8.1*	Subsidiaries and Affiliated Entities of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 of our F-1 registration statement (File No. 333-146605), as amended, initially filed with the Commission on October 10, 2007)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder (Hong Kong) LLP
15.2*	Consent of Global Law Office
15.3*	Consent of Deloitte Touche Tohmatsu
15.4*	Financial information from CNFinance Holdings Limited for the year ended December 31, 2020, prepared in accordance with U.S. Generally Accepted Accounting Principles:
	(i) Consolidated Balance Sheets as of December 31, 2019 and 2020;
	(ii) Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2018, 2019 and 2020;
	(iii) Consolidated Statements of Shareholder's Equity for the Years Ended December 31, 2018, 2019 and 2020;
	(iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2019 and 2020;
	(v) Notes to Consolidated Financial Statements.
101*	Financial information from Registrant for the year ended December 31, 2020 formatted in Inline eXtensible Business Reporting Language (XBRL):
	(i) Consolidated Balance Sheets as of December 31, 2019 and 2020;
	(ii) Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2018, 2019 and 2020;
	(iii) Consolidated Statements of Shareholder's Equity for the Years Ended December 31, 2018, 2019 and 2020;
	(iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2019 and 2020;
	(v) Notes to Consolidated Financial Statements; and
	Schedule 1 — Condensed Financial Information of Fanhua Inc.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

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

SIGNATURES

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

FANHUA INC.

By: /s/ Chunlin Wang

Name: Chunlin Wang

Title: Chief Executive Officer

Date: April 28, 2021

FANHUA INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fanhua Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2020, the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes and schedule 1 (collectively referred to as the “financial statements”). In our opinion, based on our audits and the report of the other auditor, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of CNFinance Holdings Limited, or CNFinance, the Company’s investment in which is accounted for by use of the equity method. The accompanying financial statements of the Company include its equity investment in CNFinance of RMB353 million and RMB348 million as of December 31, 2019 and 2020, respectively, and its equity earnings in CNFinance of RMB171 million, RMB99 million, and RMB18 million for the years ended December 31, 2018, 2019, and 2020, respectively. Those statements were audited by other auditors whose report (which, as of 2020, included an explanatory paragraph concerning completion of a reorganization) has been furnished to us, and our opinion, insofar as it relates to the amounts included for CNFinance, is based solely on the report of the other auditors.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting based on our audit.

Change in Accounting Principle

As discussed in Note 2(aa) to the financial statements, the Company has changed its method of accounting for leases on January 1, 2019 due to the adoption of Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) and related ASUs using a modified-retrospective approach.

Convenience Translation

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(u) to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside of People’s Republic of China.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Investment in Affiliates - Other-than-temporary Impairment ("OTTI") assessment of the equity method investment in CNFinance Holdings Limited ("CNFinance") — Refer to Notes 2(i) and 7 to the financial statements

Critical Audit Matter Description

The Company accounts for its 18.5% of equity interests in CNFinance using the equity method (the "EMI in CNFinance" or the "investment"). The Company reviews its equity method investment periodically to determine whether an other-than-temporary impairment may exist. The factors used by management to make this determination include the duration and severity of the fair value decline, the financial condition and near-term prospects of CNFinance, and the Company's intent and ability to hold its EMI in CNFinance until recovery. As of December 31, 2020, the fair value of the EMI in CNFinance was below the carrying value although CNFinance generated positive operating income where the Company enjoyed its share of income. Based on management's evaluation, it was concluded that the decline in fair value of its investment in CNFinance below its carrying value is deemed to be other-than-temporary.

Given the significant judgment required to determine whether the decline in fair value of the EMI in CNFinance represents a temporary or other-than-temporary impairment, performing audit procedures to evaluate the reasonableness of management's assessment required a high degree of auditor judgement and an increased extent of effort.

Critical Audit Matter (Continued)

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of the reasonableness of the Company's impairment assessment discussed above included the following, among others:

- We tested the operating effectiveness of the controls relating to management's impairment assessment for the EMI in CNFinance.
- We evaluated the appropriateness of management's OTTI assessment that the loss in value was other-than-temporary in accordance with accounting principles generally accepted in the United States of America, including 1) whether relevant positive and negative factors have been appropriately identified; 2) considerations around the severity and/or duration of the decline in the market value of CNFinance represents an other-than-temporary loss; and 3) the Company's expectation of likelihood of recovery to occur in the near term and its intent and ability to hold the impaired equity investment until recovery.
- We evaluated the appropriateness and accuracy of information used in the OTTI assessment by inspecting evidence used in management's assessment and corroborating the information to appropriate independent data. The data and key assumptions include the following:
 - Historical and expected financial condition and near-term prospects of CNFinance
 - The publicly traded stock price of CNFinance and corresponding volatility
 - Changes to the macro-economic, competitive and operational environment

/s/ Deloitte Touche Tohmatsu
Hong Kong
April 28, 2021

We have served as the Company's auditor since 2007.

FANHUA INC.

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

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$ Note 2(u)
ASSETS:			
Current assets:			
Cash and cash equivalents	169,653	245,428	37,613
Restricted cash	95,952	83,981	12,871
Short term investments (Note 2(d))	1,612,351	1,307,865	200,439
Accounts receivable, net of allowances of RMB20,495 and RMB29,000 (US\$4,444) as of December 31, 2019 and 2020, respectively (Note 2(e))	682,171	583,116	89,367
Insurance premium receivables (Note 2(e))	5,067	—	—
Other receivables, net (Note 4)	61,570	50,242	7,700
Other current assets	54,987	41,148	6,306
Total current assets	2,681,751	2,311,780	354,296
Non-current assets:			
Restricted bank deposit - non current	—	20,689	3,171
Property, plant, and equipment, net (Note 5)	40,806	36,778	5,637
Goodwill, net (Note 6)	109,869	109,869	16,838
Intangible assets, net (Note 2(g))	322	44	7
Deferred tax assets (Note 12)	7,327	10,032	1,537
Investments in affiliates (Note 7)	363,414	357,661	54,814
Other non-current assets (Note 2(j))	46,917	33,743	5,171
Right of use assets (Note 8)	190,437	200,403	30,713
Total non-current assets	759,092	769,219	117,888
Total assets	3,440,843	3,080,999	472,184
LIABILITIES AND EQUITY:			
Current liabilities:			
Accounts payable	382,882	377,386	57,837
Insurance premium payables	7,901	25,421	3,896
Other payables and accrued expenses (Note 10)	220,290	188,448	28,881
Accrued payroll	101,664	105,739	16,205
Income taxes payable	155,251	145,983	22,373
Current operating lease liability (Note 8)	79,986	86,233	13,216
Total current liabilities	947,974	929,210	142,408

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

FANHUA INC.

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

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$ Note 2(u)
Non-current liabilities:			
Other tax liabilities (Note 12)	70,350	67,219	10,302
Deferred tax liabilities (Note 12)	7,898	26,380	4,042
Refundable share rights deposits (Including refundable share rights deposits of the consolidated VIE of RMB266,901 and nil as of December 31, 2019 and 2020, respectively) (Note 9)	266,901	—	—
Non-current operating lease liability (Note 8)	103,252	103,526	15,866
Total non-current liabilities	448,401	197,125	30,210
Total liabilities	1,396,375	1,126,335	172,618
Commitments and contingencies (Note 17)			
Equity:			
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued 1,252,367,264 and 1,073,891,784 shares, of which 1,073,891,784 and 1,073,891,784 shares were outstanding as of December 31, 2019 and 2020, respectively) (Note 13)	9,235	8,089	1,240
Treasury stock (Note 20)	(1,146)	—	—
Additional paid-in capital	393	—	—
Statutory reserves (Note 15)	508,739	553,911	84,891
Retained earnings	1,479,494	1,306,554	200,238
Accumulated other comprehensive loss	(65,429)	(34,995)	(5,363)
Total shareholders' equity	1,931,286	1,833,559	281,006
Noncontrolling interests	113,182	121,105	18,560
Total equity	2,044,468	1,954,664	299,566
Total liabilities and shareholders' equity	3,440,843	3,080,999	472,184

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

FANHUA INC.

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

	Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
				Note 2(u)
Net revenues:				
Agency	3,143,873	3,335,397	2,834,997	434,482
Life insurance business	2,870,776	3,193,625	2,703,584	414,342
P&C insurance business	273,097	141,772	131,413	20,140
Claims adjusting	327,390	370,606	433,148	66,383
Total net revenues	3,471,263	3,706,003	3,268,145	500,865
Operating costs and expenses:				
Agency	(2,151,856)	(2,263,952)	(1,953,744)	(299,425)
Life insurance business	(1,943,053)	(2,166,126)	(1,866,227)	(286,012)
P&C insurance business	(208,803)	(97,826)	(87,517)	(13,413)
Claims adjusting	(194,159)	(219,496)	(260,121)	(39,865)
Total operating costs	(2,346,015)	(2,483,448)	(2,213,865)	(339,290)
Selling expenses	(231,075)	(278,085)	(288,460)	(44,208)
General and administrative expenses	(468,430)	(475,107)	(463,634)	(71,055)
Total operating costs and expenses	(3,045,520)	(3,236,640)	(2,965,959)	(454,553)
Income from operations	425,743	469,363	302,186	46,312
Other income, net:				
Investment income related to the realized gain on available-for-sale investments	195,456	79,070	34,789	5,332
Interest income	34,207	2,828	13,420	2,057
Others, net	11,807	9,664	11,907	1,825
Income before income taxes, share of income and impairment of affiliates, net	667,213	560,925	362,302	55,526
Income tax expense	(224,586)	(143,816)	(83,387)	(12,780)
Share of income and impairment of affiliates, net	174,468	(224,555)	(2,738)	(420)
Net income	617,095	192,554	276,177	42,326
Less: net income attributable to the noncontrolling interests	7,180	3,622	7,923	1,214
Net income attributable to the Company's shareholders	609,915	188,932	268,254	41,112

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

FANHUA INC.

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

	Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
				Note 2(u)
Net income per share:				
Basic	0.49	0.17	0.25	0.04
Diluted:	0.49	0.17	0.25	0.04
Net income per American Depositary Shares (“ADS”):				
Basic:	9.84	3.46	5.00	0.77
Diluted:	9.83	3.46	4.99	0.77
Shares used in calculating net income per share:				
Basic:	1,239,264,464	1,092,601,338	1,073,891,784	1,073,891,784
Diluted	1,240,854,034	1,093,229,436	1,074,291,360	1,074,291,360
Net income	617,095	192,554	276,177	42,326
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(10,194)	10,178	9,639	1,477
Unrealized net gains on available-for-sale investments	—	17,231	23,811	3,649
Share of other comprehensive (loss) gain of affiliates	(1,763)	452	(3,016)	(462)
Total Comprehensive income	605,138	220,415	306,611	46,990
Less: Comprehensive income attributable to the noncontrolling interests	7,180	3,622	7,923	1,214
Comprehensive income attributable to the Company’s shareholders	597,958	216,793	298,688	45,776

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

FANHUA INC.

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

	Share Capital		Additional Paid-in Capital	Treasury Stock		Statutory Reserves	Retained Earnings	Accumulated Other	Subscription Receivables	Noncontrolling Interests	Total
	Number of Share	Amounts RMB		Number of Share	Amounts RMB			Comprehensive loss			
			RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2018	1,300,191,084	9,571	2,429,559	—	—	311,038	1,468,708	(93,108)	(248,717)	111,342	3,988,393
Net income	—	—	—	—	—	—	609,915	—	—	7,180	617,095
Foreign currency translation	—	—	—	—	—	—	—	1,581	(11,775)	—	(10,194)
Exercise of share options	1,760,000	12	3,274	—	—	—	—	—	—	—	3,286
Repurchase of ordinary shares from shareholder (Note 13)	—	—	(1,464,163)	150,000,000	(960)	—	—	—	—	—	(1,465,123)
Repurchase of ordinary shares from open market (Note 20)	—	—	(251,024)	28,475,480	(196)	—	—	—	—	—	(251,220)
Provision for statutory reserves	—	—	—	—	—	169,843	(169,843)	—	—	—	—
Subscription receipt	—	—	—	—	—	—	—	—	260,492	—	260,492
Distribution of dividend	—	—	(280,470)	—	—	—	(108,791)	—	—	(4,979)	(394,240)
Share of other comprehensive loss of affiliates	—	—	—	—	—	—	—	(1,763)	—	—	(1,763)
Balance as of December 31, 2018	1,301,951,084	9,583	437,176	178,475,480	(1,156)	480,881	1,799,989	(93,290)	—	113,543	2,746,726
Net income	—	—	—	—	—	—	188,932	—	—	3,622	192,554
Foreign currency translation	—	—	—	—	—	—	—	10,178	—	—	10,178
Exercise of share options	640,000	4	—	—	—	—	—	—	—	—	4
Repurchase of ordinary shares from open market (Note 20)	—	—	(437,176)	50,223,820	(342)	—	(46,497)	—	—	—	(484,015)
Cancellation of treasury shares	(50,223,820)	(352)	—	(50,223,820)	352	—	—	—	—	—	—
Share-based compensation	—	—	393	—	—	—	—	—	—	—	393
Provision for statutory reserves	—	—	—	—	—	38,814	(38,814)	—	—	—	—
Distribution of dividend	—	—	—	—	—	—	(435,072)	—	—	(3,790)	(438,862)
Disposal of subsidiaries	—	—	—	—	—	(10,956)	10,956	—	—	(193)	(193)
Unrealized net gains on available-for-sale investments	—	—	—	—	—	—	—	17,231	—	—	17,231
Share of other comprehensive gain of affiliates	—	—	—	—	—	—	—	452	—	—	452
Balance as of December 31, 2019	1,252,367,264	9,235	393	178,475,480	(1,146)	508,739	1,479,494	(65,429)	—	113,182	2,044,468

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

FANHUA INC.

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

	Share Capital		Additional Paid-in Capital	Treasury Stock		Statutory Reserves	Retained Earnings	Accumulated Other Comprehensive loss	Subscription Receivables	Noncontrolling Interests	Total
	Number of Share	Amounts RMB		Number of Share	Amounts RMB						
Cumulative-effect adjustment to beginning balance from adoption of ASU 2016-13	—	—	—	—	—	—	(7,523)	—	—	—	(7,523)
Net income	—	—	—	—	—	—	268,254	—	—	7,923	276,177
Foreign currency translation	—	—	—	—	—	—	—	9,639	—	—	9,639
Cancellation of treasury shares	(178,475,480)	(1,146)	—	(178,475,480)	1,146	—	—	—	—	—	—
Share-based compensation (Note 2(o))	—	—	(393)	—	—	—	—	—	—	—	(393)
Provision for statutory reserves	—	—	—	—	—	45,172	(45,172)	—	—	—	—
Distribution of dividend	—	—	—	—	—	—	(388,499)	—	—	—	(388,499)
Unrealized net gains on available-for- sale investments	—	—	—	—	—	—	—	23,811	—	—	23,811
Share of other comprehensive gain of affiliates	—	—	—	—	—	—	—	(3,016)	—	—	(3,016)
Balance as of December 31, 2020	1,073,891,784	8,089	—	—	—	553,911	1,306,554	(34,995)	—	121,105	1,954,664
Balance as of December 31, 2020 in US\$ (Note 2(u))	1,073,891,784	1,240	—	—	—	84,891	200,238	(5,363)	—	18,560	299,566

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

FANHUA INC.

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$ Note 2(u)
OPERATING ACTIVITIES				
Net income	617,095	192,554	276,177	42,326
Adjustments to reconcile net income to net cash generated from operating activities:				
Depreciation expense	10,833	16,280	17,658	2,706
Amortization of intangible assets	15,946	942	281	43
Non-cash operating lease expense	—	69,482	95,423	14,624
Allowance for credit losses on financial assets	6,791	6,533	18,837	2,887
Compensation expenses associated with stock options	—	393	(393)	(60)
Loss (gain) on disposal of property, plant and equipment	(133)	25	1,295	198
Fair value change of non-current assets	—	4,241	—	—
Investment income	(156,047)	(65,616)	(14,321)	(2,195)
Loss on disposal of subsidiaries	—	58	—	—
Share of income and impairment of affiliates, net	(174,468)	224,555	2,738	420
Deferred taxes	(18,744)	4,475	15,778	2,418
Changes in operating assets and liabilities:				
Accounts receivable	(70)	(180,230)	90,550	13,877
Insurance premium receivables	(942)	200	5,067	777
Other receivables	(7,272)	3,973	4,452	682
Other current assets	(15,126)	4,003	13,839	2,121
Other non-current assets	(6,291)	1,612	2,245	344
Accounts payable	129,661	50,205	(5,496)	(842)
Insurance premium payables	5,695	(7,347)	17,520	2,685
Other payables and accrued expenses	21,462	(25,533)	(32,159)	(4,929)
Accrued payroll	20,213	4,052	4,075	625
Income taxes payable	75,224	(49,969)	(9,269)	(1,421)
Lease liability	—	(76,564)	(98,866)	(15,152)
Other tax liabilities	—	—	(3,131)	(480)
Net cash generated from operating activities	523,827	178,324	402,300	61,654
Cash flows used in investing activities:				
Purchase of short term investments	(11,380,198)	(7,498,701)	(7,947,662)	(1,218,032)
Proceeds from disposal of short term investments	12,488,495	7,523,257	8,287,924	1,270,180
Purchase of property, plant and equipment	(22,765)	(19,686)	(15,250)	(2,337)
Proceeds from disposal of property and equipment	203	47	324	50
Disposal of subsidiaries, net of cash disposed of RMB576, RMB1,517 and nil in 2018, 2019 and 2020, respectively	—	7,042	—	—
Cash rendered for loan receivable from a third party	—	—	(90,000)	(13,793)
Cash received for loan repayments from a third party	—	—	90,000	13,793
Others	481,850	—	—	—
Net cash generated from investing activities	1,567,585	11,959	325,336	49,861

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

FANHUA INC.

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

	Year Ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$ Note 2(u)
Cash flows from financing activities:				
Proceeds of employee and grantee subscriptions	211,054	111,304	—	—
Repayment of refundable share rights deposits to the 521 Plan participants (Note 9)	—	—	(250,312)	(38,362)
Dividends paid	(326,725)	(435,072)	(388,499)	(59,540)
Dividend distributed to noncontrolling interest	(4,979)	(3,790)	—	—
Proceeds on exercise of stock options	3,286	4	—	—
Repurchase of ordinary shares from open market	(251,220)	(484,015)	—	—
Repurchase of ordinary shares from a shareholder	(1,318,611)	—	—	—
Proceed related to disposal of subsidiaries	22,689	19,463	—	—
Net cash used in financing activities	(1,664,506)	(792,106)	(638,811)	(97,902)
Net increase (decrease) in cash and cash equivalents, and restricted cash	426,906	(601,823)	88,825	13,613
Cash and cash equivalents and restricted cash at beginning of year	439,033	848,166	265,605	40,706
Effect of exchange rate changes on cash and cash equivalents	(17,773)	19,262	(4,332)	(664)
Cash and cash equivalents and restricted cash at end of year	848,166	265,605	350,098	53,655
Reconciliation in amounts on the consolidated Balance Sheets:				
Cash and cash equivalents at end of year	772,823	169,653	245,428	37,613
Restricted cash at end of year	75,343	95,952	104,670	16,042
Total of cash and cash equivalents and restricted cash at the end of the year	848,166	265,605	350,098	53,655
Supplemental disclosure of cash flow information:				
Income taxes paid	109,863	189,487	79,063	12,117
Supplemental disclosure of non-cash operating activity:				
Interest repayment	5,557	—	—	—
Effect on operating assets upon the adoption of ASU 2016-13 on January 1, 2020	—	—	7,523	1,153
Supplemental disclosure of non-cash investing activities:				
Disposal of subsidiaries	10,638	61,372	—	—
Right-of-use assets obtained in exchange for lease obligations, net of decrease of right-of-use assets for early terminations (Note 8)	—	78,344	108,178	16,579
Conversion of the convertible loan receivables into equity interest (Note 2 (j))	—	10,929	—	—
Supplemental disclosure of non-cash financing activities:				
Dividends offset against proceeds of employee subscriptions	49,438	—	—	—
Dividends payment offset	(62,536)	—	—	—
10% consideration related to repurchase of ordinary shares from a shareholder (Note 9)	146,512	(8,184)	—	—

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

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

(1) Organization and Description of Business

Fanhua Inc. (the “Company”) (formally known as “CNinsure Inc.”) was incorporated in the Cayman Islands on April 10, 2007 and listed on the Nasdaq on October 31, 2007. The Company, its subsidiaries and its variable interest entities (the “VIEs”) are collectively referred to as the “Group”. The Group is principally engaged in the provision of agency services and insurance claims adjusting services in the People’s Republic of China (the “PRC”).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The consolidated financial statements include the financial statements of the Company, all its 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. In December 2020, the Group cancelled the 521 Plan and as a result, the Group no longer consolidates any VIE as of December 31, 2020. See Note 9 for detail.

(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 reported period. The Group’s management, base their estimates on historical experience and various other factors, believed to be reasonable under the circumstances, that the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group’s consolidated financial statements included estimates of allowance for doubtful receivables and equity-method investment impairment assessments. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents and Restricted Cash

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

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

(2) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash Equivalents and Restricted Cash (Continued)

In its capacity as an insurance agent, 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 of RMB4,646 and RMB25,290 as of December 31, 2019 and 2020, respectively. 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, restricted cash balance includes the entrustment deposit received from the members of eHuzhu, an online mutual aid platform operated by the Group, which is to be used during the one-year operating cycle and is therefore classified as a current asset. The balance for entrustment deposit was RMB75,364 and RMB58,691 as of December 31, 2019 and 2020, respectively. Further, restricted cash balance includes guarantee deposit required by China Banking and Insurance Regulatory Commission (“CBIRC”) in order to protect insurance premium appropriation by insurance agency which is restricted as to withdrawal for other than current operations. Thus, the Group classified the balance for guarantee deposit as a non-current asset in 2020. The balance for guarantee was RMB15,942 and RMB20,689 as of December 31, 2019 and 2020, respectively.

(d) Short Term Investments

Short term investments are mainly available-for-sale investments in debt securities that do not have a quoted market price in an active market. Available-for-sale investments are carried at fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income or loss. The Group benchmarks the values of its other investments against fair values of comparable investments and reference to product valuation reports as of the balance sheet date, and categorizes all fair value measures of short term investments as level 2 of the fair value hierarchy.

The Group evaluates each individual investment periodically for impairment. For investments where the Group does not intend to sell, the Group evaluates whether a decline in fair value is due to deterioration in credit risk. Credit-related impairment losses, not to exceed the amount that fair value is less than the amortized cost basis, are recognized through an allowance for credit losses on the consolidated balance sheet with corresponding adjustment in the consolidated statements of operations and comprehensive income. Subsequent increases in fair value due to credit improvement are recognized through reversal of the credit loss and corresponding reduction in the allowance for credit loss. Any decline in fair value that is non-credit related is recorded in accumulated other comprehensive income as a component of shareholder’s equity. As of December 31, 2020, there were no investments held by the Group that had been in continuous unrealized loss position.

The short term investments balance were RMB1,612,351 and RMB1,307,865 as of December 31, 2019 and 2020, respectively. No impairment loss on short term investments was identified for years ended December 31, 2018, 2019 and 2020, respectively.

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

(2) Summary of Significant Accounting Policies (Continued)

(e) Accounts Receivable and Insurance Premium Receivables

Accounts receivable are recorded at the amount that the Group expects to collect and do not bear interest. Accounts receivable represent fees receivable on agency and claims adjusting services primarily from insurance companies. The Group's accounts receivables include trade-related receivables and contract assets (see Note 2(r)). Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows.

The Group evaluates the collectability of its trade receivables and contract assets based on a combination of factors. The Group generally does not require collateral on trade receivables and contract assets as the majority of the Group's customers are large, well-established insurance companies. The Group estimates allowances for expected credit losses using relevant available information from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Credit loss expenses are assessed quarterly and included in general and administrative expense on the consolidated statements of income and comprehensive income.

Accounts receivable, net is analyzed as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Accounts receivable	702,666	612,116
Allowance for doubtful accounts	(20,495)	(29,000)
Accounts receivable, net	682,171	583,116

The following table summarizes the movement of the Group's allowance for expected credit losses of accounts receivables:

	2018	2019	2020
	RMB	RMB	RMB
Balance at the beginning of the year	20,198	21,241	20,495
Cumulative-effect adjustment upon adoption of ASU 2016-13	—	—	7,436
Current period provision for expected credit losses	6,791	6,533	4,831
Write-offs	(5,748)	(7,279)	(3,762)
Balance at the end of the year	21,241	20,495	29,000

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

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

(2) Summary of Significant Accounting Policies (Continued)

(f) Property, Plant and Equipment

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

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

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

	2018	2019	2020
	RMB	RMB	RMB
Operating costs	232	216	199
Selling expenses	4,769	7,144	7,350
General and administrative expenses	5,832	8,920	10,109
Depreciation expense	<u>10,833</u>	<u>16,280</u>	<u>17,658</u>

(g) Goodwill and Other Intangible Assets

Goodwill and amortization of intangible assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired in a business combination. 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 two reporting units for the year ended December 31, 2020.

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

(2) Summary of Significant Accounting Policies (Continued)

(g) Goodwill and Other Intangible Assets (Continued)

Goodwill and amortization of intangible assets (Continued)

Prior to January 1, 2020, the Group performed a two-step quantitative impairment test to determine the amount, if any, of goodwill impaired. The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the goodwill and the carrying value of the goodwill will be recorded. Starting from January 1, 2020, the Group adopted ASU 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. The impairment test is performed as of year-end or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount by comparing the fair value of a reporting unit with its carrying value. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

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. Estimates of fair value are primarily determined by using discounted cash flows. Discounted cash flows method is 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 2019 and 2020, management compared 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, the management concluded that goodwill was not impaired as of December 31, 2019 and 2020, respectively.

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 intangible assets categorized as customer relationships are computed using the accelerated method, while amortization for other identifiable intangible assets are 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.

The intangible assets, net consisted of trade names with cost of RMB8,898 as of December 31, 2019 and 2020, respectively. The trade names have an estimated useful life of 9.4 to 10 years and accumulated amortization of RMB8,576 and RMB8,854 as of December 31, 2019 and 2020, respectively. The residual balance will be fully amortized as expenses in 2021. Aggregate amortization expenses for intangible assets were RMB15,946, RMB942 and RMB281 for the years ended December 31, 2018, 2019 and 2020, respectively.

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

(2) Summary of Significant Accounting Policies (Continued)

(g) Goodwill and Other Intangible Assets (Continued)

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 assets with determinable useful lives against the estimated undiscounted future cash flows associated with each asset. 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, 2018, 2019 and 2020, the Group recognized no 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 a third party, if any. During the years ended December 31, 2018, 2019 and 2020, the Group recognized no impairment losses on its indefinite-lived intangible assets.

(h) Other Receivables and Other Current Assets

Other receivables and other current assets mainly consist of loans and amounts due from third parties, advances, deposits, interest receivables and prepaid expenses. See Note 4 for details.

(i) Investment in Affiliates

The Group uses the equity method of accounting for investments in which the Group has the ability to exercise significant influence, but does not have a controlling interest.

The Group continually reviews its investment in equity investees to determine whether a decline in fair value to an amount below the carrying value is other-than temporary. The primary factors the Group considers in its determination are the duration and severity of the decline in fair value; the financial condition, operating performance and the prospects of the equity investee; and other company specific information such as the stock price of the investee and its corresponding volatility, if publically traded, the Group's intent and ability to hold the investment until recovery, and changes in the macro-economic, competitive and operational environment of the investee. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value.

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

(2) Summary of Significant Accounting Policies (Continued)

(j) Long-term Equity Investments and Convertible Loan Receivable

Other non-current assets mainly represent long-term equity investments accounted for under the measurement alternative method and the convertible loan receivable.

Equity securities without readily determinable fair value

The Group has long-term investments in equity security of certain privately held companies which the Group exerts no significant influence or a controlling interest. As a result of adoption of “*Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*” (“ASU 2016-01”) in January 1, 2019, equity securities without readily determinable fair values that do not qualify for the practical expedient in ASC 820, Fair Value Measurements and Disclosure to estimate fair value using the net asset value per share (or its equivalent) of the investment, are measured and recorded using a measurement alternative that measures the securities at cost less impairment, if any, plus or minus changes resulting from qualifying observable price changes.

At each reporting period, the Group makes a qualitative assessment considering impairment indicators to separately evaluate whether each of its equity securities without readily determinable fair is impaired. Impairment indicators that the Group considers include, but are not limited to a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee, factors such as negative cash flows from operations and working capital deficiencies that raise significant concerns about the investee’s ability to continue as a going concern, current economic and market conditions and other specific information.

The Group used the discounted cash flow method to estimate the fair value of its equity securities without readily determinable fair value as of each reporting date and recorded an impairment of nil, nil and RMB10,929 during the years ended December 31, 2018, 2019 and 2020, respectively, in the consolidated statements of income and comprehensive income.

Convertible loan receivable

The Group has elected the fair value option for the convertible loan receivable, which permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The convertible loan receivable accounted for under the fair value option are carried at fair value with realized or unrealized gains and losses recorded in the consolidated income statements.

On October 10, 2019, the Group partially exercised the conversion option embedded in its convertible loan receivable from Beijing Cheche Technology Co. Ltd. and waived the conversion right on the remaining balance. Upon conversion, the Group uses the relative carrying amount approach to record RMB10,929 as the initial cost of the equity investment converted in Cheche Cayman in other non-current assets, and RMB6,830 in other receivables, net (see Note 4) for the unconvertible balance of RMB50,000 plus interest in the consolidated balance sheets. Thus, there was no such assets included in the balance of other non-current assets as of December 31, 2019 and 2020, respectively.

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

(2) Summary of Significant Accounting Policies (Continued)

(k) Impairment of Long-Lived Assets

Property, plant, and equipment 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 for the amount by which the carrying value 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) Treasury shares

Treasury shares represent ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchased ordinary shares are recorded whereby the total par value of shares acquired is recorded as treasury stock and the difference between the par value and the amount of cash paid is recorded in additional paid-in capital. If additional paid-in capital is not available or is not sufficient, the remaining amount is to reduce retained earnings. See Note 20 for details.

(n) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for temporary differences between the tax basis 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.

The Group presents an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the balance sheets as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the Group to use, and the Group does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit is presented in the balance sheets as a liability.

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

(2) Summary of Significant Accounting Policies (Continued)

(o) Share-based Compensation

All forms of share-based payments to employees and nonemployees, including stock options and stock purchase plans, are treated the same as any other form of compensation by recognizing the related cost in the consolidated statements of income and comprehensive income. 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 to 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 and nonemployees forfeit because a service condition or a performance condition is not satisfied.

Employee share-based compensation

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, while no compensation cost is recognized if the requisite service is not rendered.

Nonemployee share-based compensation

The Group early adopted the ASU 2019-07, “*Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*”, prospectively starting from 2019. Consistent with the accounting requirement for employee share-based compensation, nonemployee share-based compensation within the scope of Topic 718 are measured at grant-date fair value of the equity instruments, which the Group is obligated to issue when the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied.

Classification of award

Options or similar instruments on shares shall be classified as liabilities instead of equity if either of the following conditions is met:

- The underlying shares are classified as liabilities;
- The Group can be required under any circumstances to settle the option or similar instrument by transferring cash or other assets.

The Group measures a liability award under a share-based payment arrangement based on the award’s fair value remeasured at each reporting date until the date of settlement. The corresponding credit is recorded as a share-based liability. Compensation cost for each period until settlement shall be based on the change (or a portion of the change, depending on the percentage of the requisite service that has been rendered at the reporting date) in the fair value of the instrument for each reporting date.

The Group measures an equity award based on the awards’ fair value on grant date and recognizes the compensation cost over the vesting periods, with the corresponding credit recorded as additional paid-in capital.

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

(2) Summary of Significant Accounting Policies (Continued)

(o) Share-based Compensation (Continued)

Modification of an Award

A change in any of the terms or conditions of the awards is accounted for as a modification of the award. Incremental compensation cost 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 fair value of the awards and other pertinent factors at the modification date. For vested awards, the Group recognizes incremental compensation cost in the period the modification occurs. For unvested awards, the Group recognizes over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified award is lower than the fair value of the original award immediately before modification, the minimum compensation cost the Group recognizes is the cost of the original award.

Cancellation of an Award

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 immediately at the cancellation date.

The Group recognized share-based compensation expenses of nil and RMB393 for the years ended December 31, 2018 and 2019, respectively in the selling, general and administrative expenses. In the third quarter of 2020, the Group concluded that the stock options related to the 521 Plan were not probable to be vested because the performance target was not probable to be met. Accordingly, RMB393 of cumulative cost recognized in prior periods was reversed. In December 2020, the Group canceled the 521 Plan without any replacement awards (see more details in Note 19(b)).

(p) Employee Benefit Plans

As stipulated by the regulations of the PRC, the Group's subsidiaries 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 statements of income and comprehensive income as they become payable in accordance with the rules of the above mentioned defined contribution plans.

(q) Revenue Recognition

On January 1, 2018, the Group adopted ASC 606 "Revenue from Contracts with Customers" ("ASC 606") and applied the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and reported under the accounting standards in effect for the periods presented.

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

(2) Summary of Significant Accounting Policies (Continued)

(q) Revenue Recognition (Continued)

The Group's revenue from contracts with insurance companies is derived principally from the provision of agency and claims adjusting services, and insurance companies are defined as the Group's customers under ASC 606. The Group disaggregates its revenue from different types of service contracts with customers by principal service categories, as the Group believes it best depicts the nature, amount, timing and uncertainty of its revenue and cash flows. See Note 22 for detailed disaggregated revenue information that is disclosed for each reportable segment.

The following is a description of the accounting policy for the principal revenue streams of the Group.

Insurance agency services revenue

The Group derives agency revenue serving as a sales agent to distribute various life insurance and property and casualty ("P&C") insurance products on behalf of insurance companies by which the Group is entitled to receive initial commission from the insurance companies based on the premium paid by the policyholders for the related insurance policy sold. For life insurance agency, the Group is also entitled to renewal commissions when the policyholder renews the policy within the renewal term of the original policy as such life insurance products are typically long-term products.

The Group has identified its promise to sell insurance products on behalf of an insurance company as the performance obligation in its contracts with the insurance companies. The Group's performance obligation to the insurance company is satisfied and revenue is recognized at a point in time when an insurance policy becomes effective. Specifically for life insurance agency business, certain contracts include the promise to provide certain post-sales administrative services to policyholders on behalf of the insurance company, such as responding to the policyholder inquiries, facilitating the renewal process and/or gathering information from the policyholder to assist the insurance companies to update the contact information of the policy holder, the Group has concluded such services are administrative in nature and immaterial, and none of these activities on their own results in a transfer of a good or services to the insurance company in the context of the contract. Accordingly, no performance obligation exists after a policy becomes effective.

Initial placement of an insurance policy.

The Group recognizes agency revenue related P&C insurance products (which is short term in nature and related premium are collected upfront) when an insurance policy becomes effective. The commission to be earned is required to be partially refunded contingently on policy cancellations. Based on its past experience, subsequent commission adjustments in connection with P&C insurance policy cancellations have been de minimis to date, and are recognized upon notification from the insurance carriers. Actual commission and fee adjustments in connection with the cancellation of P&C insurance policies were 0.2%, 0.1% and 0.2% of the total commission and fee revenues during years ended December 31, 2018, 2019 and 2020, respectively.

FANHUA INC.
Notes to the Consolidated Financial Statements
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(2) Summary of Significant Accounting Policies (Continued)

(q) Revenue Recognition (Continued)

Insurance agency services revenue (Continued)

Initial placement of an insurance policy (Continued)

For life insurance products, there is generally a 10 to 15 days hesitation period after an initial placement of a life insurance policy, during which the policyholder has a legal right to unconditionally cancel the effective policy regardless of the reasons. According to relevant terms of the insurance agency contracts with customers, the Group reconciles information of policies sold which also includes policies that have been cancelled by policyholders within the hesitation period, with the insurance companies on a monthly basis. Therefore, the Group estimates cancellation of policies that have become effective but still within the hesitation period based on subsequent actual data at each reporting date. The cancellation of an effective life insurance policy by the policyholder after the hesitation period does not require the Group to refund initial commission to insurance companies, but rather impacts the Group's estimate on future commission related to renewal(s) of the policy.

In addition, for life insurance agency, the Group may receive a performance bonus from insurance companies as agreed and per contract provisions. Once the Group achieves a certain sales volume based on respective agency agreements, the bonus will become due. Performance bonus represent a form of variable consideration associated with certain sales volume, for which the Group earns commissions. The Group estimates the amount of consideration with a constraint applied that will be received in the coming year such that a significant reversal of revenue is not probable, and includes performance bonus as part of the transaction price. For the years ended December 31, 2018, 2019 and 2020, the Group recognized contingent performance bonus of RMB23,166, RMB58,124 and RMB17,265, respectively.

Renewals of a life insurance policy

For the long-term life insurance products, in addition to the initial commission earned, the Group is also entitled to subsequent renewal commission and compensation, and renewal performance bonus which represent variable considerations and are contingent on future renewals of initial policies or the Group achieves its performance target.

When making estimates of the amount of variable consideration to which the Group expects to be entitled, the Group uses the expected value method and evaluates many factors, including but not limited to, insurance companies mix, product mix, renewal term of various products, renewal premium rates and commission rates, to determine the method(s) of measurement, relevant inputs and the underlying assumptions. The Group considers constraints as well as when determining the amount which should be included in the transaction price.

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

(2) Summary of Significant Accounting Policies (Continued)

(q) Revenue Recognition (Continued)

Renewals of a life insurance policy (Continued)

For years ended December 31, 2018, 2019 and 2020, revenue related to the variable consideration is recorded when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, i.e., when a policyholder pays the renewal premium to the insurance company, and the policy is renewed because the Group was not able to conclude a significant reversal to the estimated variable consideration not probable, considering factors such as a) the Group has limited history of selling its current life insurance products with its current customers, such that the Group's past experience in outdated products is of little predictive value in renewal(s) rate estimate; b) the occurrence of a renewal is outside the Group's control and the estimate of renewal premium rates is complex and requires significant assumptions; and c) the contingency lasts across a long period of time.

Insurance claims adjusting services revenue

For insurance claims adjusting services, performance obligations are considered met and revenue is recognized when the services are rendered and completed, at the time loss adjusting reports are confirmed being received 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.

Contract balances

The Group's contract balances include accounts receivable and contract asset. The balances of accounts receivable as of December 31, 2019 and 2020 are all derived from contracts with customers. See Note 2(e) for details.

The balances of contract asset are RMB131,063 and RMB198,357 as of December 31, 2019 and December 31, 2020, respectively.

The Group has no advance from customers in advance of revenue recognition, or contract liability and, therefore, none of revenue recognized in the current period that was previously recognized as a contract liability.

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

(2) Summary of Significant Accounting Policies (Continued)

(q) Revenue Recognition (Continued)

Practical Expedients and Exemptions

The Group generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses in the consolidated statements of operations and comprehensive income, as the amortization period is less than one year and the Group has elected the practical expedient included in ASC 606.

The Group has applied the optional exemption provided by ASC 606 to not disclose the value of remaining performance obligations not yet satisfied as of period end for contracts with original expected duration of one year or less.

Value-Added Tax and Surcharges

The Group presents revenue net of tax surcharges and value-added taxes incurred. The tax surcharges amounted to RMB21,508, RMB21,916 and RMB20,610 for the years ended December 31, 2018, 2019 and 2020, respectively.

Total value-added taxes paid by the Group during the years ended December 31, 2018, 2019 and 2020 amounted to RMB179,317, RMB197,067 and RMB179,663 respectively.

(r) Fair Value of Financial Instruments

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

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

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

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

(2) Summary of Significant Accounting Policies (Continued)

(r) Fair Value of Financial Instruments (Continued)

Measured at fair value on a recurring basis

As of December 31, 2019 and 2020, information about inputs into the fair value measurements of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows.

Description	As of December 31, 2019	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Short-term investments - debt security	1,612,351	—	1,612,351	—

Description	As of December 31, 2020	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	RMB	RMB	RMB	RMB
Short-term investments - debt security	1,307,865	—	1,307,865	—

The majority of debt security consists of investments in trust products and asset management plans that normally pay a prospective fixed rate of return. These investments are recorded at fair values on a recurring basis. The Group measured these investments at fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income or loss, at the balance sheet date. It is classified as Level 2 of the fair value hierarchy since fair value measurement at reporting date is benchmarked against fair value of comparable investments.

Measured at fair value on a non-recurring basis

The Group measures certain assets, including equity securities without readily determinable fair values, 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. Impairment charge to the intangible assets is recorded when their carrying amounts may not be recoverable.

FANHUA INC.
Notes to the Consolidated Financial Statements
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(2) Summary of Significant Accounting Policies (Continued)

(r) Fair Value of Financial Instruments (Continued)

Measured at fair value on a non-recurring basis (Continued)

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

Investments in affiliates (Note 7) are measured at fair value on a nonrecurring basis, and they are recorded at fair value only when there is other-than-temporary-impairment. The fair value of investment in an affiliate that is publicly listed is determined based on the market value of its share (Level 1) on the date such impairment is recorded.

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

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

(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 and restricted cash. The Group had aggregate amounts of RMB220,895 and RMB172,359 of cash and cash equivalents and restricted cash denominated in RMB as of December 31, 2019 and 2020, respectively.

FANHUA INC.
Notes to the Consolidated Financial Statements
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(2) Summary of Significant Accounting Policies (Continued)

(u) Translation into USD

The consolidated financial statements of the Group are stated in RMB. Translations of amounts from RMB into USD are solely for the convenience of the readers outside of China and were calculated at the rate of US\$1.00 = RMB6.5250, representing the noon buying rate in the City of New York for cable transfers of RMB on December 31, 2020, the last business day in fiscal year 2020, as set forth in H.10 statistical release of the Federal Reserve Bank of New York. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into USD at such rate.

(v) Segment Reporting

As of December 31, 2020, the Group operated two segments: (1) the insurance agency segment, which mainly consists of providing agency services for P&C insurance products and life insurance products to individual clients, and (2) the claims adjusting segment, which consists of providing pre-underwriting survey services, claim adjusting services, disposal of residual value services, loading and unloading supervision services, and consulting services. Details of operating segments are further described in Note 22. Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the Group's chief operating decision maker in deciding how to allocate resources and in assessing performance.

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

(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.

The contingently issuable shares /ADS related to the 521 Plan (see Note 19(b) for details), are subject to fulfillment of the performance conditions as stipulated under the 521 Plan. Therefore, these shares are excluded from basic earnings per share until the shares are fully vested upon the achievement of performance conditions under the 521 Plan by the Participants. In December 2020, the Group cancelled the 521 Plan.

(x) Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to RMB34,663, RMB44,387 and RMB37,389 for the years ended December 31, 2018, 2019 and 2020, respectively.

(y) Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The Group adopted this new standard on January 1, 2019 and used the effective date as the date of initial application on a modified retrospective basis. The Group elected to apply the transition requirements as the effective date rather than at the beginning of the earliest comparative period presented with a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, and prior periods were not restated. Upon adoption, the Group elected to use the package of three practical expedients in transition under ASC 842, exempting the Group from reassessing the lease identification, lease classification and initial direct costs associated with any expired or existing contracts as of the date of adoption. However, the Group determined not to elect to adopt the hindsight practical expedient and therefore maintained the lease terms previously determined under ASC 840.

FANHUA INC.
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(2) Summary of Significant Accounting Policies (Continued)

(v) Leases (Continued)

The Group leases office space, vehicles and certain equipment under operating leases for terms ranging from short term (under 12 months) to 10 years. The Group does not have options to extend or terminate leases, as the renewal or termination of relevant lease is on negotiation basis. As a lessee, the Group does not have any financing leases and none of the leases contain material residual value guarantees or material restrictive covenants. The Group's office space leases typically have initial lease terms of 2 to 10 years, and vehicles and equipment leases typically have an initial term of 12 months or less. The Group's office space leases include fixed rental payments. The lease payments for the Group's office space leases do not consist of variable lease payments that depend on an index or a rate.

The Group determines whether a contract contains a lease at contract inception. A contract contains a lease if there is an identified asset and the Group has the right to control the use of the identified asset. At the commencement of each lease, management determines its classification as an operating or finance lease. For leases that qualify as operating leases, the Group recognizes a right-of-use ("ROU") asset and a lease liability based on the present value of the lease payments over the lease term in the consolidated balance sheets at commencement date. As all of the leases do not have implicit rates available, the Group uses incremental borrowing rates based on the information available at lease commencement date in determining the present value of future payments. The incremental borrowing rates are estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased assets are located.

Upon adoption of ASU 2016-02 on January 1, 2019, the Group elected to use the remaining lease term as of January 1, 2019 in the estimation of the applicable discount for rate for leases that were in place at adoption. For the initial measurement of the lease liabilities for leases commencing after January 1, 2019, the Group uses the discount rate as of the commencing date of the lease, incorporating the entire lease term. Current maturities and long-term portions of operating lease liabilities are classified as current operating lease liability and non-current operating lease liability, respectively, in the consolidated balance sheets. As a result of the adoption, the Group recognized approximately RMB181,576 of ROU assets recorded in right-of-use assets and a lease liability of approximately RMB181,457 in operating lease liability in the consolidated balance sheets as of January 1, 2019. The adoption had no material impact on the Group's consolidated statements of income and consolidated statements of cash flows for the year ended December 31, 2019.

The ROU asset is measured at the amount of the lease liabilities with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred and lease incentives. For office space leases beginning in 2019 and later, the Group identifies the lease and non-lease components (e.g., common-area maintenance costs) and accounts for non-lease components separately from lease component. The Group's office space lease contracts have only one separate lease component and have no non-components (e.g., property tax or insurance). Most of the office space lease contracts have no non-lease components. For the office space lease contracts include non-lease components, the fixed lease payment is typically itemized in the office space lease contract for separate lease component and non-lease component. Therefore, the Group does not allocate the consideration in the contract to the separate lease component and the non-lease component.

Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Group has made an accounting policy election to exempt leases with an initial term of 12 months or less without a purchase option that is likely to be exercised from being recognized on the balance sheet. Payments related to those leases continue to be recognized in the consolidated statement of income and comprehensive income on a straight-line basis over the lease term.

In addition, the Group does not have any related-party leases or sublease transactions.

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Notes to the Consolidated Financial Statements
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(2) Summary of Significant Accounting Policies (Continued)

(y) Leases (Continued)

The Group elected to consistently account for eligible current and future concessions resulting directly from COVID-19 by accounting for the concessions as if they were made under the enforceable rights included in the original agreements. The rent concessions received in 2020 amounted to RMB832.

(z) Accumulated Other Comprehensive Income

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

Accumulated other comprehensive income mainly represents foreign currency translation adjustments, changes in fair value of short term investments and share of other comprehensive income of the affiliates for the period.

(aa) Recently Adopted Accounting Pronouncements

Financial Instruments – Credit Losses (Topic 326) – In June 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This guidance requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. It also requires credit losses on available-for-sale debt securities to be presented as an allowance, rather than reducing the carrying amount. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. ASU 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses.

The Group adopted ASU 2016-13, including applicable amendments in other ASUs issued subsequent to ASU 2016-13 on January 1, 2020 under a modified-retrospective basis resulting in a cumulative-effect adjustment of RMB7,523 reduction to the opening retained earnings balance and the recognition of a RMB7,523 allowance for credit losses in the consolidated balance sheets as of January 1, 2020. Results for periods after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported under the previous accounting standards.

The Group evaluates each individual investment periodically for impairment. For investments where the Group does not intend to sell, the Company evaluates whether a decline in fair value is due to deterioration in credit risk. Credit-related impairment losses, not to exceed the amount that fair value is less than the amortized cost basis, are recognized through an allowance for credit losses on the consolidated balance sheets with corresponding adjustment in the consolidated statements of operations and comprehensive income. Subsequent increases in fair value due to credit improvement are recognized through reversal of the credit loss and corresponding reduction in the allowance for credit loss. Any decline in fair value that is non-credit related is recorded in accumulated other comprehensive income as a component of shareholder’s equity. As of December 31, 2020, there were no investments held by the Group that had been in continuous unrealized loss position.

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(2) Summary of Significant Accounting Policies (Continued)

(aa) Recently Adopted Accounting Pronouncements (Continued)

The impact from the adoption of ASU 2016-13 is summarized as follows:

	December 31, 2019	Transition Adjustments	January 1, 2020
	RMB	RMB	RMB
Accounts receivable	682,171	(7,436)	674,735
Other receivable	61,570	(87)	61,483
Total assets	3,440,843	(7,523)	(3,433,320)
Retained earnings	1,479,494	(7,523)	1,471,971

Financial Instruments (Topic 820) – In 2018, the FASB issued ASU No. 2018-13, to change the disclosure requirements for fair value measurement with the objective of improving the effectiveness of the notes to financial statements. This new guidance removed and modified certain disclosure requirements under Topic 820. The Group adopted this guidance on January 1, 2020 with no material impact on the consolidated financial statements.

Intangible – Goodwill and Other (Topic 350) – In 2017, the FASB issued ASU 2017-04 to simplify the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, any goodwill impairment will equal the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. In addition, the guidance eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. This standard is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. The Group adopted this guidance on January 1, 2020 with no material impact on the consolidated financial statements.

(ab) Recently Issued Accounting Standards

New accounting standards not yet adopted that could affect the Group's consolidated financial statements in the future are summarized as follows:

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this update simplify the accounting for income taxes by removing exceptions related to the incremental approach for intra-period tax allocation, certain deferred tax liabilities, and the general methodology for calculating income taxes in an interim period. The amendment also provides simplification related to accounting for franchise (or similar) tax, evaluating the tax basis step up of goodwill, allocation of consolidated current and deferred tax expense, reflection of the impact of enacted tax law or rate changes in annual effective tax rate calculations in the interim period that includes enactment date, and other minor codification improvements. For public business entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the amendments is permitted, including adoption in any interim period for public business entities for periods in which financial statements have not yet been issued. The Group will adopt this guidance in the first quarter of 2021 and is still evaluating, but does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, *Codification Improvements – Disclosures* to align with the SEC's regulations. This ASU improves consistency by amending the codification to include all disclosure guidance in the appropriate disclosure sections and clarifies application of various provisions in the Codification by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. The Group is currently assessing the impact that ASU 2020-10 will have on the disclosures of its future consolidated financial statements.

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(3) Acquisitions, disposals and reorganization

There was no acquisition or disposal during 2020.

Disposal of subsidiaries in 2019

a. Disposal of Guangdong Fanhua Fangzhong Investment Management Co., Ltd.

In July 2019, the Group disposed of Guangdong Fanhua Fangzhong Investment Management Co., Ltd. to its minority shareholder, for a total consideration of RMB61,372, which has been offset against the Group's other payables due to the disposed subsidiary as of December 31, 2019. As the sales consideration equals to the net book value of the subsidiary at the time of disposal, no gain or loss on disposal of the subsidiary was recognized by the Group. Guangdong Fanhua Fangzhong Investment Management Co., Ltd. is an investment holding company with no actual business operation after year 2010.

b. Disposal of Hubei Fanhua Insurance Agency Co., Ltd.

In November 2019, the Group disposed of Hubei Fanhua Insurance Agency Co., Ltd. to three independent third party individuals, for a total consideration of RMB300, which has been settled as of December 31, 2019. The Group recognized a loss of RMB58 on disposal of this subsidiary, which was determined by the excess of the net book value of the subsidiary over the sales consideration at the time of disposal.

Disposal of subsidiaries in 2018

c. Disposal of InsCom service Limited and InsCom Holding Limited

In October 2018, the Group disposed of *InsCom service Limited*, *InsCom Holding Limited* and their subsidiaries (collectively "InsCom") to an independent third party, for a total consideration of RMB11,214, which were settled as of December 31, 2018. No gain or loss on disposal of InsCom was recognized by the Group, which was determined by the sales consideration equaling to the net book value of the subsidiaries at the time of disposal. InsCom Service Limited, InsCom Holdings Limited and their subsidiaries are investment holding companies with no actual business operation after the Group's restructuring in 2016.

(4) Other Receivables, net

Other receivables, net consist of the following:

	As of December 31,	
	2019	2020
	RMB	RMB
Advances to staff (i)	9,578	14,142
Advances to entrepreneurial agents (ii)	3,523	1,290
Advances to a third party channel vendor (iii)	13,575	14,318
Rental deposits	14,333	14,824
Amount due from a third party (iv)	6,830	6,830
Amount due from payment platform	9,926	3,079
Other	3,805	2,685
Less: Allowance for current expected credit losses	—	(6,926)
Other receivables, net	<u>61,570</u>	<u>50,242</u>

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

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

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(4) Other Receivables, net (continued)

- (iii) This represented advances to a third-party channel vendor, which are unsecured, interest-free and repayable on demand.
- (iv) This represented the amount receivable from Beijing Cheche Technology Co., Ltd. (“Cheche”) as a result of conversion of loan receivable in October 2019. On October 27, 2020, the original due date of the receivable, the Group entered into a supplemental agreement with Cheche to extend the maturity date of the loan receivable to October 26, 2022.

(5) Property, Plant and Equipment

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

	As of December 31,	
	2019	2020
	RMB	RMB
Building	12,317	12,317
Office equipment, furniture and fixtures	131,878	134,625
Motor vehicles	11,228	11,701
Leasehold improvements	24,386	29,110
Total	179,809	187,753
Less: Accumulated depreciation	(139,003)	(150,975)
Property, plant and equipment, net	40,806	36,778

No impairment for property, plant and equipment was recorded for the years ended December 31, 2018, 2019 and 2020.

(6) Goodwill

The gross amount of goodwill and accumulated impairment losses by segment as of December 31, 2019 and 2020 are as follows:

	Agency segment	Claims Adjusting segment	Total
	RMB	RMB	RMB
Gross as of December 31, 2019 and 2020	131,977	21,137	153,114
Accumulated impairment loss as of December 31, 2019 and 2020	(22,108)	(21,137)	(43,245)
Net as of December 31, 2019	109,869	—	109,869
Net as of December 31, 2020	109,869	—	109,869

The Group performed the annual impairment analysis as of the balance sheet date. There has been no impairment loss recognized in goodwill for the years ended December 31, 2018, 2019 and 2020.

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(7) Investments in Affiliates

As of December 31, 2020, the Group's investments accounted for under the equity method totaled RMB357,661 (as of December 31, 2019: RMB363,414).

Investments as of December 31, 2019 and 2020 were as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
CNFinance	352,540	347,769
Puyi.	10,670	9,586
Teamhead Automobile	204	306
Total	363,414	357,661

Investment in CNFinance Holdings Limited ("CNFinance")

The Group holds 18.5% equity interest of CNFinance after CNFinance's listing in New York Stock Exchange "NYSE" (symbol: CNF) on November 7, 2018. CNFinance is a leading home equity loan service provider incorporated in the Cayman Islands and based in Guangzhou, PRC. Investment in CNFinance is accounted for using the equity method as the Group has significant influence by the right to nominate one board members out of seven.

As of December 31, 2020, due to the continued decline in the share price of CNFinance, the Group recognized an other-than-temporary impairment of RMB22,958 (as of December 31, 2019: RMB322,655) to reduce the carrying value of the investment to RMB347,769 to reflect the market value of the shares held by the Group.

Investment in Puyi Inc.

The Group holds 4.5% equity interest of Puyi Inc. ("Puyi") which was listed on NASDAQ (symbol: PUYI) on March 29, 2019. Puyi provides wealth management, corporate finance and asset management services in China. The investment has been accounted for using the equity method as the Group has obtained significant influence through the right to nominate one out of five board directors of Puyi. As of December 31, 2020, the fair value of the Group's equity interest of Puyi was RMB108,260, and no decline in market fair value of shares held by the Group to an amount below the carrying value was identified.

Investment in Teamhead Automobile

The Group holds 40% equity interest in Shanghai Teamhead Automobile through one of the Group's claim adjusting subsidiaries. The affiliate is a PRC registered company that provides insurance survey and loss adjusting services.

During the years ended December 31, 2018, 2019 and 2020, the Group recognized its share of income of affiliates in the amount of RMB174,468 and RMB98,100 and RMB20,220 respectively. During the years ended December 31, 2018, 2019 and 2020, the Group recognized an impairment of nil, RMB322,655 and RMB22,958 respectively on its investment in affiliates. During the years ended December 31, 2018, 2019 and 2020, the Group recognized its share of other comprehensive loss of affiliates in the amount of RMB1,763, share of other comprehensive income of affiliates in the amount of RMB452 and share of other comprehensive loss of affiliates in the amount of RMB3,016, respectively.

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(7) Investments in Affiliates (Continued)

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

	As of December 31,		
	2019	2020	
	RMB	RMB	
Balance Sheets			
Total assets	13,490,270	12,666,811	
Total liabilities	9,510,013	8,571,667	
	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Results of operation			
Income from operations	1,210,690	689,259	115,656
Net profit	907,724	520,539	89,820

(8) Leases

The Group's lease payments for office space leases include fixed rental payments and do not consist of any variable lease payments that depend on an index or a rate. As of December 31, 2019 and 2020, there was no leases that have not yet commenced.

The following represents the aggregate ROU assets and related lease liabilities as of December 31, 2019 and 2020:

	As of December 31,	
	2019	2020
	RMB	RMB
Operating lease ROU assets	190,437	200,403
Current operating lease liability	79,986	86,233
Non-current operating lease liability	103,252	103,526
Total operating leased liabilities	183,238	189,759

The weighted average lease term and weighted average discount rate as of December 31, 2019 and 2020 were as follows:

	As of December 31,	
	2019	2020
Weighted average lease term:		
Operating leases	2.99	2.74
Weighted average discount rate:		
Operating leases	4.78%	4.60%

The components of lease expenses for the years ended December 31, 2019 and 2020 were as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Operating lease cost	77,406	92,385
Short term lease cost	15,148	14,219
Total	92,554	106,604

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(8) Leases (Continued)

Supplemental cash flow information related to leases for the years ended December 31, 2019 and 2020 were as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	74,265	92,348
Supplemental noncash information:		
Right-of-use assets obtained in exchange for lease obligations net of decrease in right-of-use assets for early determinations	78,344	108,178

Maturities of lease liabilities at December 31, 2020:

	Minimum Lease Payment RMB
Year ending December 31:	
2021	92,382
2022	62,187
2023	36,505
2024	16,107
2025	7,416
Thereafter	4,796
Total remaining undiscounted lease payments	219,393
Less: Interest	(29,634)
Total present value of lease liabilities	189,759
Less: Current operating lease liability	(86,233)
Non-current operating lease liability	103,526

(9) Variable Interest Entities (“VIE”)

VIEs related to the 521 Plan

On June 14, 2018, the Group announced that its board of directors has approved a 521 Share Incentive Plan (the “521 plan”). The 521 Plan is designed to incentivize the Group’s employees and independent sales agents (collectively the “Participants”). The 521 Plan provides Participants an opportunity to benefit from appreciation of the Company’s ordinary shares by purchasing the Company’s ordinary shares at a stated subscription price of US\$27.38 per ADS, in exchange for employee and non-employee services, if service and performance conditions are achieved. US\$27.38 per ADS, is the weighted average of the closing prices of the repurchase and new share issuance transactions listed below. 10% of the subscription price is paid by the Participant on or around the grant date, while the remaining 90% of the subscription prices is financed through interest-bearing loans from the Group. The vesting of the awards is contingent on performance conditions being met during the requisite service periods.

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(9) Variable Interest Entities (“VIE”) (Continued)

VIEs related to the 521 Plan (Continued)

The 521 Plan established a pool of 280 million ordinary shares (14 million ADS) available to benefit Participants. In establishing the ADS pool, the Group has:

- through one of the 521 Plan Employee Companies, purchased 7.5 million ADS from Master Trend Limited (“Master Trend”) at US\$29 per ADS from June to October 2018 with consideration amounted to RMB1,465,123. Master Trend is a company controlled by a principal shareholder, who is also one of the founders of the Group. The Group funded 90% of the purchase price with the remaining 10% funded by Participants;
- repurchased 1,423,774 ADS from the open market from August to December 2018 at the average purchase price is US\$25.52 per ADS, which have been transferred to Fanhua Employees Holdings Limited on January 10, 2019;
- issued 101,524,520 ordinary shares (5,076,226 ADSs) at US\$25.52 per ADS in January 2019 to the 521 Plan Employee Companies.

As of December 31, 2019, the Group had already transferred all the 280 million ordinary shares to the 521 Plan Employee Companies with an average price at US\$27.38 per ADS. The 10% subscription price contributed by Participants amounted to RMB266,901 and is recorded as non-current refundable share right deposits on the balance sheets.

Pursuant to the 521 Plan, the Group set up three companies which are Fanhua Employees Holdings Limited, Step Tall Limited and Treasure Chariot Limited (collectively the “521 Plan Employee Companies”) to hold the Group’s ordinary shares on behalf of the Participants of the 521 Plan. Each of the 521 Plan Employee Companies is a legal entity formed in the British Virgin Islands with a sole shareholder appointed by the Group. Each shareholder is either an employee, or a founder who is also a shareholder and director of the Group.

The following is a summary of the contractual agreements that the Group entered into relating to the 521 Plan:

- **Loan Agreements and Entrusted Share Purchase Agreements**

The nature and structure of the 521 Plan Employee Companies is that they are investment vehicle companies holding the Company’s shares on behalf of the Participants for the purpose of the 521 Plan. Loan agreements and entrusted share purchase agreements were signed among the Group’s wholly-owned subsidiary CISG Holdings Ltd., the 521 Plan Employee Companies and each of the Participants. To effect the 521 Plan, Participants agreed to pay 10% of the subscription price and executed a loan agreement with the Group for a loan representing 90% of the subscription price of the ordinary shares under the 521 Plan. Participants executed an entrusted share purchase agreement with one of the 521 Employee Companies whereby the 521 Plan Employee Company will legally hold the ordinary shares on behalf of the Participants. As of December 31, 2018 and 2019, the loan agreements provide a total of US\$184,815 and US\$344,988, respectively, in loans to the VIEs and Participants of the 521 Plan with the sole purpose of providing funds necessary for the purchase of the Group’s ordinary shares under the 521 Plan. All the ordinary shares are pledged as collateral to the Group for the loans and are not yet vested, the Participants cannot direct the sale of the ordinary shares without the consent of the Group until the ordinary shares are fully vested in accordance with the 521 Plan’s agreed target performance. The loan agreement and the entrusted share purchase agreement shall terminate after five year or upon termination of agency relationship and employment relationship or the settlement of the loan, whichever comes first.

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(9) Variable Interest Entities (“VIE”) (Continued)

VIEs related to the 521 Plan (Continued)

- **Letter of Undertaking**

The sole director and sole shareholder of each of the 521 Plan Employee Companies is either a significant shareholder and director, or an employee of the Group, who have executed powers of attorney on behalf of the Group. Under the power of attorney, they will follow, without any conditions, the Group’s instructions to manage all the activities of each of the 521 Plan Employee Companies. In addition, the Group can replace the sole director and shareholder of each of the 521 Plan Employee Companies to another designated party at its discretion.

The ordinary shares are the only significant assets held by the 521 Plan Employee Companies. Through the loan agreements, entrusted share purchase agreements and letters of undertaking described above, the Group controls the decision-making rights of the 521 Plan Employee Companies with respect to the shares held by the 521 Plan Employee Companies as collateral to the loans issued to the Participants during the vesting period. Given the only substantial recourse to the loans issued by the Group are the ordinary shares, the Group has potential exposure to the economics of the the 521 Plan Employee Companies resulting from the fluctuation in value of the ADS (principally decreases), which is more than insignificant. Further, the Group will also participate in the variability and absorb the economic benefits of the 521 Plan Employee Companies, through an increase in value of the shares held by the 521 Plan Employee Companies, if the performance conditions are not met or partially met based on the profit distribution arrangements. Based on above, the Group is the primary beneficiary of the 521 Plan Employee Companies and consolidates them because it has the power to direct the activities that most significantly impact the 521 Plan Employee Companies’ economic performance, and the obligation to absorb losses of the 521 Plan Employee Companies that could potentially be significant to them and the right to receive benefits from the 521 Plan Employee Companies that could potentially be significant to the 521 Plan Employee Companies. Therefore, the Group has variable interests in the 521 Plan Employee Companies during the vesting period.

Summarized below is the information related to the VIE’s assets and liabilities reported in the Company’s consolidated balance sheets after inter group elimination as of December 31, 2019 and 2020, respectively:

	As of December 31,	
	2019	2020
	RMB	RMB
Total assets	—	—
Total liabilities	266,901	—

The VIEs are related to the 521 Plan as explained above, which did not have any operation or cash flows activities during 2019. In December 2020, upon the cancellation of the 521 Plan, the Group refunded all share rights deposits back to the Participants which was presented as cash outflows from financing activities.

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(9) Variable Interest Entities (“VIE”) (Continued)

VIEs related to the 521 Plan (Continued)

Cancellation of the 521 Plan

As disclosed in Note 19(b), the Group entered into supplemental agreements with all remaining Participants in December 2020 to cancel the 521 Plan upon which the 521 Plan Employee Companies returned all subscribed 280,000,000 ordinary shares to the Group, and as a condition, the Group refunded all share rights deposits back to the Participants, and terminated the Participants’ obligation to repay the Group the non-recourse loan principal and interest, and all the relevant original contractual agreements including the loan agreements, entrusted share purchase agreements and letters of undertaking described above were agreed to be terminated and lapsed. As a result, the Group no longer has power to direct the significant activities of the 521 Plan Employee Companies, and no longer bears potentially significant economic exposure through its indirect interests to the 521 Plan Employee Companies, and stopped consolidating the 521 Plan Employee Companies upon the cancellation of the 521 Plan.

(10) Other Payables and Accrued Expenses

Components of other payables and accrued expenses are as follows:

	As of December 31,	
	2019	2020
	RMB	RMB
Business and other tax payables	72,998	69,002
Refundable deposits from employees and agents	23,478	21,672
Professional fees	13,958	7,117
Accrued expenses to third parties	22,610	23,169
Contributions from members of eHuzhu mutual aid program	76,765	58,460
Others	10,481	9,028
	220,290	188,448

(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.

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

For the years ended December 31, 2018, 2019 and 2020, the Group contributed and accrued RMB74,179, RMB90,438 and RMB52,942, respectively.

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(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 Company to its shareholders, no Cayman Islands withholding tax is imposed.

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

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first 2,000 Hong Kong Dollar ("HKD") of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD 2,000 will be taxed at 16.5%.

The provision for current income taxes of the subsidiaries operating in Hong Kong has been calculated by applying the current rate of taxation of 8.25% for the years ended December 31, 2018, 2019 and 2020.

Pursuant to the relevant laws and regulations in the PRC, Ying Si Kang Information Technology (Shenzhen) Co., Ltd. ("Ying Si Kang") and Shenzhen Huazhong United Technology Co., Ltd. ("Shenzhen Huazhong"), subsidiaries of the Group, was regarded as a software company 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 Ying Si Kang, year 2014 was the first profit-making year and accordingly it has made a 12.5% tax provision for its profits for the years ended December 31, 2016, 2017 and 2018. For Shenzhen Huazhong, year 2017 was the first profit-making year and accordingly it has made a 12.5% tax provision for its profits for the years ended December 31, 2019 and 2020.

Pursuant to the Circular on Issues Regarding Tax-related Preferential Policies for Further Implementation of Western Development Strategy jointly issued by the State Ministry of Finance, General Administration of Customs, China and State Administration for Taxation, enterprises located in the western China regions that fall into the encouraged industries are entitled to 15% EIT preferential tax treatment from January 1, 2011 to December 31, 2020 and this policies is further extended to December 31, 2030. In September 2018, Fanhua Lianxing Insurance Sales Co., Ltd. ("Lianxing"), the Group's wholly-owned subsidiary, which is the holding entity of the Group's life insurance operations, were relocated to Tianfu New Area, Sichuan province. Lianxing was entitled to a preferential tax rate of 15% from September 1, 2018 to December 31, 2020 as it was classified as encouraged enterprises in the western region in an industry sector encouraged by the PRC government. Tibet Zhuli Investment Co. Ltd. ("Tibet Zhuli"), the Group's wholly-owned subsidiary, was entitled to a preferential tax rate of 15% for the years ended December 31, 2018, 2019 and 2020, as it was established with approval in an economy development zone in the PRC before January 1, 2018.

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(12) Income Taxes (Continued)

The Group's subsidiaries that are the PRC tax resident are required to withhold the PRC withholding tax of 10% on dividend payment to their non-PRC resident immediate holding company, unless such dividend payment is qualified for the 5% reduced tax rate under the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "PRC-HK DTA").

One of the Group's wholly owned subsidiaries, CNinsure Holdings Limited, was determined by Hong Kong Taxation Bureau to be a Hong Kong resident enterprise since July 2018. The Hong Kong resident certificate was issued by the Hong Kong Inland Revenue Department and will be valid till the year ending December 31, 2022. Accordingly, CNinsure Holdings Limited qualified as a Hong Kong resident and was entitled to enjoy a reduced tax rate of 5% for the dividends paid by PRC subsidiaries for the years ended December 31, 2018, 2019 and 2020 under Bulletin [2018] No. 9 (e.g. beneficial ownership, shareholding percentage and holding period).

The Group accounts for uncertain income tax positions by prescribing a minimum recognition threshold in the financial statements. The Group's liabilities for unrecognized tax benefits were included in other tax liabilities. As of December 31, 2019 and 2020, the balance of unrecognized tax benefits are comprised of amounts mainly arising from gain on disposal of subsidiaries and certain transfer pricing arrangements in prior years.

The movements of unrecognized tax benefits are as follows:

	RMB
Balance as of January 1, 2018	70,350
Change in unrecognized tax benefits	—
Increase in tax positions	—
Balance as of December 31, 2018	70,350
Change in unrecognized tax benefits	—
Increase in tax positions	—
Balance as of December 31, 2019	70,350
Change in unrecognized tax benefits	—
Decrease in tax positions	(3,131)
Balance as of December 31, 2020	67,219

The uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. Based on the outcome of any future examinations, or as a result of the expiration of statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns, might materially change from those recorded as liabilities for uncertain tax positions in the Group's consolidated financial statements. 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 Group 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. During the current year, the Group reversed transfer pricing related uncertain tax position amounted to RMB3,131 when its statute of limitation expired in 2020.

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(12) Income Taxes (Continued)

Income tax expenses are comprised of the following:

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Current tax expense	243,330	139,549	67,609
Deferred tax (income) expense	(18,744)	4,267	15,778
Income tax expense	<u>224,586</u>	<u>143,816</u>	<u>83,387</u>

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

	As of December 31,	
	2019	2020
	RMB	RMB
Deferred tax assets:		
Operating loss carryforward	40,498	40,666
Intangible assets, net	5,311	4,493
Less: valuation allowances	(38,482)	(35,127)
Total	<u>7,327</u>	<u>10,032</u>
Deferred tax liabilities:		
PRC dividend withholding taxes	7,898	26,380
Total	<u>7,898</u>	<u>26,380</u>

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward periods, the Group's experience with tax attributes expiring unused and tax planning alternatives. Valuation allowances have been established for deferred tax assets based on a more-likely-than-not threshold. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. The Group has provided RMB38,482 and RMB35,127 valuation allowance for the years ended December 31, 2019 and 2020, respectively.

The Group had total operating loss carry-forwards of RMB162,704 and RMB162,491 as of December 31, 2019 and 2020, respectively. As of December 31, 2020, all of the operating loss carry-forwards will expire in the years from 2021 to 2025. During the years ended December 31, 2018, 2019 and 2020, RMB16,288, RMB6,060 and RMB5,321, respectively, of tax loss carried forward has been expired and canceled.

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(12) Income Taxes (Continued)

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

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Income from continuing operations before income taxes, share of income of affiliates, net	667,213	560,925	362,302
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	166,803	140,231	90,576
Expenses not deductible for tax purposes:			
—Entertainment	1,358	2,516	2,428
—Other	1,079	730	202
Effect of tax holidays on concessionary rates granted to PRC subsidiaries	(8,307)	(36,527)	(18,114)
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	—	2,732
Change in valuation allowance	6,583	5,987	(3,355)
Deferred income tax for dividend distribution	53,702	49,267	18,483
Effect of non-taxable income*	—	(13,422)	(13,648)
Other	3,368	(4,966)	4,083
Income tax expense	224,586	143,816	83,387

* The effect of non-taxable income represents an income tax exemption according to the Notice (Cai Shui [2002] No. 128) promulgated by the State Administration of Taxation and Ministry of Finance in China on dividend income derived from a purchased open-end securities investment fund product that the Group recorded as short term investment.

Additional PRC income taxes that would have been payable without the tax exemption amounted to approximately RMB8,307, RMB36,527 and RMB18,114 for the years ended December 31, 2018, 2019 and 2020, respectively. Without such exemption, the Group's basic net profit per share for the years ended December 31, 2018, 2019 and 2020 would have been decreased by RMB0.01, RMB0.03 and RMB0.02, and diluted net profit per share for the years ended December 31, 2018, 2019 and 2020 would have been decreased by RMB0.01, RMB0.03 and RMB0.02, respectively.

If the entities were to be non-resident for PRC tax purposes, 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 Special Administrative Region, the withholding tax would be 5%. The Group's subsidiary, CNinsure Holdings Limited qualified as Hong Kong resident and was entitled to enjoy 5% reduced tax rate under Bulletin [2019] No. 9 for the years ended December 31, 2018, 2019 and 2020, respectively.

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(12) Income Taxes (Continued)

Aggregate undistributed earnings of the Group's subsidiaries and VIEs in the PRC that are available for distribution to the Group of approximately RMB1,303,923 and RMB1,146,274 as of December 31, 2019 and 2020 respectively, are considered to be indefinitely reinvested. 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 RMB65,196 and RMB57,314, respectively.

During the years ended December 31, 2018, 2019 and 2020, the Group has provided RMB53,702, RMB49,267 and RMB18,483, respectively, deferred income tax for the declared dividend distribution based on a 5% withholding tax rate.

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

(13) Capital Structure

In December 2020, the Company cancelled 280,000,000 ordinary shares related to the 521 Plan since the 521 Plan was cancelled in December 2020 (see more details in Note 19(b)).

On January 10, 2019, the Company had granted an additional 6.5 million ADS (equivalent of 130,000,000 ordinary shares) at US\$25.6 per ADS (equivalent of US\$1.28 per ordinary share) to the Participants, of which the 1,423,774 ADS was repurchased from open market during 2018 and was held by the Company as treasury shares as of December 31, 2018. Pursuant to the Company's 521 Plan, 280,000,000 ordinary shares had been purchased by 521 Plan Employee Companies at the weighted average price of US\$1.37 per ordinary share and 178,475,480 shares of which were recorded as treasury shares as of December 31, 2018 and 2019.

During 2019, the Company has purchased and cancelled an aggregate of 2,511,191 ADSs (equivalent of 50,223,820 ordinary shares), representing 4.7% of the total shares outstanding as of December 31, 2019, at an average price of approximately US\$28.2 per ADS for a total amount of approximately RMB484,015 (US\$69,525), under its share buyback program to repurchase up to US\$200 million ADSs by December 31, 2019, as previously announced by its board of directors in March 2019.

During 2019, the Company issued 640,000 new shares for the exercise of options, representing 0.1% of the total shares outstanding as of December 31, 2019.

During 2018, the Company repurchased 1,423,774 ADS (equivalent of 28,475,480 ordinary shares) on the open market and 7.5 million ADS (equivalent of 150,000,000 shares) from Master Trend Limited to execute the 521 Plan in 2018, for an accumulated cash consideration of RMB1,716,343, representing 2.19% and 11.52% of the total shares outstanding as of December 31, 2018 respectively. Master Trend Limited is an investment vehicle company beneficially owned by Mr. Qiuping Lai, co-founder and former president of the Group who retired from the Company in March 2016.

During 2018, the Company issued 1,760,000 new shares for the exercise of options, representing 0.16% of the total shares outstanding as of December 31, 2018.

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(14) Net Income per Share

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

	Year Ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
<i>Basic:</i>			
Net income	617,095	192,554	276,177
Less: Net income attributable to the noncontrolling interests	7,180	3,622	7,923
Net income attributable to the Company's shareholders	609,915	188,932	268,254
Weighted average number of ordinary shares outstanding	1,239,264,464	1,092,601,338	1,073,891,784
Basic net income per ordinary share	0.49	0.17	0.25
Basic net income per ADS	9.84	3.46	5.00
<i>Diluted:</i>			
Net income	617,095	192,554	276,177
Less: Net income attributable to the noncontrolling interests	7,180	3,622	7,923
Net income attributable to the Company's shareholders	609,915	188,932	268,254
Weighted average number of ordinary shares outstanding	1,239,264,464	1,092,601,338	1,073,891,784
Weighted average number of dilutive potential ordinary shares from share options	1,589,570	628,098	399,576
Total	1,240,854,034	1,093,229,436	1,074,291,360
Diluted net income per ordinary share	0.49	0.17	0.25
Diluted net income per ADS	9.83	3.46	4.99

The shares subscribed by Participants under the 521 Plan is record as treasury shares and excluded from the computation of basic and diluted income per ordinary share during the year ended December 31, 2018 and 2019. Further, the contingently issuable shares subject to the 521 Plan will be excluded from basic income per ordinary share and diluted earnings per share until all the performance conditions have been satisfied.

In December 2020, the Group cancelled the 521 Plan without any replacement awards, and as a result, the Participants returned the subscribed shares to the Group (see more details in Note 19(b)). The returned shares were cancelled by the end of the year.

(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, 2019 and 2020. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of individual company's net profit as reported in the PRC statutory financial statements of the Company's subsidiaries and VIEs. The appropriations to statutory surplus reserve are required until the balance reaches 50% of the registered capital of respective subsidiaries and VIEs.

The statutory surplus reserve is used to offset future losses. These reserves represent appropriations of retained earnings determined according to PRC law and may not be distributed. The accumulated amounts contributed to the statutory reserves were RMB508,739 and RMB553,911 as of December 31, 2019 and 2020, respectively.

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(16) Related-party Balances and Transactions

The principal related-party balances as of December 31, 2019 and 2020, and transactions for the years ended December 31, 2018, 2019 and 2020 are as follows:

(i) The Group advanced a short-term loan with a principal amount of RMB50,000 to Shenzhen Baoying Factoring Co., Ltd. (“Shenzhen Baoying”) in August 2018, which was controlled by Puyi, the Group’s affiliate. The amounts is unsecured, bearing interest at 8.5% per annum and are repayable after 6 months from the date of the agreement. The principal and interest of the loan have been received on November 2018. Interest income from loan receivable from Shenzhen Baoying for 2018 is RMB989.

The Group invested in senior units of structure fund issued by CNFinance with a principal amount of RMB138,000 and recognized investment income of RMB610 during the year 2018. The principal and investment income have been received before July 2018.

In 2018 and 2019, one of the Group’s subsidiaries purchased certain wealth management products offered by an online peer-to-peer (“P2P”) lending platform, which is considered to be a related party as the legal representative of the company that operates the P2P platform is a relative to Mr. Yinan Hu, the Group’s co-founder and director. The wealth management products purchased on the platform by the subsidiary bear interests at 7.3% with terms of 90 days. Principal and interests are payable upon maturity of those products or on a quarterly basis. As of December 31, 2018, the value of the outstanding wealth management products recorded as short term investments in the consolidated balance sheets was RMB15,000 and no investment income has been recognized before maturity. As of December 31, 2019, these wealth management products were matured. The principal of RMB15,000 and interests of RMB360 recorded as investment income in the consolidated statements of income have been received in 2019. There was no balance outstanding as of December 31, 2019 with regard to such products.

(ii) During 2018, the Group has repurchased a total of 7.5 million of the Company’s outstanding ADS (equivalent of 150,000,000 ordinary shares) from Master Trend at US\$29.0 per ADS (equivalent to US\$1.45 per ordinary share), representing the average closing price of the 30 trading days prior to the Group’s Board approval on June 14, 2018. In form of loan to the 521 Plan’s participants, the Group had paid RMB1,318,611 as 90% of shares purchase consideration to Master Trend during 2018.

Master Trend is beneficially owned by Mr. Qiuping Lai and Master Trend was then a related party because it was a principal owners of the Group at the time of the repurchase. Master Trend still held 4.3% ordinary shares of the Group as of October 10, 2018, upon the Group’s completion of its repurchase transactions of 7.5 million ADS.

(17) Commitments and Contingencies

(i) See Note 8 for the Group’s commitments for future minimum lease payments under operating leases.

(ii) As of December 31, 2020, there was no pending legal proceeding to which the Group is a party that will have a material effect on the Group’s business, results of operations or cash flows.

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(18) Concentrations of Credit Risk

Concentration risks

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

	Year ended December 31,					
	2018 RMB	% of sales	2019 RMB	% of sales	2020 RMB	% of sales
Huaxia Life Insurance Company Limited ("Huaxia")	1,100,027	31.7%	882,539	23.8%	606,581	18.6%
Aeon Life Insurance Co., Ltd. ("Aeon").	453,120	13.1%	677,707	18.3%	560,341	17.1%
Sinatay Life Insurance Co., Ltd. ("Sinatay")	*	*	595,600	16.1%	504,489	15.4%
Evergrande Life Insurance Co., Ltd. ("Evergrande")	*	*	*	*	339,567	10.4%
Tianan Life Insurance Co., Ltd. ("Tianan")	704,933	20.3%	447,430	12.1%	*	*
	<u>2,258,080</u>	<u>65.1%</u>	<u>2,603,276</u>	<u>70.3%</u>	<u>2,010,978</u>	<u>61.5%</u>

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

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

	As of December 31,			
	2019 RMB	%	2020 RMB	%
Sinatay	100,872	14.4%	126,820	20.7%
Huaxia	213,851	30.4%	108,232	17.7%
Aeon	*	*	106,658	17.4%
Evergrande	*	*	66,660	10.9%
	<u>314,723</u>	<u>44.8%</u>	<u>408,370</u>	<u>66.7%</u>

* represented less than 10% of accounts receivable as of the year end.

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

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

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(19) Share-based Compensation

(a) 2012 Option G

On March 12, 2012, the Company granted options (“2012 Options G”) to its directors and employees to purchase up to 92,845,000 ordinary shares of the Company. Pursuant to the option agreements entered into between the Company and the option grantees, the options shall vest over a five-year service period from 2012 to 2016. The expiration date of the 2012 Options is March 12, 2022. The 2012 Options G had an exercise price of US\$0.30 (RMB1.90) and an intrinsic value of US\$0.04 (RMB0.26) per ordinary share, except for the 3,200,000 options granted to the two independent directors which had an exercise price of US\$0.31 (RMB1.98) and an intrinsic value of US\$0.03(RMB0.17) per ordinary share. The exercise price for Option G was later modified to US\$0.001 (RMB0.006) and the number of shares are reduced by half with no incremental cost as a result of such option modification in November 2014. The fair value of the options was determined by using the Black-Scholes option pricing model.

For the years ended December 31, 2019 and 2020, share-based compensation expenses of nil were recognized in connection with the 2012 Options G, respectively.

For the year ended December 31, 2020, changes in the status of total outstanding options, were as follows:

	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price in RMB	Aggregate Intrinsic Value RMB
Outstanding as of January 1, 2020	400,000	2.25	0.01	3,613
Exercised	—	—	—	
Forfeited	—	—	—	
Outstanding as of December 31, 2020	400,000	1.25	0.01	1,567
Exercisable as of December 31, 2020	400,000	1.25	0.01	1,567

As of December 31, 2020, all of the above options were fully vested.

Total intrinsic value of options exercised for the Company’s share option plans for the years ended December 31, 2018, 2019 and 2020 were RMB16,884, RMB5,703 and nil, respectively.

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(19) Share-based Compensation (Continued)

(b) The 521 Plan

In-substance non-recourse loans and option grants

As disclosed in Note 9, the 521 Plan was designed to incentivize the Participants, 90% of the subscription price of the shares under the 521 Plan shall be settled by the Group through in-substance nonrecourse loans with interest at a rate of 8% to the Participants. While the remaining 10% is contributed by the Participants. The loan is repayable by the Participants upon the earlier of the expiry date of the 521 Plan, termination of employment or the agency contract or within five years.

Given the consideration received from the employee consists of an in-substance nonrecourse loans, the award is, accounted for as an option until the note is repaid. In addition to the underlying shares which are collaterals to the loans, the Group also has legal recourse to the Participants' personal assets until the loans and interests are paid in full. However, the Group considers these loans to be in-substance nonrecourse loans due to the uncertainty of the Group's ability to recover sufficient assets from the Participants to justify the recourse nature of the loan. In accordance of ASC 718, the rights and obligations embodied in a transfer of equity shares to Participants for loans that provides no recourse, other than the shares, to other assets of the employee are substantially the same as those embodied in a grant of share options. Accordingly, the 521 Plan is accounted for as grant of share options. The principal and interest are included as part of the exercise price of the "option" (therefore, no interest income is recognized). Substantively, each share under the 521 Plan is an option to purchase a fixed number of share at a strike price per ADS equal to the subscription price (i.e., the exercise price) of US\$27.38 per ADS increasing over time as interest accrues on the loan, offset by any dividends declared on the share. Further, because the shares sold on a nonrecourse basis are accounted for as options, the note and the shares are not recorded. Rather, compensation cost is recognized over any requisite service period, with an offsetting credit to additional paid-in capital ("APIC"). Periodic principal and interest payments, if any, are treated as deposits.

Refundable share right deposits are recorded as a liability until the note is paid off, at which time the deposit balance is transferred to APIC. Nonrefundable deposits are immediately recorded as a credit to APIC as payments are received.

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(19) Share-based Compensation (Continued)

(b) The 521 Plan (Continued)

Vesting conditions:

Vesting, Forfeiture, and Settlement Terms:

The Participants' rights to ownership benefits of the shares are subject to the Participants' achievement of service and performance vesting conditions. Each award agreement contains a condition for service from January 1, 2019 through December 31, 2023 (which coincides with loan maturity date) as well as individually determined performance conditions based on cumulative sales over the service period. Participants must achieve both the service and performance conditions for their shares to fully vest at the end of the loan maturity date, otherwise the share appreciation profits at the end of the vesting period, if any, after principals and accrued interests of the loans are fully repaid to the Group, will be either fully retained or partially retained by the Group.

Under these vesting and profit distribution arrangements, the Group can be required to settle the option or similar instrument by transferring cash, representing a noncontingent cash settlement feature which requires the 521 awards to be liability classified.

Option modification

In November 2019, the Board of Directors and Compensation Committee approved a modification of the settlement terms of the 521 Plan from cash settlement to net share settlement of vested ADS options. Under the amended award agreement, the Group will settle the vested ADS option with shares of the Group at a value equal to the excess of the settlement date fair value of the ADS over the loan principal plus interest. If the ADS depreciated or have not appreciated sufficiently to repay the loan principal and interest, the outstanding loan balance (if any) shall be otherwise negotiated and determined by the Group and the Participants. The modification result in a change of awards' classification from liability to equity. Other terms of the options grants remain unchanged.

The modified award was accounted for as an equity award going forward from the date of modification with a fair value measured on the modification date on a straight-line basis over the remaining requisite service period. The Group compared the fair value of the options granted immediately before the modification to the fair value of the modified award and there is no change in the fair value at the modification date. Therefore, at the modification date, the Group reclassified the amounts previously recorded as a share-based compensation liability as a component of equity in the form of a credit to additional paid-in capital.

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(19) Share-based Compensation (Continued)

(b) The 521 Plan (Continued)

Option modification (Continued)

At the modification date on November 18, 2019, the Group used the Black-Scholes valuation model in determining the fair value of the options granted, which requires the input of certain assumptions, including the expected life of the stock option, stock price volatility, dividend rate and risk-free interest rate. The assumption used in determining the fair value of the options on the modification date were as follows:

Assumptions	November 18, 2019
Expected dividend yield (Note i)	3.00%
Risk-free interest rate (Note ii)	1.61%
Expected volatility (Note iii)	50.25%
Expected life (Note iv)	4.12 years
Share price per ordinary share on valuation date	US\$ 26.64

(i) Expected dividend yield:

The expected dividend yield was estimated by the Group based on its historical dividend policy.

(ii) Risk-free interest rate:

Risk-free interest rate was estimated based on the 5-year US Government Bond yield as of the valuation date.

(iii) Expected volatility:

The volatility of the underlying ordinary shares was estimated based on the annualized standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Group as of the Valuation Date.

(iv) Expected life:

The expected life was the contractual life of the 521 plan.

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(19) Share-based Compensation (Continued)

(b) The 521 Plan (Continued)

As of December 31, 2019, the Group had reserved 280,000,000 ordinary shares available to be granted as share-based awards under the 521 Plan. The 521 Plan is generally scheduled to be vested over five years. 150,000,000 ordinary shares were granted on December 31, 2018 and the rest has been granted on January 10, 2019 subsequently.

On November 15, 2019, the Board of Directors of the Group approved an exemption of the first-year performance condition for all Participants under the 521 Plan. For the year ended December 31, 2019, the Group estimated the forfeiture rate for all Participants to be nil. Mainly due to the impact of COVID-19 and the recent evolving dynamics of the insurance industry, the Group estimated that it is not probable that the Participants can achieve the second-year performance condition by end of 2020.

In December 2020, the Group entered into supplemental agreements with all remaining Participants to cancel the 521 Plan. In accordance with the supplemental agreements, all the relevant original contractual agreements were terminated and lapsed and upon which, the 521 Plan Employee Companies returned a total of 280,000,000 subscribed ordinary shares to the Group, and as a condition, the Group refunded all share rights deposits amounting RMB250,312 (US\$38,332) back to the Participants, and terminated the Participants' obligation to repay the Group the non-recourse loan principal and accumulated interest. By the end of 2020, the transaction was completed and the returned shares were all cancelled.

For the year ended December 31, 2020, changes in the status of total outstanding options under 521 Plan, was as follows:

	Number of options	Weighted average exercise price in US\$	Weighted average remaining contractual life (Years)	Aggregate Intrinsic Value RMB
Outstanding as of January 1, 2020	280,000,000	1.4	4.00	—
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	(280,000,000)	1.4	—	—
Outstanding as of December 31, 2020	—	—	—	—

For the year ended December 31, 2019, the Group recognized RMB393 share-based compensation expense related to the 521 plan, while for the year ended December 31, 2020, the Group reversed RMB393 as the the stock options related to the 521 Plan were estimated to be improbable to vest. As of December 31, 2020, there was no unrecognized share-based compensation expense related to the 521 Plan.

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(20) Treasury Stock

As disclosed in Note 19(b), the Group cancelled the 521 Plan upon which all related subscribed shares presented as treasury stock in total 178,475,480 ordinary shares were returned to the Group, and cancelled in December 2020. As a result, the number of treasury shares as of December 31, 2020 was nil.

During the year 2019, a total of 50,223,820 ordinary shares (2,511,191 ADSs) have been repurchased from the open market under the Company's share buyback program at an average price of approximately US\$28.2 per ADS and cancelled during the year.

During the year 2018, a total of 178,475,480 ordinary shares, comprising 28,475,480 ordinary shares has been repurchased from the open market and 150,000,000 ordinary shares has been purchased from Master Trend, a related party of the Group at the time of the transaction. The Group accounts for repurchased ordinary shares under the par value method and includes such treasury stock as a component of the shareholders' equity.

(21) Restricted Net Assets

Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. As a result of these PRC laws and regulations, the Group's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets either in the form of dividends, loans or advances. As of December 31, 2019 and 2020, the Company had restricted net assets of RMB1,410,432 and RMB1,455,605, respectively, which were not eligible to be distributed. These amounts were comprised of the registered capital of the Company's PRC subsidiaries and the statutory reserves disclosed in Note 15.

(22) Segment Reporting

As of December 31, 2020, the Group operated two segments: (1) the insurance agency segment, which mainly consists of providing agency services for distributing life and P&C insurance products on behalf of insurance companies, and (2) the claims adjusting segment, which consists of providing pre-underwriting survey services, claim adjusting services, disposal of residual value services, loading and unloading supervision services, and consulting services. Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the Group's chief operating decision maker in deciding how to allocate resources and in assessing performance.

The following table shows the Group's operations by business segment for the years ended December 31, 2018, 2019 and 2020. Other includes revenue and expenses that are not allocated to reportable segments and corporate related items.

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(22) Segment Reporting (Continued)

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
Net revenues				
Agency	3,143,873	3,335,397	2,834,997	434,482
Claims Adjusting	327,390	370,606	433,148	66,383
Total net revenues	3,471,263	3,706,003	3,268,145	500,865
Operating costs and expenses				
Agency	(2,614,593)	(2,797,651)	(2,481,219)	(380,264)
Claims Adjusting	(316,899)	(361,474)	(416,241)	(63,792)
Other	(114,028)	(77,515)	(68,499)	(10,497)
Total operating costs and expenses	(3,045,520)	(3,236,640)	(2,965,959)	(454,553)
Income (loss) from operations				
Agency	529,280	537,746	353,778	54,218
Claims Adjusting	10,491	9,132	16,907	2,591
Other	(114,028)	(77,515)	(68,499)	(10,497)
Income from operations	425,743	469,363	302,186	46,312

	As of December 31,		
	2019	2020	2020
	RMB	RMB	US\$
Segment assets			
Agency	1,133,121	1,254,778	192,303
Claims Adjusting	276,885	309,237	47,393
Other	2,030,837	1,516,984	232,488
Total assets	3,440,843	3,080,999	472,184

Substantially all of the Group's revenues for the three years ended December 31, 2018, 2019 and 2020 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.

(23) Subsequent events

On March 22, 2021, the Group's Board of Directors declared a quarterly dividend of US\$0.0125 per ordinary share, or US\$0.25 per ADS for the fourth quarter of 2020. The dividend will be paid to shareholders of record on March 31, 2021.

On March 22, 2021, the Group announced that its Board of Directors has approved the management's proposal for annual dividend of US\$0.6 per ADS, or US\$0.03 per ordinary share for the year of 2021. The dividend will be paid on a quarterly basis, with US\$0.15 per ADS, or US\$0.0075 per ordinary share, payable in each of the next four quarters.

FANHUA INC.

SCHEDULE 1—CONDENSED FINANCIAL INFORMATION OF THE COMPANY

Balance Sheets

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

	As of December 31,		
	2019 RMB	2020 RMB	2020 US\$
ASSETS:			
Current assets:			
Cash and cash equivalents	32,314	66,345	10,168
Short term investments	36,416	35,303	5,410
Other receivables and amounts due from subsidiaries and affiliates	1,378,556	651,533	99,853
Total current assets	1,447,286	753,181	115,431
Non-current assets:			
Investment in subsidiaries	2,855,907	3,111,767	476,899
Investment in an affiliate	10,670	9,586	1,469
Total assets	4,313,863	3,874,534	593,799
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Other payables and accrued expenses	1,330,068	915,738	140,343
Amounts due to subsidiaries	785,608	1,125,237	172,450
Non-current liabilities:			
Refundable share rights deposits (Including refundable share rights deposits of the consolidated VIE of RMB266,901 and nil as of December 31, 2019 and 2020, respectively)	266,901	—	—
Total liabilities	2,382,577	2,040,975	312,793
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued 1,252,367,264 and 1,073,891,784 shares, of which 1,073,891,784 and 1,073,891,784 shares were outstanding as of December 31, 2019 and 2020, respectively)	9,235	8,089	1,240
Treasury stock	(1,146)	—	—
Additional paid-in capital	393	—	—
Retained earnings	1,988,233	1,860,465	285,129
Accumulated other comprehensive loss	(65,429)	(34,995)	(5,363)
Total equity	1,931,286	1,833,559	281,006
Total liabilities and shareholders' equity	4,313,863	3,874,534	593,799

FANHUA INC.

SCHEDULE 1—CONDENSED FINANCIAL INFORMATION OF THE COMPANY — (Continued)

Statements of Income and Comprehensive Income

(In thousands)

	Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
General and administrative expenses	(6,973)	(6,480)	(4,204)	(644)
Selling expenses	—	(281)	281	43
Interest income	10,624	1,767	1,044	160
Equity in earnings of subsidiaries and an affiliate	606,264	193,926	271,133	41,553
Net Income attributable to the Company's shareholders	609,915	188,932	268,254	41,112
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(10,194)	10,178	9,639	1,477
Unrealized net gains on available-for-sale investments	—	17,231	23,811	3,649
Share of other comprehensive gain (loss) of affiliates	(1,763)	452	(3,016)	(462)
Comprehensive income attributable to the Company's shareholders	597,958	216,793	298,688	45,776

FANHUA INC.

SCHEDULE 1—CONDENSED FINANCIAL INFORMATION OF THE COMPANY — (Continued)

Statements of Cash Flows

(In thousands)

	Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
OPERATING ACTIVITIES				
Net income	609,915	188,932	268,254	41,112
Adjustments to reconcile net income to net cash used in operating activities:				
Equity in earnings of subsidiaries and an affiliate	(606,264)	(193,926)	(271,133)	(41,553)
Compensation expenses associated with stock options	—	393	(393)	(60)
Changes in operating assets and liabilities:				
Other receivables	10,644	(4)	26	4
Other payables	1,326,440	1,214	(7,707)	(1,181)
Net cash (used in) from operating activities	1,340,735	(3,391)	(10,953)	(1,678)
Cash flows (used in) generated from investing activities				
Purchase of short-term investments	—	(178,371)	(71,382)	(10,940)
Changes in investment in subsidiaries and an affiliate	81,129	(6,623)	26,195	4,015
Advances to subsidiaries and affiliates	467,995	498,774	660,004	101,150
Proceeds from disposal of short-term investments	—	143,581	73,310	11,235
Net cash generated from investing activities	549,124	457,361	688,127	105,460
Cash flows generated from (used in) financing activities:				
Proceeds on exercise of stock options	3,286	4	—	—
Proceeds of employee and grantee subscriptions	211,054	111,304	—	—
Dividends paid	(326,725)	(435,072)	(388,499)	(59,540)
Repurchase of ordinary shares from open market	(251,220)	(484,015)	—	—
Repayment of subscription from the 521 Plan participants	—	—	(250,312)	(38,362)
Repurchase of ordinary shares from shareholder	(1,318,611)	—	—	—
Net cash generated used in financing activities	(1,682,216)	(807,779)	(638,811)	(97,902)
Net increase (decrease) in cash and cash equivalents	207,643	(353,809)	38,363	(5,880)
Cash and cash equivalents and restricted cash at beginning of year	169,413	366,862	32,314	4,952
Effect of exchange rate changes on cash and cash equivalents	(10,194)	19,261	(4,332)	(664)
Cash and cash equivalents and restricted cash at end of year	366,862	32,314	66,345	10,168

FANHUA INC.

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

Schedule 1 has been provided pursuant to the requirements of Rule 12-04(a), 5-04(c) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to the financial position, cash flows 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, 2020, RMB1,455,605 of the restricted capital and reserves are not available for distribution, and as such, the condensed financial information of the Company has been presented for the years ended December 31, 2018, 2019 and 2020.

During each of the three years in the period ended December 31, 2020, no dividend was paid by the Group's subsidiaries to the Company in 2018, 2019 and 2020.

As of December 31, 2020, there were no material contingencies, significant provisions of long-term obligations, and mandatory dividend or redemption requirements of redeemable shares or guarantees of the Company except for those which have been separately disclosed in the consolidated financial statements, if any.

Basis of preparation

The condensed financial information of the Company has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Group as of December 31, 2019 and 2020 and the years ended 2018, 2019 and 2020.

The Supplementary Agreement

This Agreement was entered into in Guangzhou on 4 December, 2020 among the following parties:

Party A: CISG Holdings Ltd., a limited liability company registered and incorporated under the laws of the British Virgin Islands

Party B: , a citizen of the People's Republic of China, ID number:

Party C: Fanhua Employees Holding Limited, a limited liability company registered and incorporated under the laws of British Virgin Islands

Company: Fanhua Inc., a limited liability company registered and incorporated under the laws of Cayman Islands, the parent company of Party A

WHEREAS:

An Entrusted Share Purchase Agreement and the Loan Agreement (the “Agreements”) were entered into among Party A, Party B and Party C on August 1, 2018, pursuant to which Party B agreed to subscribe for the shares of Fanhua Inc. (the “Shares”) and entrusted Party C to hold the shares on his/her behalf. To fund the share subscription, Party B applied for a loan under the conditions of promising to achieve certain performance goals and pledging the shares subscribed by Party B as guarantees. Since Party B failed to achieve the agreed performance targets, the parties hereby agree to rescind the Agreements as follows:

1. The Entrusted Share Purchase Agreement, the Loan Agreement and relevant supplementary agreements (the “Agreements”) signed by the parties shall be rescinded upon the effective date of this Agreement. The rights and obligations of the parties agreed upon in the Agreements shall be null and void thereafter, and no party shall bear any liability for breach of contract.

2. Party B agrees to return the subscribed shares held by Party C to Party A and its parent company within 15 working days from the effective date of this Agreement, and to cooperate with Party A and its parent company in completing the procedures for cancelling such Shares; Party A agrees that the liabilities (specifically 90% of the subscription price) borrowed by Party B for the subscription of the Shares from Party A are released from the aforementioned effective date.

3. Party A agrees to return the subscription funds (specifically 10% of the subscription price) paid at the time of shares subscription to Party C within 15 working days from the effective date of this agreement, and Party C agrees to return the funds to Party B within 15 working days upon receipt of such funds.

4. Whereas the Entrusted Share Purchase Agreement, the Loan Agreement and relevant supplementary agreements shall be null and void from the effective date of this Agreement and therefore, Party B shall be released from the obligation to pay interests on the loans to Party A during the term of the Agreements and Party B and Party C's rights to dividend during the term of the Agreements shall also be relinquished from the effective date of this Agreement.
5. This Agreement shall enter into force on the date of signing of the Agreement.
6. This Agreement is executed in four originals, with each party holding one original and all originals having the same legal effect.

Party A: CISG Holdings Ltd

Party B:

Party C: Fanhua Employees Holding Limited

Company: Fanhua Inc

List of Subsidiaries and Affiliated Entities
(As of March 31, 2021)

Subsidiaries and Affiliated Entities⁽¹⁾		Percentage Attributable to Our Company	Place of Incorporation
1.	CISG Holdings Ltd. ⁽²⁾	100%	BVI
2.	Minkfair Insurance Management Limited ⁽³⁾	100%	Hong Kong
3.	CNinsure Holdings Ltd. ⁽⁴⁾	100%	BVI& Hong Kong
4.	Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd. ⁽⁵⁾	100%	PRC
5.	Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. ⁽⁵⁾	100%	PRC
6.	Fanhua Insurance Sales Service Group Company Limited ⁽⁶⁾	100%	PRC
7.	Guangdong Meidiya Investment Co., Ltd. ⁽⁷⁾	100%	PRC
8.	Fanhua RONS (Beijing) Technology Co., Ltd. (previously known as Litian Zhuoyue Software (Beijing) Co., Ltd.) ⁽⁷⁾	100%	PRC
9.	Beijing Fanlian Investment Co., Ltd. ⁽⁸⁾	100%	PRC
10.	Guangzhou Zhongqi Enterprise Management Consulting Co., Ltd. ⁽⁹⁾	100%	PRC
11.	Tibet Zhuli Investment Co. Ltd. ⁽⁹⁾	100%	PRC
12.	Fanjin Investment Co., Ltd. ⁽⁹⁾	100%	PRC
13.	Ying Si Kang Information Technology (Shenzhen) Co., Ltd. ⁽¹⁰⁾	100%	PRC
14.	Sichuan Yihe Investment Co., Ltd. ⁽¹¹⁾	100%	PRC
15.	Shenzhen Xinbao Investment Management Co., Ltd. ⁽⁷⁾	100%	PRC
16.	Fanhua Century Insurance Sales & Service Co., Ltd. ⁽¹²⁾	100%	PRC
17.	Shenzhen Baowang E-commerce Co., Ltd. ⁽¹³⁾	100%	PRC
18.	Shenzhen Dianlian Information Technology Co., Ltd. ⁽¹⁴⁾	100%	PRC
19.	Fanhua RONS Service Co., Ltd. ⁽¹⁴⁾	100%	PRC
20.	Shenzhen Qunabao Information Technology Co., Ltd. ⁽⁷⁾	100%	PRC
21.	Fanhua Yuntong Enterprise Management Advisory (Shenzhen) Co., Ltd. (Previously known as Shenzhen Bangbang Auto Services Co., Ltd.) ⁽⁷⁾	100%	PRC

Subsidiaries and Affiliated Entities ⁽¹⁾		Percentage Attributable to Our Company	Place of Incorporation
22.	Guangdong Fanhua Bluecross Health Management Co., Ltd. ⁽¹⁵⁾	100%	PRC
Insurance Agencies			
23.	Fanhua Lianxing Insurance Sales Co., Ltd. ⁽¹⁶⁾	100%	PRC
24.	Jiangsu Fanhua Lianchuang Insurance Agency Co., Ltd. ⁽¹⁵⁾	100%	PRC
25.	Zhejiang Fanhua Tongchuang Insurance Agency Co., Ltd. ⁽¹⁵⁾	100%	PRC
26.	Liaoning Fanhua Gena Insurance Agency Co., Ltd. ⁽¹⁵⁾	100%	PRC
27.	Shanghai Fanhua Guosheng Insurance Agency Co., Ltd. ⁽¹⁵⁾	100%	PRC
28.	Jiangxi Fanhua Insurance Agency Co., Ltd. ⁽¹⁵⁾	100%	PRC
29.	Hunan Fanhua Insurance Agency Co., Ltd. ⁽¹⁷⁾	55%	PRC
30.	Fujian Fanhua Guoxin Insurance Agency Co., Ltd. ⁽¹⁸⁾	100%	PRC
Insurance Claims Adjusting Segment			
31.	Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd. ⁽¹⁹⁾	44.7%	PRC
32.	Shanghai Fanhua Teamhead Insurance Surveyors & Loss Adjustors Co., Ltd. ⁽²⁰⁾	44.2%	PRC
33.	Shenzhen Fanhua Training Co., Ltd. ⁽²¹⁾	44.7%	PRC
34.	Shenzhen Fanhua Software Technology Co., Ltd. ⁽²¹⁾	44.7%	PRC
35.	Shenzhen Huazhong United Technology Co., Ltd. ⁽²²⁾	44.7%	PRC
36.	Suzhou Junzhou Healthcare Management Co. Ltd. ⁽²³⁾	44.7%	PRC
37.	Guangzhou Suiyuan Insurance Surveyors & Loss Adjustors Co., Ltd. ⁽²⁴⁾	100%	PRC
Affiliated Entities			
1.	Puyi Inc. ⁽²⁵⁾	4.5%	PRC
2.	CNFinance Holdings Limited ⁽²⁶⁾	18.5%	CI
3.	Shanghai Teamhead Automobile Surveyors Co., Ltd. ⁽²⁷⁾	17.7%	PRC

(1) The official names of those companies registered in PRC are in Chinese. The English translation is for reference only.

(2) 100% of the equity interests in this company are held directly by Fanhua Inc.

(3) 100% of the equity interests in this company are held directly by CISG holdings Ltd.

(4) 100% of the equity interests in this company are held directly by Minkfair Insurance Management Limited.

(5) 100% of the equity interests in this company are held directly by CNinsure Holdings Ltd.

- (6) We beneficially own 100% equity interests in this Company, of which 7.2%, 10.8% and 82% of the equity interests in this company are held by Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd., Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd and Tibet Zhuli Investment Co. Ltd., respectively.
 - (7) 100% of the equity interests in these companies are held directly by Fanhua Insurance Sales Service Group Company Limited.
 - (8) 100% of the equity interests in this company are held directly by Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.
 - (9) 100% of the equity interests in this company are held directly by Beijing Fanlian Investment Co., Ltd.
 - (10) 100% of the equity interests in this company are held directly by Litian Zhuoyue Software (Beijing) Co., Ltd.
 - (11) We beneficially own 100% equity interests in this company, of which 39.14%, 40.86% and 20% of the equity interests in this company are held by Fanhua Zhonglian Enterprise Image Planning (Shenzhen) Co., Ltd., Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd. and Fanhua Insurance Sales Group Company Limited, respectively.
 - (12) 100% of the equity interests in this company are held directly by Shenzhen Xinbao Investment Management Co., Ltd.
 - (13) 100% of the equity interests in this company are held directly by Fanhua Century Insurance Sales & Service Co., Ltd.
 - (14) 100% of the equity interests in these companies are held directly by Tibet Zhuli Investment Co., Ltd.
 - (15) 100% of the equity interests in each of these companies are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
 - (16) We beneficially owned 100% of the equity interests in this company, of which 99% of the equity interests in this company are held directly by Fanhua Insurance Sales Service Group Company Limited., Ltd. and the remaining 1% by Fanhua Xinlian Information Technology Consulting (Shenzhen) Co., Ltd.
 - (17) 55% of the equity interests in this company are held directly by Fanhua Lianxing Insurance Sales Co., Ltd.
 - (18) 100% of the equity interests in this company are held directly by Fanhua Insurance Sales Service Group Company Limited. It is in the process of cancelling its business license upon completion of transferring its business operations to the Fujian branch of Fanhua Lianxing Insurance Sales Co., Ltd.
 - (19) 44.7% of the equity interests in the company are held directly by Guangdong Meidiya Investment Co., Ltd.
 - (20) 99% of the equity interests in this company are held directly by Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd.
 - (21) 100% of the equity interests in each of these companies are held directly by Fanhua Insurance Surveyors & Loss Adjustors Co., Ltd., in which we beneficially own 44.7% of the equity interests.
 - (22) 100% of the equity interests in the company are held directly by Shenzhen Fanhua Software Technology Co., Ltd., in which we beneficially own 44.7% of the equity interests.
 - (23) 100% of the equity interests in the company are held directly by Shenzhen Huazhong United Technology Co., Ltd., in which we beneficially own 44.7% of the equity interests.
 - (24) 99.99% of the equity interests in this company are held directly by Fanhua Insurance Sales Service Group Company Limited, and the remaining 0.01% are held by an individual on behalf of the Company.
 - (25) We directly own 4.5% of the equity interests in this company.
 - (26) We directly own 18.5% of the equity interests in this company.
 - (27) 40% of the equity interests in this company are held directly by Shanghai Fanhua Teamhead Surveyors & Loss Adjustors Co., Ltd., in which we beneficially own 44.2% of the equity interests.
-

Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Chunlin Wang, certify that:

1. I have reviewed this annual report on Form 20-F of Fanhua Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 28, 2021

By: /s/ Chunlin Wang

Name: Chunlin Wang

Title: Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peng Ge, certify that:

1. I have reviewed this annual report on Form 20-F of Fanhua Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 28, 2021

By: /s/ Peng Ge

Name: Peng Ge

Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Fanhua Inc. (the “Company”) on Form 20-F for the year ended December 31, 2020 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 28, 2021

By: /s/ Chunlin Wang

Name: Chunlin Wang

Title: Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Fanhua Inc. (the “Company”) on Form 20-F for the year ended December 31, 2020 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 28, 2021

By: /s/ Peng Ge

Name: Peng Ge

Title: Chief Financial Officer

[Letterhead of Maples and Calder]

Our ref RHT/628018-000001/16446973V1
Direct tel +852 3690 7537
Email ray.tso@maples.com

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

April 28, 2021

Dear Sirs

Re: Fanhua Inc. (the “Company”)

We consent to the reference to our firm under the headings “Item 10. Additional Information—E. Taxation—Cayman Islands Taxation” and “Item 16G. Corporate Governance” in the Company’s Annual Report on Form 20-F for the year ended December 31, 2020, which will be filed with the United States Securities and Exchange Commission in the month of April 2021.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP
Maples and Calder (Hong Kong) LLP

[Letterhead of Global Law Office]

April 28, 2021

To: Fanhua Inc.

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

Dear Sirs,

We hereby consent to the reference to our firm under the headings “Risk Factors”, “Regulation” and “Organizational Structure” in Fanhua Inc.’s Annual Report on Form 20-F for the year ended December 31, 2020 , which will be filed with the Securities and Exchange Commission in April 2021.

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 Statement No.333-151271 on Form S-8 of our reports dated April 28, 2021, relating to the financial statements of Fanhua Inc. and its subsidiaries (the “Company”) and the effectiveness of the Company’s internal control over financial reporting, appearing in this Annual Report on Form 20-F of Fanhua Inc. for the year ended December 31, 2020.

/s/ Deloitte Touche Tohmatsu
Hong Kong
April 28, 2021

**CNFINANCE HOLDINGS
LIMITED AND SUBSIDIARIES**

Consolidated Financial Statements
December 31, 2018, 2019 and 2020

CNFINANCE HOLDINGS LIMITED

Consolidated balance sheets

		December 31,	
	Note	2019	2020
		RMB	RMB
Assets			
Cash, cash equivalents and restricted cash	4	1,705,356,424	1,960,922,758
Loans principal, interest and financing service fee receivables (include loans held-for-sale of RMB370,700,724 and RMB586,206,781,with RMB66,698,869 and RMB76,013,067 measured at fair value as of December 31, 2019 and 2020, respectively)	5	11,366,097,286	9,688,941,024
Allowance for credit losses		1,108,078,429	659,479,450
Net loans principal, interest and financing service fee receivables		10,258,018,857	9,029,461,574
Investment securities	6	654,328,054	418,136,773
Property and equipment	7	9,195,975	4,716,148
Intangible assets and goodwill	8	3,738,338	3,230,126
Deferred tax assets	24	16,441,330	75,823,512
Deposits	9	133,513,032	114,051,773
Right-of-use assets	28	38,133,941	19,468,523
Other assets	10	207,523,016	607,684,977
Total assets		13,026,248,967	12,233,496,164
Liabilities and shareholders' equity			
Interest-bearing borrowings	11		
Borrowings under agreements to repurchase		870,778,215	508,576,882
Other borrowings		6,652,138,315	5,649,669,343
Accrued employee benefits		37,276,343	29,627,379
Income taxes payable		136,931,899	154,806,738
Deferred tax liabilities	24	359,286,455	396,594,182
Lease liabilities	28	38,133,941	19,544,499
Credit risk mitigation position	12	928,702,101	1,209,729,138
Other liabilities	13	404,469,203	523,697,125
Total liabilities		9,427,716,472	8,492,245,286
Ordinary shares (3,800,000,000 shares authorized; 1,371,643,240 shares with USD0.0001 as par value issued as of December 31, 2019 and December 31, 2020)	14	916,743	916,743
Additional paid-in capital	15	937,589,515	999,662,882
Retained earnings	16	2,662,145,649	2,759,127,799
Accumulated other comprehensive losses	17	(2,119,412)	(18,456,546)
Total shareholders' equity		3,598,532,495	3,741,250,878
Total liabilities and shareholders' equity		13,026,248,967	12,233,496,164

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

CNFINANCE HOLDINGS LIMITED

Consolidated statements of comprehensive income

		Year ended December 31,		
	Note	2018	2019	2020
		RMB	RMB	RMB
Interest and fees income				
Interest and financing service fees on loans	18	4,278,820,368	2,953,480,997	1,828,687,910
Interest on deposits with banks		13,844,598	16,680,498	16,133,918
Total interest and fees income		4,292,664,966	2,970,161,495	1,844,821,828
Interest and fees expenses				
Interest expenses on interest-bearing borrowings		(1,942,449,117)	(1,309,835,699)	(731,315,365)
Interest expenses paid to related parties		(610,405)	-	-
Total interest and fees expenses		(1,943,059,522)	(1,309,835,699)	(731,315,365)
Net interest and fees income		2,349,605,444	1,660,325,796	1,113,506,463
Collaboration cost for sales partners	19	-	(174,042,054)	(415,104,428)
Net interest and fees income after collaboration cost		2,349,605,444	1,486,283,742	698,402,035
Provision for credit losses (net of increase in guaranteed recoverable assets of nil, RMB 100,304,255 and RMB 433,376,273 for years ended 2018, 2019 and 2020, respectively)		(433,753,901)	(362,735,159)	(277,586,423)
Net interest and fees income after collaboration cost and provision for credit losses		1,915,851,543	1,123,548,583	420,815,612
Realized gains on sales of investments, net	20	3,185,026	46,126,258	20,153,659
Net (losses)/gains on sales of loans	21	(16,697,259)	75,959,140	149,631,456
Other gains, net	22	2,114,319	6,375,348	19,762,053
Total non-interest (losses)/incomes		(11,397,914)	128,460,746	189,547,168
Operating expenses				
Employee compensation and benefits		(443,071,028)	(228,135,061)	(190,374,014)
Share-based compensation expenses	26	(39,715,168)	(15,886,067)	(62,073,367)
Taxes and surcharges		(81,198,115)	(67,689,864)	(49,452,609)
Operating lease cost		(58,317,758)	(36,607,623)	(21,719,042)
Offering expenses		(10,858,717)	-	-
Other expenses	23	(113,555,657)	(182,678,536)	(124,042,182)
Total operating expenses		(746,716,443)	(530,997,151)	(447,661,214)
Income before income tax expense		1,157,737,186	721,012,178	162,701,566
Income tax expense	24	(296,828,475)	(186,368,236)	(47,849,040)
Net income		860,908,711	534,643,942	114,852,526
Earnings per share	25			
Basic		0.69	0.39	0.08
Diluted		0.62	0.36	0.08
Other comprehensive income/(losses)				
Net unrealized income/(losses) on investment securities		1,585,705	(1,518,079)	(171,040)
Foreign currency translation adjustment		(1,682,779)	3,965,185	(16,166,094)
Comprehensive income		860,811,637	537,091,048	98,515,392

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

CNFINANCE HOLDINGS LIMITED

Consolidated statements of changes in shareholders' equity

	<i>Note</i>	Ordinary shares	Additional paid-in capital	Accumulated other comprehensive income /(losses)	Retained earnings	Total equity
		RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2018		-	569,125,240	(4,469,444)	1,266,592,996	1,831,248,792
Net income		-	-	-	860,908,711	860,908,711
Foreign currency translation adjustment	17	-	-	(1,682,779)	-	(1,682,779)
Unrealized gains on investment securities	17	-	-	1,585,705	-	1,585,705
Share-based compensation	26	-	39,715,168	-	-	39,715,168
Reorganization	1	98,493	(98,493)	-	-	-
Change in par value of ordinary shares		720,718	(720,718)	-	-	-
Issuance of ordinary shares upon initial public offering ("IPO"), net of offering cost		97,532	313,682,251	-	-	313,779,783
Balance as of December 31, 2018		916,743	921,703,448	(4,566,518)	2,127,501,707	3,045,555,380
Balance as of January 1, 2019		916,743	921,703,448	(4,566,518)	2,127,501,707	3,045,555,380
Net income		-	-	-	534,643,942	534,643,942
Foreign currency translation adjustment	17	-	-	3,965,185	-	3,965,185
Unrealized losses on investment securities	17	-	-	(1,518,079)	-	(1,518,079)
Share-based compensation	26	-	15,886,067	-	-	15,886,067
Balance as of December 31, 2019		916,743	937,589,515	(2,119,412)	2,662,145,649	3,598,532,495
Balance as of January 1, 2020		916,743	937,589,515	(2,119,412)	2,662,145,649	3,598,532,495
Cumulative effect from change in accounting policies ⁽¹⁾		-	-	-	(17,870,376)	(17,870,376)
Net income		-	-	-	114,852,526	114,852,526
Foreign currency translation adjustment	17	-	-	(16,166,094)	-	(16,166,094)
Unrealized losses on investment securities	17	-	-	(171,040)	-	(171,040)
Share-based compensation	26	-	62,073,367	-	-	62,073,367
Balance as of December 31, 2020		916,743	999,662,882	(18,456,546)	2,759,127,799	3,741,250,878

(1) We adopted CECL effective January 1, 2020. For additional information, see Note 2 (Summary of Significant Accounting Policies) for more information.

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

CNFINANCE HOLDINGS LIMITED

Consolidated statements of cash flows

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Cash flows from operating activities:			
Net income	860,908,711	534,643,942	114,852,526
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	433,753,901	362,735,159	277,586,423
Depreciation and amortization	13,299,246	10,917,300	6,047,226
Share-based compensation expenses	39,715,168	15,886,067	62,073,367
Net losses on disposal of property and equipment	946,244	3,049,896	2,868
Foreign exchange (gains)/losses	(1,836,029)	(647,316)	5,345,004
Deferred tax (benefit)/expense	(105,085,476)	3,908,847	(94,389,779)
Losses/ (gains) on sale of loans	16,697,259	(75,959,140)	(149,631,456)
Profit and loss arising from fair value changes	-	-	(56,773)
Loans held-for-sale:			
Originations and purchases	(7,871,176)	(550,365,329)	(152,062,194)
Proceeds from sales and paydowns of loans originally classified as held for sale	35,232,875	207,192,005	637,716,580
Changes in operating assets and liabilities:			
Deposits	(27,892,733)	44,704,926	19,461,259
Credit risk mitigation position	-	928,702,101	281,027,037
Other operating assets	(138,548,636)	97,354,067	(28,446,434)
Other operating liabilities	205,466,514	(283,008,921)	140,051,328
Net cash provided by/(used in) operating activities	1,324,785,868	1,299,113,604	1,119,576,982
Cash flows from investing activities:			
Loans originated, net of principal collected	785,703,866	4,371,766,370	(89,215,328)
Proceeds from sales of investment securities	390,050,000	2,654,500,000	7,187,477,436
Cash received from disposal of investment in equity securities	-	6,000,000	-
Proceeds from disposal of subsidiaries	29,658,807	-	-
Proceeds from disposal of property and equipment and intangible assets	3,044,763	881,111	2,159,345
Proceeds from sales of loans	165,626,448	536,346,406	378,308,227
Purchases of investment securities	(710,000,000)	(2,628,600,000)	(6,951,457,436)
Purchases of property, equipment and intangible assets	(14,822,364)	(4,440,146)	(3,221,401)
Net cash provided by investing activities	649,261,520	4,936,453,741	524,050,843

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

CNFINANCE HOLDINGS LIMITED

Consolidated statements of cash flows (continued)

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Cash flows from financing activities:			
Proceeds from initial public offering, net of offering cost paid of RMB51,967,702	313,779,783	-	-
Proceeds from interest-bearing borrowings	10,931,383,040	2,793,124,280	6,014,983,918
Proceeds from related party	138,000,000	-	-
Repayment of interest-bearing borrowings	(11,352,964,066)	(10,488,829,330)	(7,382,122,623)
Repayment through related party	(32,747,681)	-	-
Net cash used in financing activities	(2,548,924)	(7,695,705,050)	(1,367,138,705)
Net increase/(decrease) in cash, cash equivalents and restricted cash	1,971,498,464	(1,460,137,705)	276,489,120
Cash, cash equivalents and restricted cash at the beginning of year	1,190,360,385	3,161,657,934	1,705,356,424
Effect of exchange rate change on cash, cash equivalents and restricted cash	(200,915)	3,836,195	(20,922,786)
Cash, cash equivalents and restricted cash at the end of year	3,161,657,934	1,705,356,424	1,960,922,758
Supplemental disclosures of cash flow information:			
Income taxes paid	95,837,024	179,190,712	46,378,568
Interest expense paid	2,002,298,692	1,412,091,485	728,846,965

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

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION

CNFinance Holdings Limited (“CNFinance”), through its wholly-owned subsidiaries and consolidated variable interest entities (collectively, referred to hereinafter as the “Group”) in the People’s Republic of China (“PRC”), primarily provides micro credit loan services for micro and small-enterprise (“MSE”) owners, and loan lending agency service for financial institution.

The Group’s main funding resources are equity and borrowings from third parties. The loans are granted through its licensed micro credit subsidiaries in Beijing, Shenzhen and Chongqing directly, or the structured funds funded with the Group as general partners. Through the Group’s network of sales team and branch offices, prospective MSE borrowers are referred to the licensed micro credit subsidiaries or the structured funds (“the traditional facilitation model”). All loans were secured by residential or commercial real estate as of December 31, 2020.

In December 2018, the Group began to explore a new collaboration model to mitigate credit risks (“collaboration model”) and started to record the business under this model. The collaboration model is different from the traditional facilitation model by adding a collaboration relationship, which involves sales partners for introducing borrowers and providing a certain level of guarantee of repayment for loans recommended. Under such model, the Group is able to develop a financial services platform that matches various parties to lend resources at competitive rates. Those parties include sales partners who introduce borrowers from particular jurisdictions, trust companies that administer funds, and the loan borrowers who has financial needs for their business operations. The sales partners are nationwide mid-or-small companies that have local risk assessment capabilities. The collaboration model requires the sales partners to place a security deposit called credit risk mitigation positions which could be confiscated by the Group when loans are defaulted. The loan borrowers who are introduced by the sales partners are MSE owners who have properties that can be used as collateral.

Reorganization

CNFinance is incorporated in the Cayman Islands and was established on January 8, 2014 by the shareholders of Sincere Fame International Limited (“Sincere Fame”). In 2014, CNFinance Holdings Limited was incorporated under the laws of Cayman Islands. CNFinance became its holding company through share exchanges with the shareholders of Sincere Fame (“Reorganization”) on March 27, 2018. The shareholders of Sincere Fame transferred all of their equity interests in Sincere Fame, consisting of 1,230,434,040 ordinary shares of Sincere Fame, in exchange for 1,230,434,040 ordinary shares of CNFinance and CNFinance became the parent company of Sincere Fame.

As presented in Note 14, the Company issued one (1) share upon incorporation with par value of HKD0.0001. Upon the shares transfer, the total issued and outstanding shares of the Company is 1,230,434,041.

Sincere Fame was incorporated in the British Virgin Islands and before the Reorganization, through its wholly-owned subsidiaries and consolidated variable interest entities in the PRC, primarily provided micro credit loan services for MSE owners, and loan lending agency service for banks.

Basis of preparation

The consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”).

The net assets of Sincere Fame are initially measured and recognized at their historical carrying amounts because the shareholders of CNFinance immediately after the Reorganization have identical ownership interests in Sincere Fame immediately before the Reorganization and the Reorganization is solely for the purpose of establishing the legal structure of CNFinance. Accordingly, the transfer of net assets of Sincere Fame has been accounted for and presented in the accompanying consolidated financial statements in a manner similar to a pooling-of-interests. That is, the consolidated financial statements of CNFinance include the results of the operations and the statement of financial position of Sincere Fame as of the beginning of the earliest period presented. Since CNFinance did not engage in any operating activities, CNFinance’s consolidated financial position as of December 31, 2019 and 2020, and its results of operations for the years then ended represent the continuation of the consolidated financial statements of Sincere Fame, except for its capital structure, which is retroactively adjusted to reflect the legal capital structure of CNFinance.

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

Investment in significant subsidiaries for the year ended December 31, 2020

Name of company	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Group		Principal activities
				Direct	Indirect	
Sincere Fame International Limited 诚名国际有限公司	British Virgin Islands October 6, 2006	USD 1,230,434.04	USD 1,230,434.04	100%	-	Investment Holding
China Financial Services Group Limited 泛华金融服务集团有限公司	Hong Kong August 28, 2000	HKD 100,000,000	HKD 100,000,000	-	100%	Investment Holding
Fanhua Chuang Li Information Technology (Shenzhen) Co., Ltd. 泛华创利信息技术 (深圳) 有限公司	the PRC December 21, 1999	HKD 400,000,000	HKD 400,000,000	-	100%	Investment Holding
Shenzhen Fanhua United Investment Group Co., Ltd. 深圳泛华联合投资集团有限公司	the PRC August 9, 2006	RMB 250,000,000	RMB 250,000,000	-	100%	Investment Holding
Guangzhou Anyu Mortgage Consulting Co., Ltd. 广州安宇按揭咨询有限公司	the PRC January 23, 2003	RMB 2,220,000	RMB 2,220,000	-	100%	Micro credit and mortgage agency services
Chongqing Fengjie Financial Advisory Co., Ltd. 重庆丰捷财务咨询有限公司	the PRC June 13, 2010	RMB 500,000	RMB 500,000	-	100%	Financial consultancy
Guangzhou Chengze Information Technology Co., Ltd. 广州诚泽信息科技有限公司	the PRC December 11, 2006	RMB 3,000,000	RMB 3,000,000	-	100%	Software development and maintenance
Chongqing Liangjiang New Area Fanhua Micro-credit Co., Ltd. 重庆市两江新区泛华小额贷款有限公司	the PRC December 26, 2011	USD 30,000,000	USD 30,000,000	-	100%	Micro credit and mortgage agency services
Shenzhen Fanhua Micro-credit Co., Ltd. 深圳泛华小额贷款有限公司	the PRC March 15, 2012	RMB 300,000,000	RMB 300,000,000	-	100%	Micro credit and mortgage agency services

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Group		Principal activities
				Direct	Indirect	
Shenzhen Fanhua Fund Management Services Co., Ltd. 深圳泛华基金管理服务有限公司	the PRC June 8, 2012	RMB 5,000,000	RMB 5,000,000	-	100%	Company register service
Guangzhou Heze Information Technology Co., Ltd. 广州和泽信息科技有限公司	the PRC September 16, 2010	RMB 20,000,000	RMB 20,000,000	-	100%	Software development and maintenance
Beijing Lianxin Chuanghui Information Technology Co., Ltd. 北京联鑫创辉信息技术有限公司	the PRC February 2, 2012	HKD 10,000,000	HKD 10,000,000	-	100%	Software development and maintenance
Shenzhen Fanlian Investment Co., Ltd. 深圳泛联投资有限公司	the PRC November 26, 2012	RMB 30,000,000	RMB 30,000,000	-	100%	Investment Holding
Fanhua Financial Leasing (Shenzhen) Co., Ltd. 泛华融资租赁(深圳)有限公司	the PRC September 4, 2012	USD 10,000,000	USD 10,000,000	-	100%	Business Advisory
Shenzhen Fanhua Chengyu Finance Service Co., Ltd. 深圳泛华诚誉金融配套服务有限公司	the PRC March 15, 2013	RMB 10,000,000	RMB 10,000,000	-	100%	Labor outsourcing services
Beijing Fanhua Qilin Capital Management Co., Ltd. 北京泛华麒麟资本管理有限公司	the PRC December 26, 2016	RMB 100,000,000	RMB 10,000,000	-	96%	Asset Management
Shijiazhuang Fanhua Financial Advisory Co., Ltd. 石家庄泛华财务咨询有限公司	the PRC July 27, 2017	RMB 2,000,000	-	-	100%	Financial Consultancy
Taizhou Fanhua Financial Advisory Co., Ltd. 泰州泛华财务咨询服务 有限公司	the PRC September 28, 2017	RMB 500,000	-	-	100%	Financial Consultancy
Xuzhou Shenfanlian Enterprise Management Co., Ltd. 徐州深泛联企业管理 有限公司	the PRC December 7, 2017	RMB 10,000,000	-	-	100%	Enterprise Management

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Registered capital	Issued and fully paid up capital	Percentage of equity attributable to the Group		Principal activities
				Direct	Indirect	
Nantong Shenfanlian Enterprise Management Co., Ltd. 南通深泛联企业管理有限公司	the PRC September 8, 2017	RMB 5,000,000	-	-	100%	Enterprise Management
Baoding Fanjie Financial Advisory Co., Ltd. 保定泛杰财务咨询有限公司	the PRC February 9, 2018	RMB 500,000	-	-	100%	Financial Consultancy
Shenzhen Fancheng Business Operation Management Partnership (Limited Partnership) 深圳泛诚商业运营管理合伙企业 (有限合伙)	the PRC June 22, 2018	RMB 500,000,000	RMB 34,550,000	-	100%	Enterprise Management
Fanxiaoxuan Cultural Media (Guangzhou) Co., Ltd. 泛小宣文化传媒 (广州) 有限公司	the PRC July 16, 2018	RMB 1,000,000	-	-	100%	Enterprise Management
Guangzhou Fanze Information Technology Co., Ltd. 广州泛泽信息科技 有限公司	the PRC February 27, 2019	RMB 10,000,000	-	-	100%	Software development and maintenance
Langfang Fanhua Technology Co., Ltd. 廊坊市泛华科技 有限公司	the PRC September 9, 2019	RMB 200,000	-	-	100%	Software development and maintenance
Shenyang Fanhua Financial Advisory Co., Ltd. 沈阳市泛华财务咨询 有限公司	the PRC November 18, 2019	RMB 1,000,000	-	-	100%	Financial consultancy
Luoyang Fanzhan Information technology Co., Ltd. 洛阳泛展信息科技有限公司	the PRC May 13, 2020	RMB 500,000	-	-	100%	Software development and maintenance
Lanzhou Fanhua Enterprise Information Advisory Co., Ltd. 兰州泛华企业信息咨询有限公司	the PRC May 19, 2020	RMB 200,000	-	-	100%	Enterprise Management
Yantai Shenzhen Fanlian Financial Advisory Co., Ltd. 烟台深泛联财务咨询有限公司	the PRC June 22, 2020	RMB 1,000,000	-	-	100%	Financial consultancy

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Registered capital		Issued and fully paid up capital	Percentage of equity attributable to the Group		Principal activities
					Direct	Indirect	
Haikou Fanhua Financial Advisory Co., Ltd. 海口市泛华财务咨询有限公司	the PRC June 12, 2020	RMB	1,000,000	-	-	100%	Financial consultancy
Ganzhou Shenzhen Fanlian Financial Advisory Co., Ltd. 赣州深泛联财务咨询有限公司	the PRC August 8, 2020	RMB	1,000,000	-	-	100%	Financial consultancy
Guiyang Fanhua Financial Advisory Co., Ltd. 贵阳泛华财务咨询有限公司	the PRC July 9, 2020	RMB	1,000,000	-	-	100%	Financial consultancy
Lianyungang Shenzhen Fanlian Economic Information Advisory Co., Ltd. 连云港深泛联经济信息咨询有限公司	the PRC September 29, 2020	RMB	1,000,000	-	-	100%	Financial consultancy
Fanhua Jinfu (Foshan) Co., Ltd. 泛华金服（佛山）有限公司	the PRC May 22, 2020	RMB	200,000,000	-	-	100%	Financial consultancy

Variable interest entities (“VIEs”)

An entity is a variable interest entity (VIE) if it meets the criteria outlined in Accounting Standards Codification (ASC) Topic 810, Consolidation, which are (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) the entity has equity investors that cannot make significant decisions about the entity’s operations or that do not absorb their proportionate share of the entity’s expected losses or expected returns. The Group consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE’s economic performance and a right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE (that is, the Group is the primary beneficiary). In addition to variable interests held in consolidated VIEs, the Group has variable interests in other VIEs that are not consolidated because the Group is not the primary beneficiary. However, these VIEs and all other unconsolidated VIEs are monitored by the Group to assess whether any events have occurred to cause its primary beneficiary status to change. All other entities not deemed to be VIEs with which the Group has involvement are evaluated for consolidation under other subtopics of ASC 810.

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

In the normal course of business, the Group engages in a variety of activities with VIEs. The Group determines whether it is the primary beneficiary of a VIE at the time it becomes involved with the variable interest entity and reconsiders that conclusion continually. In evaluating whether the Group is the primary beneficiary, the Group evaluates its economic interests in the entity. If the Group is determined to be the primary beneficiary of a VIE, it must account for the VIE as a consolidated subsidiary. If the Group is determined not to be the primary beneficiary of a VIE, such VIE is not consolidated.

The Group has segregated its involvement with VIEs between those VIEs which are consolidated and those VIEs which are not consolidated.

Consolidated VIEs**Structured funds**

The Group grants loans to customers through structured funds set up by trust companies. The assets of the structured funds can only be used to settle obligations of consolidated VIEs. The cash of structured funds represents that funds established by the institutional trust companies through segregated bank accounts, including structured funds that are partially funded by the Group's own capital. The cash and cash equivalents of structured funds amounted to RMB1,073,209,525 and RMB1,034,933,331 as of December 31, 2019 and 2020 respectively can only be used to grant loans. The Group is general partner of the funds, promising the expected returns for limited partners, and providing credit enhancement on the loans to customers under the funds. The Group is also the manager of the funds, having the approval role for the loan origination and modification within the structured funds. The Group is the primary beneficiary of the funds as it has the power to direct the activities that most significantly impact the economic performance of the funds and it has obligation to absorb losses of the funds that could potentially be significant to the funds or the right to receive benefits from the funds that could potentially be significant to the funds.

Starting in March 2018, the Group has been working with trust companies to implement new funding arrangements. Under credit strengthening arrangements, the Group no longer provides credit enhancement on the loans to customers under the structured funds except for current outstanding loans under the existing trust products and loans to be granted thereunder. However, the Group still promises expected returns for limited partners under credit strengthening arrangements, which exposes the Group to obligation to absorb losses of the funds that could potentially be significant to the funds. The Group is still the manager of the structured funds, which gives the Group the power to direct the activities that most significantly impact the economic performance of the funds. The structured funds are not taxpayers according to PRC tax law. The Group consolidates the structured funds as it is the primary beneficiary of the funds as of December 31, 2019 and 2020.

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

The table sets forth the investments in the consolidated VIEs by the Group as of December 31, 2020.

Name of structured funds	Place and date of incorporation/ establishment	Principal activities
Jinghua Structured Fund 5 菁华5号信托计划	the PRC December 19, 2014	Micro credit
Jinghua Structured Fund 6 菁华6号信托计划	the PRC September 9, 2014	Micro credit
Bohai Trust Shenfanlian Micro Finance Structured Fund 渤海信托深泛联小微金融集合资金信托计划	the PRC September 14, 2016	Micro credit
Bohai Huihe SME Structured Fund 渤海汇和中小微企业经营贷集合资金信托计划	the PRC September 29, 2017	Micro credit
Zhongyuan Wealth Anhui Structured Fund 1 中原财富-安惠1期	the PRC January 20, 2017	Micro credit
Zhongyuan Wealth Anhui Structured Fund 2 中原财富-安惠2期	the PRC August 18, 2017	Micro credit
Beijing Fanhua Micro-credit Company Limited 北京泛华小额贷款有限公司	the PRC August 10, 2012	Micro credit and mortgage agency services
No.27 Jinghua Structured Fund 菁华27号信托计划	the PRC May, 18,2018	Micro credit
No.29 Jinghua Structured Fund 菁华29号信托计划	the PRC May, 16,2018	Micro credit
Yuecai Loan Structured Arrangement 粤财网贷合作计划	the PRC July 6, 2018	Micro credit
Zhonghai Lanhai Structured Fund 1 中海信托蓝海1号集合资金信托计划	the PRC July 18, 2018	Micro credit
Bairui Hengyi No.613 Structured Fund 百瑞恒益613号集合资金信托计划	the PRC July 25, 2018	Micro credit
Bohai Trust No.1 Huiying Structured Fund 渤海惠盈1号集合资金信托计划	the PRC September 10, 2018	Micro credit
Bohai Trust No.2 Shenzhen Fanhua United Structured Fund 渤海信托-深泛联2号集合资金信托计划	the PRC November 28, 2018	Micro credit
Everbright No.1 Business Acceleration Structured Fund 光大助业1号集合资金信托计划	the PRC November 29, 2018	Micro credit

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

Name of structured funds	Place and date of incorporation/ establishment	Principal activities
Jinghua Structured Fund 1 外贸信托菁华1号集合资金信托计划	the PRC May 8, 2019	Micro credit
Zhonghai Lanhai Structured Fund 1-2 中海信托-蓝海1-2号集合资金信托计划	the PRC June 28, 2019	Micro credit
Zhonghai Lanhai Structured Fund 1-3 中海信托-蓝海1-3号集合资金信托计划	the PRC September 11, 2019	Micro credit
Hunan Structured Fund 2019-1 湖南信托2019-1集合资金信托计划	the PRC September 23, 2019	Micro credit
Hunan Structured Fund 2019-2 湖南信托2019-2集合资金信托计划	the PRC September 23, 2019	Micro credit
Shaanxi International Xinglong Structured Fund 1-1 陕国投·兴隆1-1号集合资金信托计划	the PRC November 6, 2019	Micro credit
Shaanxi International Xinglong Structured Fund 2-1 陕国投·兴隆2-1号集合资金信托计划	the PRC September 24, 2019	Micro credit
Bairui Hengyi No.711 Structured Fund 百瑞恒益711号集合资金信托计划	the PRC September 20, 2019	Micro credit
Zhonghai Lanhai Structured Fund 1-4 中海信托-蓝海1-4号集合资金信托计划	the PRC October 10, 2019	Micro credit
Zhongyuan Wealth Anhui Structured Fund 49 中原信托-安惠49期	the PRC October 24, 2019	Micro credit
Bairui Hengyi No.724 Structured Fund 百瑞恒益724号集合资金信托计划	the PRC November 11, 2019	Micro credit
Zhonghai Lanhai Structured Fund 1-5 中海信托-蓝海1-5号集合资金信托计划	the PRC November 19, 2019	Micro credit
Zhonghai Lanhai Structured Fund 1-6 中海信托-蓝海1-6号集合资金信托计划	the PRC December 20, 2019	Micro credit
No. 50 Jinghua Structured Fund 外贸信托菁华50号资管计划	the PRC April 26, 2019	Micro credit

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

Name of structured funds	Place and date of incorporation/ establishment	Principal activities
No. 70 Jinghua Structured Fund 外贸信托菁华70号资管计划	the PRC December 25, 2019	Micro credit
Zhonghai Lanhai Structured Fund 1-1 中海信托-蓝海1-1号集合资金信托计划	the PRC May 19, 2020	Micro credit
Shaanxi International Xinglong Structured Fund 22-1 陕国投·兴隆22-1号集合资金信托计划	the PRC June 22, 2020	Micro credit
Zhonghai Lanhai Structured Fund 1-7 中海信托-蓝海1-7号集合资金信托计划	the PRC August 14, 2020	Micro credit
No. 74 Jinghua Structured Fund 外贸信托菁华74号资管计划	the PRC November 26, 2020	Micro credit
Hunan Structured Fund 2020-1 湖南信托2020-1集合资金信托计划	the PRC December 8, 2020	Micro credit

The table sets forth the assets and liabilities of the consolidated VIEs included in the Group's consolidated balance sheets:

	December 31,	
	2019	2020
	RMB	RMB
Cash and cash equivalents	1,075,146,003	1,038,176,909
Loans principal, interest and financing service fee receivables	10,096,892,280	8,852,118,199
Investment securities	865,685,426	1,612,974,725
Deferred tax assets	167	-
Other assets	538,987,372	1,008,676,130
Total assets	12,576,711,248	12,511,945,963
Interest-bearing borrowings	7,090,260,790	5,701,590,909
Income taxes payable	642,912	642,912
Other liabilities	1,592,662,264	2,178,875,062
Total liabilities	8,683,565,966	7,881,108,883

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

1. DESCRIPTION OF BUSINESS, ORGANIZATION, AND BASIS OF PRESENTATION (CONTINUED)

The table sets forth the results of operations of the VIEs included in the Group's consolidated statements of comprehensive income:

	<u>2018</u> <u>RMB</u>	<u>2019</u> <u>RMB</u>	<u>2020</u> <u>RMB</u>
Revenue	4,030,796,059	2,939,040,096	1,915,875,820
Net income	910,293,862	663,949,174	658,400,554

The table sets forth the cash flows of the VIEs included in the Group's consolidated statements of cash flows:

	<u>2018</u> <u>RMB</u>	<u>2019</u> <u>RMB</u>	<u>2020</u> <u>RMB</u>
Net cash provided by/(used in) operating activities	367,720,114	(426,302,852)	(303,745,231)
Net cash provided by/(used in) investing activities	274,412,708	4,207,318,357	692,705,844
Net cash provided by/(used in) financing activities	909,251,326	(5,262,323,314)	(429,173,286)

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements include the financial statements of the Group, its subsidiaries and consolidated VIEs. All intercompany transactions and balances have been eliminated in consolidation. The Group accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

(b) Currency translation for financial statements presentation

The Group uses Renminbi (“RMB”) as its reporting currency. The United States Dollar (“USD”) is the functional currency of the Company incorporated in Cayman and the Group’s subsidiary Sincere Fame incorporated in British Virgin Islands, and the Hong Kong Dollar (“HKD”) is the functional currency of the Group’s subsidiary China Financial Services Group Limited incorporated in Hong Kong and the RMB is the functional currency of the Group’s PRC subsidiaries.

The financial statements of the Group are translated from the functional currency to the reporting currency, RMB. Assets and liabilities of the subsidiaries are translated into RMB using the exchange rate in effect at each balance sheet date. Income and expenses items are generally translated at the average exchange rates prevailing during the fiscal year. Foreign currency translation adjustments arising from these are accumulated as a separate component of shareholders’ deficit on the consolidated financial statements. The resulting exchange differences are recorded in the consolidated statements of comprehensive income/(losses).

(c) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include, allowance for loans principal, interest and financing service fee receivables, guarantee assets, the valuation allowance for deferred tax assets, unrecognized tax benefits, the indefinite reinvestment assertion, the fair value of investment securities and the fair value of share-based compensation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) *Revenue recognition*

Interest and financing service fees on loans which are amortized over the contractual life of the related loans are recognized in consolidated statements of comprehensive income in accordance with ASC 310 using the effective interest method.

Mortgage agency service revenue is recognized in accordance with ASC 606 when following conditions are met: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The criteria of revenue recognition as they relate to each of the following major revenue generating activities are described below:

(i) Interest and financing service fees on loans

Interest and financing service fees on loans, which include financing service fees on loans, are collected from borrowers for loans and related services.

Interest and financing service fees on loans include the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest basis.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest and financing service fees on loans over the years. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. Interest on the impaired assets is recognized using the rate of interest used to discount future cash flows.

(ii) Mortgage agency service revenue

The Group earns mortgage agency service revenue from providing mortgage agency services to borrowers applying for a bank loan. Mortgage agency service fee is often received immediately or shortly after establishing contracts with customers. This kind of revenue is recognized at the time when loan is granted as that is the point of time the Group fulfils the customer's request, and is then recognized on an accrual basis in accordance with the terms of the relevant agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Realized gains/(losses) on sales of investments

Realized gains/(losses) consist of realized gains and losses from the sale of investment securities, presented on a net basis.

(iv) Gains on confiscation of credit risk mitigation positions (or “CRMPs”)

Gains on confiscation of credit risk mitigation positions are recognized to the extent confiscated CRMPs exceed previously recognized allowance for loan losses and guarantee asset when sales partners surrender the CRMPs and the obligation of refunding the CRMPs is released.

(e) Loans

Loans are reported at their outstanding principal balances net of any unearned income and unamortized deferred fees and costs. Loan origination fees and certain direct origination costs are generally deferred and recognized as adjustments to income over the lives of the related loans.

The Group facilitates credit to borrowers through structured funds which are considered as consolidated VIEs and the Group evaluated VIEs for consolidation in accordance with ASC 810 in the Consolidated VIEs Section of Note 1. Providing credit strengthening arrangement since March 2018 for the loans to customers under the funds is one of the key factors to determine that the Group should consolidate the structured funds as it is the primary beneficiary of the funds. As a result, the loan principal remains on the Group’s consolidated balance sheets, whilst the funds received from senior tranches holders are recorded as Other Borrowings in the Group’s consolidated balance sheets as disclosed in Note 11(b)(i).

Non-accrual policies

Loans principal, interest and financing service fee receivables are placed on non-accrual status when payments are 90 days contractually past due. When a loan principal, interest and financing service fee receivable is placed on non-accrual status, interest and financing service fees accrual cease. If the loan is non-accrual, the cost recovery method is used and cash collected is applied to first reduce the carrying value of the loan. Otherwise, interest income may be recognized to the extent cash is received. Loans principal, interest and financing service fee receivables may be returned to accrual status when all of the borrower’s delinquent balances of loans principal, interest and financing service fees have been settled and the borrower continue to perform in accordance with the loan terms for a period of at least six months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charge-off policies

For the years ended December 31, 2018 and 2019, the Group considered loans principal, interest and financing service fee receivables meeting any of the following conditions as uncollectible charged off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments or (iii) the Group concludes that it has exhausted its collection efforts.

In order to align the Group's charge-off policies with ASC 326-20-35-8 (superseded ASC 310-10-35-41), the Group revised its charge-off policies to (1) provide additional information as to the collection efforts which must be exhausted before a charge-off is recorded and (2) charge down loans that are 180 days past due to net realizable value (fair value of collaterals, less estimated costs to sell) unless both well-secured and in the process of collection. The revised charge-off policies are presented as follows:

Loans principal, interest and financing service fee receivables are charged down to net realizable value (fair value of collaterals, less estimated costs to sell) when the Group has determined the remaining balance is uncollectable after exhausting all collection efforts. In order to comply with ASC 310 and ASC 326, the Group considers loans principal, interest and financing service fee receivables meeting any of the following conditions as uncollectable and charged-off: (i) death of the borrower; (ii) identification of fraud, and the fraud is officially reported to and filed with relevant law enforcement departments; (iii) sales of loans to third parties; (iv) settlement with the borrower, where the Group releases irrecoverable loans through private negotiations with the borrower where the borrower cannot repay the loan in full through self-funding or voluntary sale of the collateral; (v) disposal through legal proceedings, including but not limited to online arbitrations, judicial auctions and court enforcements; or (vi) loans are 180 days past due unless both well-secured and in the process of collection.

The change in the charge-off policies as a result of the correction of an error had no impact on the Group's provision for credit losses and an immaterial impact on the Group's 2018 and 2019 audited consolidated financial statements as the balance of loans under scenario (iii), (iv), (v) and (vi) was offset by the allowance for credit losses before charge-offs and only resulted in a net off of the loans principal, interest and financing service fee receivables and the corresponding allowance balance.

Allowance for credit losses

Allowance for credit losses represents management's best estimate of probable losses inherent in the portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Commencing January 1, 2020, CNFinance adopted ASC 326, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which replaced the incurred loss methodology for determining the provision for credit losses and allowance for credit losses (“ACL”) with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) model. ASC 326 defines the ACL as a valuation account that is deducted from the amortized cost of a financial asset to present the net amount that management expects to collect on the financial asset over its expected life. All financial assets carried at amortized cost are in the scope of ASC 326, while assets measured at fair value are excluded. The allowance for credit losses is adjusted each period for changes in expected lifetime credit losses.

The allowance for credit losses includes an asset-specific component and a statistically based component. The Company aggregates loans sharing similar risk characteristics into pools for purposes of measuring expected credit losses. Pools are reassessed periodically to confirm that all loans within each pool continue to share similar risk characteristics. Expected credit losses for loans that do not share similar risk characteristics with other financial assets are measured individually.

Estimation of CECLs requires CNFinance to make assumptions regarding the likelihood and severity of credit loss events and their impact on expected cash flows, which drive the probability of default (PD), loss given default (LGD) and exposure at default (EAD) models. In its loss forecasting framework, ECL is determined primarily by utilizing models for the borrowers’ PD, LGD and EAD and the Company incorporates forward-looking information through the use of macroeconomic scenarios applied over the forecasted life of the assets. These macroeconomic scenarios include variables that have historically been key drivers of increases and decreases in credit losses. These variables include, but are not limited to, gross-domestic product rates, interest rates and consumer price indexes.

The ACL for financial assets held at amortized cost is a valuation account that is deducted from, or added to, the amortized cost basis of the financial assets to present the net amount expected to be collected. When credit expectations change, the valuation account is adjusted with changes reported in provision for credit losses. If amounts previously charged off are subsequently expected to be collected, the Group may recognize a negative allowance, which is limited to the amount that was previously charged off.

The asset-specific component is calculated under ASC 310-10-35, on an individual basis for the loans whose payments are contractually past due more than 90 days or which are considered impaired. A financial asset is collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. When a collateral-dependent financial asset is probable of foreclosure, the Group will measure the ACL based on the fair value of the collateral and we will measure the ACL based on the collateral’s net realizable value (fair value of collateral, less estimated costs to sell).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the collaboration model, when the Group grants a loan through a trust plan, the loan is with the borrower and guarantee is entered into with a separate counterparty (the sales partner). As such, under the definition of ASC 326-20-20, the guarantee arrangement and lending arrangement would be considered freestanding arrangements. As sale partners will provide guarantee of the entire loan to the Group, collection for loss is probable and estimable when a loss on an insured loan is incurred and recognized. In this case, the Group will recognize guarantee loss recoverable asset in the amount that the Group determines is probable to receive from the guarantor with an offsetting entry to “provision for credit losses” when the Group concludes that the loss recovery is collectible. However, potential recovery that exceeds the recognized loss, if any, (gain contingency) will not be recognized until cash is received. Therefore, the amounts estimated to be recoverable from the proceeds of guarantees will be reported as a separate asset (guarantee asset) in the balance sheet. The increase in guaranteed recoverable assets are included in the income statement as a reduction of the “provision for credit losses”, separate disclosure of the increase in guaranteed recoverable assets will be included in the rollforward of the “allowance for credit losses”. The income statement caption will be modified as “Provision for credit losses, net of increase in increase in guaranteed recoverable assets.

Loans held-for-sale

Loans held-for-sale are measured at the lower of cost or fair value, with valuation changes recorded in noninterest revenue. The valuation is performed on an individual loan basis. Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees or costs and discounts or premiums are adjustments to the basis of the loan and therefore are included in the periodic determination of the lower of cost or fair value adjustments.

The loan is derecognized if the Company does not retain any risk and rewards after transferring the loan. Such transfer would be recorded as sales according to ASC 860-10-40-5. At the time of derecognition, any related loan loss allowance is released. Gains and losses on loans transfer as a sale are recognized in the noninterest income.

(f) Cash, cash equivalents and restricted cash

Cash and cash equivalents primarily consist of cash, deposits which are highly liquid and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Group considers highly liquid investments that are readily convertible to known amounts of cash.

Restricted cash are cash and cash equivalents that are not readily available for normal disbursement and mainly represents cash and cash equivalents from structured funds. Such restricted cash is not available to fund the general liquidity needs of the Group and could only be used to grant new loans and activities as mentioned in Note 1.

(g) Investment securities

The Group classifies wealth management products and asset management products as investment securities. Investment securities are recorded at fair value and included in the profit and loss of changes in fair value. Realized gains and losses from the sale of investment securities are determined on a specific identification basis and are recorded as realized gains/(losses) on sales of investments. Interest and investment income are recognized when earned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Property and equipment**

Property and equipment are stated at cost. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the economic useful life of the improvement or the term of the lease. The estimated useful life of office and other equipment range from 1 to 5 years, the estimated useful life of leasehold improvements or the term of the lease range from 1 to 6 years, while the estimated useful lives of motor vehicles range from 3 to 8 years.

(i) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Impairment tests for cash-generating units containing goodwill

The Group assesses goodwill for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. The Group has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test. If the Group believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Group is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Intangible assets**

Indefinite-lived intangible assets are assets that are not amortized because there is no foreseeable limit to cash flows generated from them. Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives.

The Group categorizes trademarks as indefinite-lived intangible assets, whose carrying value is RMB2.97 million. If it is more likely than not that the asset is impaired, the Group records the amount that the carrying value exceeds the fair value as an impairment expense. The Group performed its annual impairment review of indefinite-lived intangible assets on December 31, 2019 and 2020 and determined that it is more likely than not that the carrying value was less than the fair value.

Intangible assets with finite useful lives represent software and cooperation agreements, the estimated useful lives of which are 1 to 5 years and 5 years, respectively.

(k) Income tax

Income tax is accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Group recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group classifies interest and penalties related to the liability for unrecognized tax benefits as income tax expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***(l) Employee benefit plans***

Pursuant to relevant PRC regulations, the Group is required to make contributions to various employee benefit plans organized by municipal and provincial PRC governments. The contributions are made for each PRC employee at statutory rates as determined by local social security bureau. Contributions to the employee benefit plans are charged to the consolidated statements of income. The Group has no obligations for payment of pension benefits associated with the plans beyond the amount it is required to contribute.

(m) Long-lived assets

Long-lived assets, such as property and equipment, and purchased intangible assets 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. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Group first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market value and third-party independent appraisals, as considered necessary.

(n) Share-based compensation

The Group measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. The Group recognizes compensation cost using a front-loading approach for an award with only service conditions that have a graded vesting schedule over the requisite service period for the entire award, net of estimated forfeitures, provided that the cumulative amount of compensation cost recognized at any date at least equals the portion of the grant-date value of such award that is vested at that date. Forfeiture rates are estimated based on historical and future expectations of employee turnover rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The Group's lease liability is measured at the present value of future operating lease payments, discounted using the incremental borrowing rate. Right of use asset is measured at the amount of lease liabilities plus prepaid rent and direct costs, less any lease incentives. The operating lease expense is recognized on a straight-line basis over the lease term. Certain of the operating lease agreements contain rent holidays, which are considered in determining the straight-line operating lease expense to be recorded over the lease term.

(p) Repurchase agreements

Financial assets sold under agreements to repurchase do not constitute a sale of the underlying financial assets for accounting purposes and are treated as collateralized financing transactions. Financial assets sold under agreements to repurchase are recorded at the amount of cash received plus accrued interest. Interest paid on agreements to repurchase is recorded in interest expense at the contractually specified rate.

(q) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(r) Fair value measurements**

The Group uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Group determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels in accordance with ASU 2011-04 (see Note 3 to the consolidated financial statements):

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

(s) Earnings per share

Basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period.

Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive.

For purposes of calculating basic earnings per share for the years ended December 31, 2019 and 2020, the weighted average number of shares used in the calculation has been retroactively adjusted to reflect the incorporation of the Group and the Reorganization (see Note 1), as if these events had occurred at the beginning of the earliest period presented and these shares had been outstanding for all periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(t) Segment reporting**

The Group uses the management approach in determining its operating segments. The management approach considers the internal reporting used by the Group's chief operating decision maker for making decisions about the allocation of resources to and the assessment of the performance of the segments of the Group, therefore the management has determined that the Group has one operating segment. All of the Group's operations and customers are located in the PRC. Consequently, no geographic information is presented.

(u) Recently adopted accounting standardsAccounting for Financial Instruments – Credit Losses

In June 2016, the FASB amended guidance related to impairment of financial instruments as part of ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a company recognizes an allowance based on the estimate of expected credit loss. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. For public companies, the update is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years.

On January 1, 2020, the Group adopted the new accounting standard. The Group's lifetime expected credit losses are determined using macroeconomic forecast assumptions and management judgments applicable to and through the expected life of the loan portfolios, and are net of expected recoveries on loans that were previously charged off. The standard also expands credit quality disclosures beginning in the first quarter of 2020. While the standard changes the measurement of the allowance for credit losses, it does not change the Group's credit risk of its lending portfolios or the ultimate losses in those portfolios. Upon adoption of the standard on January 1, 2020, the Group recorded an increase to the allowance for credit losses of RMB23,827,169, or 1.61 percent, an increase to the deferred tax assets of RMB5,956,792, and a decrease to retained earnings of RMB17,870,377 through a cumulative-effect adjustment.

Prior to the adoption, the Group used the roll rate-based model for the measurement of credit losses and had been working through the implementation of the new standard. In that regard, the Group (1) formed a cross-functional working group under the direction of the risk management department, (2) evaluated data sources and made process updates to capture additional relevant data, and (3) identified a service provider to perform the calculation. The working group was comprised of individuals from various functional areas including credit, risk management, finance and information technology. The implementation plan includes, but was not limited to, an assessment of processes, portfolio segmentation, model development, system requirements and the identification of data and resource needs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fair Value Measurement: Disclosure Framework**

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework (Topic 842) - Changes to the Disclosure Requirements for Fair Value Measurement, which modify the disclosure requirements on fair value measurement by removing, modifying, or adding certain disclosures. The amendments improve the effectiveness of disclosures in the notes to financial statements modify the disclosure requirements on fair value measurements in Topic 820. This ASU requires disclosure of the changes in unrealized gains or losses included in OCI for Level 3 assets or liabilities held at the end of the period and the range and weighted-average of the significant unobservable inputs used in determining the fair value of Level 3 assets and liabilities. The amendments also remove the requirement to disclose the transfers between Level 1 and Level 2 of the fair value hierarchy, timing of transfers between levels, and the valuation process for determining Level 3 fair value measurements. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Group adopted the standard on January 1, 2020. The Group has not historically recorded material amounts of Level 3 assets and liabilities or material transfers of assets or liabilities between levels within the fair value hierarchy and therefore the ASU did not have any material impact on the financial statement disclosures.

Financial Instruments: Codification Improvements

In March 2020, the FASB issued ASU 2020-3, Codification Improvements to Financial Instruments, which revised a wide variety of topics in the Codification with the intent to make the Codification easier to understand and apply by eliminating inconsistencies and providing clarifications. ASU 2020-3 was effective immediately upon its release in March 2020 and did not have a material impact on the Group's consolidated financial statements.

(v) Recently issued accounting standards**Income Taxes – Simplifying the Accounting for Income Taxes**

In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes, as part of its initiative to reduce complexity in accounting standards. The amendments in the ASU are effective for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Group will adopt this ASU on January 1, 2021. The ASU is currently not expected to have a material impact on the Group's consolidated financial statements.

Investments – Equity Securities, Equity Method and Joint Ventures, and Derivatives and Hedging: Clarifying the Interactions

In January 2020, the FASB issued ASU No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), which clarifies the interaction of the accounting for equity securities under Topic 321, the accounting for equity method investments in Topic 323, and the accounting for certain forward contracts and purchased options in Topic 815. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. The ASU is currently not expected to have a material impact on the Group's consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

Assets recorded at fair value on a recurring basis mainly include marketable securities. Additionally, from time to time, the Group records fair value adjustments on a nonrecurring basis. These nonrecurring adjustments typically involve application of LOCOM accounting, write-downs of individual assets or application of the measurement alternative for nonmarketable equity securities.

Fair Value Measurements

A description of the valuation techniques applied to the Group's major categories of assets and liabilities measured at fair value is as follows.

The Group determines fair value primarily based on pricing sources with reasonable levels of price transparency. Where quoted prices are available in an active market, the Group classifies the assets and liabilities within Level 1 of the valuation hierarchy. If quoted market prices are not available, fair value is primarily determined using pricing models using observable trade data, market data, quoted prices of securities with similar characteristics or discounted cash flows. Such instruments would generally be classified within Level 2 of the valuation hierarchy.

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(Expressed in Renminbi unless otherwise stated)

3. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Group's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2019 and 2020.

	December 31, 2020			
	Fair value	Level 1	Level 2	Level 3
	RMB	RMB	RMB	RMB
Asset management products	20,028,205	-	20,028,205	-
Wealth management products	398,108,568	397,107,417	1,001,151	-
Total	418,136,773	397,107,417	21,029,356	-

	December 31, 2019			
	Fair value	Level 1	Level 2	Level 3
	RMB	RMB	RMB	RMB
Asset management products	20,020,456	-	20,020,456	-
Wealth management products	634,307,598	-	634,307,598	-
Total	654,328,054	-	654,328,054	-

The following table presents the Group's fair value hierarchy for those assets measured at fair value on a non-recurring basis as of December 31, 2019 and 2020.

	December 31, 2020			
	Fair value	Level 1	Level 2	Level 3
	RMB	RMB	RMB	RMB
Loans ⁽¹⁾	656,490,484	-	656,490,484	-
Loans held-for-sale ⁽²⁾	76,013,067	-	76,013,067	-
Equity securities ⁽³⁾	34,010,000	-	34,010,000	-
Total	766,513,551	-	766,513,551	-

	December 31, 2019			
	Fair value	Level 1	Level 2	Level 3
	RMB	RMB	RMB	RMB
Loans ⁽¹⁾	-	-	-	-
Loans held-for-sale ⁽²⁾	66,698,869	-	66,698,869	-
Equity securities ⁽³⁾	34,010,000	-	34,010,000	-
Total	100,708,869	-	100,708,869	-

- (1) The Group records nonrecurring fair value adjustments to reflect partial write-downs that are based on the observable market price of the loan or current appraised value of the collateral.
- (2) Loans held for sale are held at LOCOM (the lower of cost or fair value) which may be written down to fair value on a nonrecurring basis.
- (3) Nonmarketable equity securities are accounted for using the measurement alternative and can be subject to nonrecurring fair value adjustments to record impairment.

During the years ended December 31, 2019 and 2020, there were no transfers between instruments in Level 1 and Level 2. The Group does not have level 3 instruments as of December 31, 2019 or 2020.

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents represent cash on hand and bank deposits. To limit exposure to credit risk relating to bank deposits, the Group primarily places bank deposits with large financial institutions in the PRC with acceptable credit rating. As of December 31, 2019 and 2020, the Group both had cash balances at three PRC individual financial institutions, that held cash balances in excess of 10% of the Group's total cash balances. These bank deposits collectively accounted for 84% and 83% of the Group's total cash balances as of December 31, 2019 and 2020, respectively.

The nominal holders of certain bank accounts of the Group are employees of the Group. The Group has entered into agreements with these employees which stipulate that the funds held in these bank accounts are owned and managed by the Group. Cash balances of such accounts collectively accounted for 1.09% and 0.9% of the Group's total cash balances as of December 31, 2019 and 2020, respectively.

Restricted cash represents cash and cash equivalents from structured funds, which are established by the institutional trust companies through segregated bank accounts, including structured funds that are partially funded by the Group's own capital. Restricted cash amounted to RMB1,073,209,525 and RMB1,034,933,331 as of December 31, 2019 and 2020 respectively, which can only be used to grant loans and is not available to fund the general liquidity needs of the Group.

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(Expressed in Renminbi unless otherwise stated)

5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES

Note	December 31,					
	2019			2020		
	First lien RMB	Second lien RMB	Subtotal RMB	First lien RMB	Second lien RMB	Subtotal RMB
Loans principal, interest and financing service fee receivables	4,693,549,335	6,672,547,951	11,366,097,286	4,199,477,434	5,489,463,590	9,688,941,024
Less: allowance for credit losses (a)						
- Individually assessed	(230,019,493)	(440,261,819)	(670,281,312)	(44,485,858)	(71,845,690)	(116,331,548)
- Collectively assessed	(180,847,951)	(256,949,166)	(437,797,117)	(225,683,727)	(317,464,175)	(543,147,902)
Subtotal	(410,867,444)	(697,210,985)	(1,108,078,429)	(270,169,585)	(389,309,865)	(659,479,450)
Net loans principal, interest and financing service fee receivables	4,282,681,891	5,975,336,966	10,258,018,857	3,929,307,849	5,100,153,725	9,029,461,574

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

(a) Allowance for credit losses

The table below presents the components of allowances for loans principal, interest and financing service fee receivables by impairment methodology with the recorded investment as of December 31, 2020 and 2019.

	2020						Total RMB
	Allowance for loans which are collectively assessed			Allowance for loans which are individually assessed			
	RMB	RMB	RMB	RMB	RMB	RMB	
	First lien	Second lien	Subtotal	First lien	Second lien	Subtotal	
As of January 1	180,847,951	256,949,166	437,797,117	230,019,493	440,261,819	670,281,312	1,108,078,429
Change in accounting principle ⁽¹⁾	4,910,017	18,917,152	23,827,169	-	-	-	23,827,169
beginning of year, adjusted	185,757,968	275,866,318	461,624,286	230,019,493	440,261,819	670,281,312	1,131,905,598
Provision for credit losses	(58,152,840)	(98,518,264)	(156,671,104)	185,684,445	248,573,082	434,257,527	277,586,423
Charge-offs	(21,325,086)	(26,625,575)	(47,950,661)	(437,681,450)	(697,756,733)	(1,135,438,183)	(1,183,388,844)
Increase in guaranteed recoverable assets	119,403,685	166,741,696	286,145,381	66,463,370	80,767,522	147,230,892	433,376,273
Recoveries	-	-	-	-	-	-	-
As of December 31	225,683,727	317,464,175	543,147,902	44,485,858	71,845,690	116,331,548	659,479,450
Net loans principal, interest and financing service fee receivables	3,401,656,667	4,615,579,507	8,017,236,174	527,651,182	484,574,218	1,012,225,400	9,029,461,574
Recorded investment	3,627,340,394	4,933,043,682	8,560,384,076	572,137,040	556,419,908	1,128,556,948	9,688,941,024

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(Expressed in Renminbi unless otherwise stated)

5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

	2019						
	Allowance for loans which are collectively assessed			Allowance for loans which are individually assessed			Total RMB
	RMB	RMB	RMB	RMB	RMB	RMB	
	First lien	Second lien	Subtotal	First lien	Second lien	Subtotal	
As of January 1	335,927,729	369,953,498	705,881,227	74,032,660	83,124,717	157,157,377	863,038,604
Provision for credit losses	(108,565,060)	(84,825,781)	(193,390,841)	175,002,453	381,123,547	556,126,000	362,735,159
Charge-offs ⁽²⁾	(89,021,115)	(85,976,409)	(174,997,524)	(19,015,620)	(23,986,445)	(43,002,065)	(217,999,589)
Increase in guaranteed recoverable assets	42,506,397	57,797,858	100,304,255	-	-	-	100,304,255
Recoveries	-	-	-	-	-	-	-
As of December 31	180,847,951	256,949,166	437,797,117	230,019,493	440,261,819	670,281,312	1,108,078,429
Net loans principal, interest and financing service fee receivables	3,839,504,668	5,539,903,945	9,379,408,613	443,177,223	435,433,021	878,610,244	10,258,018,857
Recorded investment	4,020,352,619	5,796,853,111	9,817,205,730	673,196,716	875,694,840	1,548,891,556	11,366,097,286

- (1) Effective January 1, 2020, the Group adopted accounting guidance which changed impairment recognition of financial instruments to a model that is based on expected losses rather than incurred losses.
- (2) In 2020, the Group revised its charge-off policy so that charge down loans that are 180 days past due to net realizable value (fair value of collaterals, less estimated costs to sell) unless both well-secured and in the process of collection. The change in the charge-off policies as a result of the correction of an error had no impact on the Group's provision for credit losses and an immaterial impact on the Group's 2018 and 2019 audited consolidated financial statements.

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

The Group charges off loans principal, interest and financing service fee receivables if the remaining balance is considered uncollectable. Recovery of loans principal, interest and financing service fee receivables previously charged off would be recorded when received.

For the description of the Group's related accounting policies of allowance for credit losses, see Note 2(e) Loans.

The following tables present the aging of allowance for credit losses as of December 31, 2020.

	Total current	1–30 days	31–89 days	91–179 days	180–269	270–359	>360 days	Total loans
	RMB	past due	past due	past due	days	days	past due	RMB
		RMB	RMB	RMB	past due	past due	RMB	
					RMB	RMB		
The collaboration model								
First lien	129,497,272	27,587,381	19,589,462	36,527,048	-	-	-	213,201,163
Second lien	188,724,825	39,093,005	22,486,268	53,516,823	-	-	-	303,820,921
Subtotal	<u>318,222,097</u>	<u>66,680,386</u>	<u>42,075,730</u>	<u>90,043,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>517,022,084</u>
The traditional facilitation model								
First lien	38,134,959	7,913,700	2,960,953	7,958,810	-	-	-	56,968,422
Second lien	49,851,330	11,634,453	5,674,294	18,328,867	-	-	-	85,488,944
Subtotal	<u>87,986,289</u>	<u>19,548,153</u>	<u>8,635,247</u>	<u>26,287,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>142,457,366</u>
Allowance for credit losses	<u>406,208,386</u>	<u>86,228,539</u>	<u>50,710,977</u>	<u>116,331,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>659,479,450</u>

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

The following tables present the aging of allowance for credit losses as of December 31, 2019.

	Total current RMB	1–30 days past due RMB	31–89 days past due RMB	91–179 days past due RMB	180–269 days past due RMB	270–359 days past due RMB	>360 days past due RMB	Total loans RMB
The collaboration model								
First lien	35,030,588	13,536,804	6,896,798	3,772,847	475,551	-	-	59,712,588
Second lien	47,734,772	17,541,405	10,273,023	3,507,044	7,076,767	-	-	86,133,011
Subtotal	<u>82,765,360</u>	<u>31,078,209</u>	<u>17,169,821</u>	<u>7,279,891</u>	<u>7,552,318</u>	<u>-</u>	<u>-</u>	<u>145,845,599</u>
The traditional facilitation model								
First lien	29,728,615	41,608,151	54,046,995	43,039,816	54,399,151	71,665,979	56,666,149	351,154,856
Second lien	45,899,908	59,707,755	75,792,303	73,701,122	108,281,424	142,349,972	105,345,490	611,077,974
Subtotal	<u>75,628,523</u>	<u>101,315,906</u>	<u>129,839,298</u>	<u>116,740,938</u>	<u>162,680,575</u>	<u>214,015,951</u>	<u>162,011,639</u>	<u>962,232,830</u>
Allowance for credit losses	<u>158,393,883</u>	<u>132,394,115</u>	<u>147,009,119</u>	<u>124,020,829</u>	<u>170,232,893</u>	<u>214,015,951</u>	<u>162,011,639</u>	<u>1,108,078,429</u>

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

(b) Loan delinquency and non-accrual details

The following tables present the aging of past-due loan principal and financing service fee receivables as of December 31, 2020.

	<u>Total current</u>	<u>1–30 days</u>	<u>31–89 days</u>	<u>91–179 days</u>	<u>180–269</u>	<u>270–359</u>	<u>>360 days</u>	<u>Total loans</u>	<u>Total</u>
	<u>RMB</u>	<u>past due</u>	<u>past due</u>	<u>past due</u>	<u>days</u>	<u>days</u>	<u>past due</u>	<u>RMB</u>	<u>non-accrual</u>
		<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>past due</u>	<u>past due</u>	<u>RMB</u>		<u>RMB</u>
The collaboration model									
First lien	2,684,453,719	221,752,977	149,903,725	98,060,135	38,612,291	41,915,011	41,301,764	3,275,999,622	219,889,201
Second lien	3,674,976,053	313,210,401	170,889,729	115,930,426	35,482,816	27,816,721	20,635,455	4,358,941,601	199,865,418
Subtotal	<u>6,359,429,772</u>	<u>534,963,378</u>	<u>320,793,454</u>	<u>213,990,561</u>	<u>74,095,107</u>	<u>69,731,732</u>	<u>61,937,219</u>	<u>7,634,941,223</u>	<u>419,754,619</u>
The traditional facilitation model									
First lien	488,499,217	61,067,711	21,663,045	37,401,946	38,952,002	44,395,487	231,498,405	923,477,813	352,247,840
Second lien	641,379,934	91,200,722	41,386,843	47,930,588	45,427,025	44,423,820	218,773,056	1,130,521,988	356,554,489
Subtotal	<u>1,129,879,151</u>	<u>152,268,433</u>	<u>63,049,888</u>	<u>85,332,534</u>	<u>84,379,027</u>	<u>88,819,307</u>	<u>450,271,461</u>	<u>2,053,999,801</u>	<u>708,802,329</u>
Loans principal, interest and financing service fee receivables	<u>7,489,308,923</u>	<u>687,231,811</u>	<u>383,843,342</u>	<u>299,323,095</u>	<u>158,474,134</u>	<u>158,551,039</u>	<u>512,208,680</u>	<u>9,688,941,024</u>	<u>1,128,556,948</u>

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

The following tables present the aging of past-due loan principal and financing service fee receivables as of December 31, 2019.

	Total current	1–30 days	31–89 days	91–179 days	180–269	270–359	>360 days	Total loans	Total
	RMB	past due	past due	past due	days	days	past due	RMB	non-accrual
		RMB	RMB	RMB	past due	past due	RMB		RMB
The collaboration model									
First lien	1,998,813,257	62,545,907	25,513,691	8,692,517	1,151,088	-	-	2,096,716,460	9,843,605
Second lien	2,718,738,017	80,877,056	37,566,648	7,457,194	8,941,652	-	-	2,853,580,567	16,398,846
Subtotal	<u>4,717,551,274</u>	<u>143,422,963</u>	<u>63,080,339</u>	<u>16,149,711</u>	<u>10,092,740</u>	<u>-</u>	<u>-</u>	<u>4,950,297,027</u>	<u>26,242,451</u>
The traditional facilitation model									
First lien	1,643,032,283	185,790,306	68,891,503	147,557,351	173,920,965	218,336,735	159,303,732	2,596,832,875	699,118,783
Second lien	2,535,294,261	267,456,186	108,695,215	177,513,619	244,116,975	288,764,892	197,126,236	3,818,967,384	907,521,722
Subtotal	<u>4,178,326,544</u>	<u>453,246,492</u>	<u>177,586,718</u>	<u>325,070,970</u>	<u>418,037,940</u>	<u>507,101,627</u>	<u>356,429,968</u>	<u>6,415,800,259</u>	<u>1,606,640,505</u>
Loans principal, interest and financing service fee receivables	<u>8,895,877,818</u>	<u>596,669,455</u>	<u>240,667,057</u>	<u>341,220,681</u>	<u>428,130,680</u>	<u>507,101,627</u>	<u>356,429,968</u>	<u>11,366,097,286</u>	<u>1,632,882,956</u>

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

Loans principal, interest and financing service fee receivables are placed on non-accrual status when payments are 90 days contractually past.

Any interest accrued on non-accrual loans is reversed at 90 days and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectability of principal, all cash receipts are thereafter applied to reduce the recorded investment in the loan.

(c) Impaired loans

(1) Impaired loans summary

	Unpaid principal balance RMB	Recorded investment			
		Impaired loans RMB	Impaired loans with related allowance for credit losses RMB	Impaired loans without related allowance for credit losses RMB	Related allowance for credit losses RMB
First lien	564,172,105	572,137,041	109,090,294	463,046,747	44,485,858
Second lien	562,839,906	556,419,907	132,824,814	423,595,093	71,845,690
As of December 31,2020	1,127,012,011	1,128,556,948	241,915,108	886,641,840	116,331,548
First lien	714,820,883	708,962,388	606,955,948	102,006,440	230,019,493
Second lien	937,961,325	923,920,568	771,834,730	152,085,838	440,261,819
As of December 31,2019	1,652,782,208	1,632,882,956	1,378,790,678	254,092,278	670,281,312

In accordance with ASC 310-10-35-16 and 17, impaired loans are those loans where the Group, based on current information and events, believes it is probable all amounts due according to the contractual terms of the loan will not be collected. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. Impaired loans without an allowance generally represent loans that the fair value of the underlying collateral meets or exceeds the loan's amortized cost.

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5. LOANS PRINCIPAL, INTEREST AND FINANCING SERVICE FEE RECEIVABLES (CONTINUED)

(2) Average recorded investment in impaired loans

	Year ended December 31,			
	2019		2020	
	Average recorded investment ⁽ⁱ⁾	Interest and fees income recognized ⁽ⁱⁱ⁾	Average recorded investment ⁽ⁱ⁾	Interest and fees income recognized ⁽ⁱⁱ⁾
	RMB	RMB	RMB	RMB
First lien	633,643,411	42,367,639	575,787,304	37,935,099
Second lien	745,893,152	39,326,404	598,022,585	58,090,531
Impaired loans	1,379,536,563	81,694,043	1,173,809,889	96,025,630

(i) Average recorded investment represents ending balance for the last four quarters and does not include the related allowance for credit losses.

(ii) The interest and fees income recognized are those interest and financing service fees recognized related to impaired loans. All the amounts are recognized on cash basis.

No debt restructuring in which contractual terms of loans are modified, has occurred during 2019 and 2020.

The Group transferred loans with carrying amounts of RMB497,001,089 and RMB1,004,069,874 to third party investors and recorded the transfers as sales for the years ended December 31, 2019, and 2020 respectively. The Group recognized net gain of RMB75,959,140 and RMB149,631,456 from transfers accounted for as sales of loans for the years ended December 31, 2019 and 2020, respectively.

The Group carries out pre-approval, review and credit approval of loans by professionals for credit risk arising from micro credit business. During the post-transaction monitoring process, the Group conducts a visit of customers regularly after disbursement of loans, and conducts on-site inspection when the Group considers it is necessary. The review focuses on the status of the collateral.

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are classified as non-impaired and impaired based on the different risk level. When one or more event demonstrates there is objective evidence of impairment and causes losses, corresponding loans are considered to be classified as impaired. The allowance for credit losses on impaired loans are determined with an expected loss methodology that is referred to as the current expected credit loss ("CECL") model.

The Group applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realizable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The Group also takes into account the length of time for which payments of principal and interest on a loan are overdue.

(d) Loans held-for-sale

Loans held-for-sale are measured at the lower of cost or fair value, with valuation changes recorded in noninterest revenue. The valuation is performed on an individual loan basis. Loans transferred to held-for-sale category were RMB370,700,724 (including RMB66,698,869 measured at fair value) and RMB586,206,781 (including RMB76,013,067 measured at fair value) as of December 31, 2019 and 2020 respectively.

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6. INVESTMENT SECURITIES

The carrying amount and fair value of the investment securities by major security type and class of security at December 31, 2020 and 2019 was as follows:

	Aggregate cost basis RMB	Profits and losses from fair value changes RMB	Aggregate fair value RMB
As of December 31, 2020:			
Asset management products	20,000,000	28,205	20,028,205
Wealth management products	398,080,000	28,568	398,108,568
Total	418,080,000	56,773	418,136,773
	Aggregate cost basis RMB	Gross unrealized holding gains RMB	Aggregate fair value RMB
As of December 31, 2019:			
Asset management products	20,000,000	20,456	20,020,456
Wealth management products	634,100,000	207,598	634,307,598
Total	654,100,000	228,054	654,328,054

The investments in asset management products principally invests in bonds listed and traded between banks and exchanges, monetary market instruments, treasury bonds, convertible or exchangeable bonds and other fixed income financial instruments.

Wealth management products are investment products issued by commercial banks and other financial institutions in China. The wealth management products invest in a pool of liquid financial assets in the interbank market or exchange, including debt securities, asset backed securities, interbank lending, reverse repurchase agreements and bank deposits. The products can be redeemed on weekdays on demand.

The Group has assessed each position for credit impairment.

Factors considered in determining whether a loss is temporary include:

- The length of time and the extent to which fair value has been below cost;
- The severity of the impairment;
- The cause of the impairment and the financial condition and near-term prospects of the issuer;
- Activity in the market of the issuer which may indicate adverse credit conditions;
- The Group's ability and intent to hold the investment for a period of time sufficient for any anticipated recovery.

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6. INVESTMENT SECURITIES (CONTINUED)

The Group's review for impairment generally entails:

- Identification and evaluation of investments that have indications of possible impairment;
- Analysis of individual investments that have fair value less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- Discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- Documentation of the results of these analyses, as required under business policies.

7. PROPERTY AND EQUIPMENT

	December 31,	
	2019	2020
	RMB	RMB
Office and other equipment	22,151,112	19,288,892
Leasehold improvements	21,636,662	17,858,447
Motor vehicles	1,580,101	1,950,081
Less: accumulated depreciation	(36,171,900)	(34,381,272)
Total	9,195,975	4,716,148

Total depreciation expense for the years ended December 31, 2019 and 2020 was RMB10,382,987 and RMB5,059,824, respectively, which were recorded in other expenses in each year.

8. INTANGIBLE ASSETS AND GOODWILL

	Note	December 31,	
		2019	2020
		RMB	RMB
Intangible assets	(a)	3,738,338	3,230,126

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8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

(a) Intangible assets

	December 31, 2019			December 31, 2020		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
	RMB	RMB	RMB	RMB	RMB	RMB
Amortized intangible assets:						
Software	8,790,903	(8,022,565)	768,338	9,270,094	(9,009,968)	260,126
Cooperation agreement	5,030,000	(5,030,000)	-	5,030,000	(5,030,000)	-
Total amortized intangible assets	<u>13,820,903</u>	<u>(13,052,565)</u>	<u>768,338</u>	<u>14,300,094</u>	<u>(14,039,968)</u>	<u>260,126</u>
Unamortized intangible assets:						
Trademarks	<u>2,970,000</u>			<u>2,970,000</u>		

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8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

As of December 31, 2019 and 2020, accumulated amortization was RMB13,052,565 and RMB14,039,968 respectively. Below table provides the current year and estimated future amortization expense for amortized intangible assets. The Group based its projections of amortization expense shown below on existing asset balances as of December 31, 2020. Future amortization expense may vary from these projections.

	Software RMB
Year ended December 31, 2020 (actual)	987,402
Estimate for year ended December 31,	
2021	237,098
2022	13,763
2023	516
2024	-
2025	-

9. DEPOSITS

Deposits include security deposits to landlords of rental premises and deposits to the China Trust Protection Fund. In accordance with relevant rules of the China Trust Protection Fund, 1% of the size of trust plans subscribed is deposited in the Fund.

10. OTHER ASSETS

	<i>Note</i>	December 31,	
		2019	2020
		RMB	RMB
Guaranteed assets	(i)	100,304,255	533,680,528
Non-marketable equity securities	(ii)	34,010,000	34,010,000
Receivable from sale of loans	(iii)	46,312,256	17,241,092
Amounts due from employees	(iv)	10,026,151	5,352,718
Prepayments		6,850,294	2,403,478
Receivables for realization of collaterals		5,205,818	2,821,944
Other receivables		4,814,242	12,175,217
Total		207,523,016	607,684,977

10. OTHER ASSETS (CONTINUED)

- (i) As described in Note 12, sales partners submit CRMPs to the Group as a guarantee for the loans under the collaboration model. When allowance for credit losses is recognized and accrued, the Group will evaluate if the loan increase in guaranteed recoverable assets guaranteed by the CRMPs is probable and estimable. If the increase in guaranteed recoverable assets is probable and estimable, the amount guaranteed by the CRMPs is recognized as guaranteed assets.

- (ii) In December 2013, the Group invested 10% of the paid-in capital in Guangzhou Huangpu Ronghe Village Bank Co., Ltd. ("Huangpu Ronghe"). As of December 31, 2019 and 2020, Huangpu Ronghe has paid-in capital of RMB100,000,000, and the Group has invested RMB10,000,000 in Huangpu Ronghe.

In June 2016, the Group invested 10,003,334 shares at RMB3.00 per share, which represents 2.14% of the paid-in capital in Guangdong Qingyuan Rural Commercial Bank ("Qingyuan Rural"). The Group transferred 2 million shares to an unrelated third party at RMB3.00 per share that is same as the investment cost on September 18, 2019. As of December 31, 2019 and 2020, the Group invested 1.72% of the paid-in capital in Qingyuan Rural. Qingyuan Rural has paid-in capital of RMB1,400,000,000, and the Group has invested RMB24,010,000 in Qingyuan Rural.

The measurement alternative is selected for the above non-marketable equity securities. Under the measurement alternative, the equity securities without readily determinable fair value are measured at cost minus impairment and adjusted for changes in observable prices. No change in observable price has been identified and no impairment has recorded for the two years of 2019 and 2020.

- (iii) As mentioned in Note 5, the Group transferred the delinquent loans to third parties so that the Group could collect the payment more quickly than to simply dispose the collaterals through litigation. The transferred loans have been isolated from the Group. There is no constrain on the transferee's rights to pledge or exchange. The Group does not maintain effective control of transferred loans and loan transfers accounted for as sales are the transfer transactions without repurchase agreements.

- (iv) Due from employees mainly include temporary advances to employees for payments of collateral evaluation fee, mortgage handling fee, payments for office supplies, etc. on behalf of the Group.

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11. INTEREST-BEARING BORROWINGS

(a) Borrowings under agreements to repurchase

Financial assets sold under agreements to repurchase are effectively short-term collateralized borrowings. In these transactions, the Group receives cash in exchange for transferring financial assets as collateral and recognizes an obligation to reacquire the financial assets for cash at the transaction's maturity. These types of transactions create risks, including (1) fair value of the financial assets transferred may decline below the amount of obligation to reacquire the financial assets, and therefore create an obligation to pledge additional amounts, or to replace collaterals pledged, and (2) the Group does not have sufficient liquidity to repurchase the financial assets at the transaction's maturity.

	<i>Note</i>	Fixed interest rate per annum	Term	December 31,	
				2019	2020
				RMB	RMB
Repurchase agreements					
Funds obtained from					
Private investment funds			Less than 1 year	275,930,000	-
Financial institution	(i)	15% to 16% 8% to 13.2%	Within 4 years	589,103,161	507,620,299
Interest payable					
Financial institution	(i)			5,745,054	956,583
Total repurchase agreements				870,778,215	508,576,882

11. INTEREST-BEARING BORROWINGS (CONTINUED)**(i) Funds obtained from financial institutions**

On June 7, 2018, the Group transferred loan principals, interests and financing service fee receivables with carrying amount of RMB499,521,447 to a third-party transferee. The Group transferred loan principals, interests and financing service fee receivables with carrying amount of RMB499,999,800, upon a follow-on transfer on November 20, 2018 to Xiamen Asset Management Co., Ltd. ("Xiamen Asset"), an unrelated third party, with 9.2% to 9.5% per annum rate of return. The terms of loans remain the same after the transfer. However, in accordance with ASC 860, Transfers and Servicing, the loan principals are not derecognized upon transfer as the Group is required to repurchase: (a) the transferred loans which become overdue more than 90 days; (b) the loan principals which are not matured upon the end of the term of the transfer. As of December 31, 2020, the amount of funds obtained from Xiamen Asset and the interest payable are RMB77,474,002 and RMB603,354, respectively.

On June 15, 2018, the Group transferred loan principals, interests and financing service fee receivables with carrying amount of RMB499,991,939 to a third-party transferee, Weihai Blue Ocean Bank Co. Ltd. ("Blue Ocean"), an unrelated third party, with a 10% per annum rate of return. The terms of loans remain the same after the transfer. However, in accordance with ASC 860, Transfers and Servicing, the loan principals are not derecognized upon transfer as the Group is required to repurchase: (a) the transferred loans which become overdue more than 80 days; (b) the loan principals which are not matured upon the end of the term of the transfer. Moreover, when the agreement is in existence for more than 36 months, the Group will be required to repurchase all the remaining loan assets at a price which was agreed in contract. As of December 31, 2020, the amount of funds obtained from Blue Ocean and the interest payable are nil.

On July 11, 2018, the Group transferred loan principals, interests and financing service fee receivables with carrying amount of RMB200,000,000 to a third-party transferee, Haide Asset Management Co., Ltd. ("Haide Asset"), an unrelated third party, with a 10% per annum rate of return. The terms of loans remain the same after the transfer. However, in accordance with ASC 860, Transfers and Servicing, the loan principals are not derecognized upon transfer as the Group is required to repurchase: (a) the transferred loans which become overdue more than 90 days; (b) the loan principals which are not matured upon the end of the term of the transfer. As of December 31, 2020, the amount of funds obtained from Haide Asset and the interest payable are RMB3,413,812 and RMB52,684, respectively.

11. INTEREST-BEARING BORROWINGS (CONTINUED)

On December 17, 2018, the Group transferred loan principals, interest and financing service fee receivables with carrying amount of RMB299,609,168 to a third-party transferee, Suzhou Asset Management Co., Ltd. ("Suzhou Asset"), an unrelated third party, with a 11% per annum rate of return. The terms of loans remain the same after the transfer. However, in accordance with ASC 860, Transfers and Servicing, the loan principals are not derecognized upon transfer as the Group is required to repurchase: (a) the transferred loans which become overdue more than 90 days; (b) the loan principals which are not matured upon the end of the term of the transfer. As of December 31, 2020, the amount of funds obtained from Suzhou Asset and the interest payable are RMB17,068,259 and RMB169,747, respectively.

On January 28, 2019, the Group transferred loan principals, interests and financing service fee receivables with carrying amount of RMB13,793,897 to a third-party transferee, Guangdong Yueke Asset Management Co., Ltd. ("Yueke Asset"), an unrelated third party, with a 13.2% per annum rate of return. Upon a follow-on transfer to Yueke Asset on March 29, 2019, the Group transferred loan principals, interests and financing service fee receivables with carrying amount of RMB27,016,646 and a 13.2% per annum rate of return. The terms of loans remain the same after the transfer. However, in accordance with ASC 860, Transfers and Servicing, the loan principals are not derecognized upon transfer as the Group is required to repurchase: (a) the loan principals which are not matured upon the end of the term of the transfer; (b) the remaining loan principals after deducting, from the original loan principals, the actual transfer cost paid by Yueke Asset and Yueke Asset's loan and interest receivables under the transfer agreement. As of December 31, 2020, the amount of funds obtained from Yueke Asset and the interest payable are RMB9,664,226 and RMB130,798, respectively.

On May 7, 2020, the Group transferred the right to earnings in Jinhua Structured Fund 5 with carrying amount of RMB500,000,000 to Shenzhen Ruifeng Baoying Asset Management Co., Ltd. ("Ruifeng Baoying"), an unrelated third party, with a 8% per annum rate of return. However, in accordance with ASC 860, Transfers and Servicing, the right to earnings is not derecognized upon transfer as the Group is required to repurchase the right to earnings one year after the date of transfer. As of December 31, 2020, the amount of funds obtained from Ruifeng Baoying and the interest payable are RMB400,000,000 and nil, respectively.

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11. INTEREST-BEARING BORROWINGS (CONTINUED)

The below table provides the underlying collateral types of the gross obligations under repurchase agreements. For more information about pledged assets, refer to the Note 11(c).

	December 31,	
	2019	2020
	RMB	RMB
Underlying collateral types of gross obligations		
Repurchase agreements:		
Rights to earnings in the Group's subordinated tranches of consolidated VIEs	275,930,000	400,000,000
Loans principal, interest and financing service fee receivables	594,848,215	108,576,882
Total repurchase agreements	870,778,215	508,576,882

The below table provides the contractual maturities of the gross obligations under repurchase agreements.

	Overnight	Up to 30 days	30 to 90 days	Greater than 90 days	Total gross obligations
	RMB	RMB	RMB	RMB	RMB
Repurchase agreements					
As of December 31, 2020	-	37,871,851	111,761,847	358,943,184	508,576,882
As of December 31, 2019	-	684,791,408	115,136,807	70,850,000	870,778,215

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11. INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Other borrowings

Other borrowings	Note	Fixed interest rate per annum	Term	December 31,	
				2019	2020
				RMB	RMB
Short-term:					
Investors of consolidated VIEs	(i)	7% to 12.7%	Less than 1 year	4,505,914,751	3,491,862,448
Senior tranche of trust plan which invests in the Group’s loans portfolio	(ii)	10.24%	Within 1 year	37,547,527	9,343,996
Long-term:					
Investors of consolidated VIEs	(i)	7.2% to 12.1%	Within 5 years	2,056,035,701	2,088,565,691
Interest payable to					
Investors of consolidated VIEs	(i)			52,640,336	59,897,208
Total				6,652,138,315	5,649,669,343

- (i) The financial liabilities arising from the VIEs with underlying investments in loans to customers are classified as payable in these consolidated financial statements. It is because the Group has an obligation to pay senior tranches holders upon maturity dates based on the related terms of those consolidated structured funds. As of December 31, 2020, the borrowings from VIEs have principal RMB5,580,428,139, bearing interests from 7% to 12.7% per year.
- (ii) As of December 31, 2020, the borrowings from senior tranche of trust plan which invested in the Group's loans portfolio are the capitals from senior tranche holders of No.1 Wukuang Trust Yangguang Fanhua Plan with principal RMB9,343,996 million, bearing interests at 10.24% per year.

Aggregate annual maturities of long-term borrowing obligations (based on final maturity dates) are as follows:

	December 31, 2020					
	2021 RMB	2022 RMB	2023 RMB	2024 RMB	2025 RMB	Thereafter RMB
Investors of consolidated VIEs	-	1,081,671,701	463,887,721	34,745,191	508,261,078	-

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11. INTEREST-BEARING BORROWINGS (CONTINUED)

(c) *Pledged assets*

The Group pledges certain assets to secure borrowings under agreements to repurchase and other borrowings. The table provides the total carrying amounts of pledged assets by asset types.

	December 31,	
	2019	2020
	RMB	RMB
Rights to earnings in the Group's subordinated tranches of consolidated VIEs	1,369,872,606	312,080,250
Rights to earnings in loans principal, interest and financing service fee receivables	92,628,340	32,578,951
Loans principal, interest and financing service fee receivables	712,710,327	292,555,126
Total	2,175,211,273	637,214,327

Amounts presented above include carrying value of RMB2,082,582,932 and RMB604,635,376 in collateral for repurchase agreements as of December 31, 2019 and 2020, respectively.

12. CREDIT RISK MITIGATION POSITION

	December 31,	
	2019	2020
	RMB	RMB
Balance at the beginning of the year	-	928,702,101
Increase during the year	1,288,929,674	1,431,323,388
Decrease during the year	(352,306,712)	(1,136,849,732)
Confiscation during the year	(7,920,861)	(13,446,619)
Balance at the end of the year	928,702,101	1,209,729,138

Under the collaboration model, the Group collaborates with sales partners who are dedicated to introduce the Group's loan services to prospective borrowers. The sales partners need to place security deposits ranging from 10%-25% of the loans issued to the borrowers introduced by them (such contribution, the "credit risk mitigation position") to the Group. The credit risk mitigation position will be transferred into an account designated by the Group and is fully refundable upon repayment of the loan the credit risk mitigation position is associated with.

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13. OTHER LIABILITIES

	Note	December 31,	
		2019 RMB	2020 RMB
Guarantee repayments from sales partner	(i)	-	126,903,531
Receipt in advance	(ii)	118,109,316	121,160,268
Settlement and clearing accounts	(iii)	49,175,523	94,287,235
Other tax payables	(iv)	86,798,908	74,757,159
Customer pledged deposits	(v)	60,233,291	47,588,065
Collaboration cost payable	(vi)	29,191,882	34,713,800
Amounts due to third parties		10,768,698	10,545,062
Accrued expenses	(vii)	45,156,653	8,406,812
Others	(viii)	5,034,932	5,335,193
Total		404,469,203	523,697,125

- (i) Under the collaboration model, sales partners are required to provide a certain level of guarantee of repayment for loans recommended. Guarantee repayments from sales partner mainly consist of repayments collected from sales partners who exercise the guarantee, and those repayments will be returned to trust company.
- (ii) Receipt in advance consists of advance for interest and financing service fees on loans and down payments of loans held-for-sale by loan transferees. Down payments of loans held-for-sale for the traditional facilitation model amounted to RMB102,491,426 and RMB 118,078,758 as of December 31, 2019 and 2020.
- (iii) The Group transferred loans to third party investors and recorded these transactions as sales in Note 5(c). After the transfer, the contract terms related to payment proceeds from the loans remain the same: The Group collects payments of loans and then disburses the proceeds from the relevant loans to third-party transferees.
- (iv) Other tax payables mainly represent value-added tax and surcharges payables.
- (v) Customer pledged deposits mainly consist of the deposits collected from certain customers to reduce the risk of failure to make payments on schedule.
- (vi) As mentioned in Note 19, the Group will pay collaboration cost to the sales partners who introduce prospective borrowers to the Group. The collaboration cost for sales partners is a fixed percentage of the loan principal amount and is calculated by subtracting the project cost from interest and fees income received from borrowers.
- (vii) Accrued expenses mainly consist of promotional costs relating to building the collaboration model and expenses payable to consultants such as the auditor and lawyer.
- (viii) Other liabilities are expected to be settled or recognized as income within one year or are repayable on demand.

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14. ORDINARY SHARES

On January 8, 2014, the Company was incorporated in the Cayman Islands with authorized share capital of HKD380,000 divided into 3,800,000,000 shares of a nominal or par value of HKD0.0001 each. Upon the incorporation of the Company, one subscriber's share was allotted and issued to Kevin Butler at a consideration of HKD0.0001, representing 100% of the entire ordinary share of the Company. On the same date, such share was transferred to Complete Joy Investments Limited ("Complete Joy") at nil consideration. As a result, Complete Joy was the sole owner of the Company.

On July 11, 2018, the Company repurchased of a total of 1,230,434,041 shares of HKD0.0001 each share, following by issuing a total of 1,230,434,040 shares of USD0.0001 each share. As the result of the above redenomination, the par value of the Company's shares has been changed from HKD0.0001 to USD0.0001, and its authorized share capital has been increased to USD380,000 divided into 3,800,000,000 shares of USD0.0001 each.

Upon the IPO on November 7, 2018 and exercise of the green shoes options, the Company issued 130,000,000 and 8,500,000 ordinary shares, equal to 6,500,000 ADSs and 425,000 ADSs, respectively, priced at USD7.5 per ADS. The Company issued 2,709,200 ordinary shares, equal to 135,460 ADSs, upon a follow-on exercise of the green shoes options on November 21, 2018, priced at USD7.5 per ADS.

15. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital represents (1) the difference between the nominal value of share capital and the paid-up capital of the Group; (2) the difference between the purchase price and the proportionate share of the identifiable net assets of Guangzhou Anyu when the Group acquired its remaining shares to take full ownership; (3) the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognized.

16. RETAINED EARNINGS

	<i>Note</i>	December 31,	
		2019	2020
		RMB	RMB
PRC statutory reserves	(i)	258,654,052	258,654,052
PRC surplus reserves	(ii)	147,125,493	161,631,825
Unreserved retained earnings		2,256,366,104	2,338,841,922
Total		2,662,145,649	2,759,127,799

- (i) With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Group is required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of its gross risk-bearing assets.
- (ii) In accordance with the Company's PRC subsidiaries' articles of associate, the subsidiaries are required to appropriate 10% of their net incomes, upon approval by board of directors.

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17. ACCUMULATED OTHER COMPREHENSIVE LOSSES

	Foreign currency translation adjustment	Unrealized gain on investment securities		
		Before tax amount	Income Tax	
			(expense) or benefit	Net-of-tax amount
	RMB	RMB	RMB	RMB
Balance as of January 1, 2019	(6,255,637)	2,252,159	(563,040)	1,689,119
Other comprehensive loss, net	3,965,185	(2,024,106)	506,027	(1,518,079)
Balance as of December 31, 2019	(2,290,452)	228,053	(57,013)	171,040
Balance as of January 1, 2020	(2,290,452)	228,053	(57,013)	171,040
Other comprehensive loss, net	(16,166,094)	(228,053)	57,013	(171,040)
Balance as of December 31, 2020	(18,456,546)	-	-	-

The amounts reclassified out of accumulated other comprehensive income represent realized gains on the investment securities upon their sales, which were then recorded in realized gains/(losses) on sales of investments, net ” in the consolidated statements of comprehensive income.

18. INTEREST AND FINANCING SERVICE FEES ON LOANS

Interest and financing service fees on loans, which include financing service fee on loans, are recognized in the consolidated statements of comprehensive income using the effective interest method. Interest income on loans which is recognized with contractual interest rate were RMB4,150,727,434, RMB 2,906,171,249 and RMB 1,812,996,763 for the year ended December 31, 2018, 2019 and 2020, respectively. Financing service fee on loans, are deferred and amortized over the contractual life of the related loans utilizing the effective interest method. Financing service fees on loans were RMB128,092,934, RMB47,309,748 and RMB15,691,147 for the year ended December 31, 2018, 2019 and 2020, respectively.

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18. INTEREST AND FINANCING SERVICE FEES ON LOANS (CONTINUED)

Interest and fees income and costs from traditional facilitation model and new collaboration model for the year ended December 31, 2020 are listed as below:

	Year ended December 31, 2020		
	traditional facilitation model	Collaboration model	Total
	RMB	RMB	RMB
Interest and financing service fees on loans	695,645,512	1,133,042,398	1,828,687,910
Interests on deposits with banks	3,877,845	12,256,073	16,133,918
Interest expense on interest-bearing borrowings	(256,597,312)	(474,718,053)	(731,315,365)
Net interest and fees income	442,926,045	670,580,418	1,113,506,463
Collaboration cost for sales partners	-	(415,104,428)	(415,104,428)
Net interest and fees income after collaboration cost	442,926,045	255,475,990	698,402,035
Provision for credit losses	(130,589,189)	(146,997,234)	(277,586,423)
Net interest and fees income after provision for credit losses	312,336,856	108,478,756	420,815,612

19. COLLABORATION COST FOR SALES PARTNERS

The Group started to develop a new collaboration model in December 2018. Under such model, the Group collaborates with sales partners who are dedicated to introduce CNFinance and its loan services to prospective borrowers. The unique feature of this collaboration model is that the sales partners will be required to deposit an amount equal to 10%-25% of the loans issued to the borrowers introduced by them. In return, the Group will pay collaboration cost as sales incentives to the sales partners.

20. REALIZED GAINS ON SALES OF INVESTMENTS, NET

The gross realized gains on sales of investments are RMB3,185,026, RMB46,126,258 and RMB20,153,659 for the years ended December 31, 2018, 2019 and 2020, respectively.

21. NET (LOSSES)/GAINS ON SALES OF LOANS

As mentioned in Note 5(c), the Group transferred the delinquent loans to third parties. Net (losses)/gains on sale of loans which summarizes the received from sales of loans are net losses of RMB16,697,259, net gains of RMB75,959,140 and RMB149,631,456 for the years ended December 31, 2018, 2019 and 2020, respectively.

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22. OTHER GAINS, NET

	<i>Note</i>	Year ended December 31,		
		2018	2019	2020
		RMB	RMB	RMB
Net gains on confiscated credit risk mitigation positions	(i)	-	7,920,861	13,446,619
Mortgage agency service revenue	(ii)	4,466,608	679,933	511,500
Foreign exchange gains/(losses)	(iii)	1,836,029	647,316	(5,345,004)
Net loss on disposal of property and equipment		(946,244)	(3,049,896)	(2,868)
Profits and losses from fair value changes		-	-	56,773
Others		(3,242,074)	177,134	11,095,033
Total		2,114,319	6,375,348	19,762,053

- (i) Sales partners provide credit risk mitigation positions (CRMPs) as security deposits. Pursuant to the collaboration agreements if the debtor's loan principal repayments or accrued interests are past due or the loan is in default, sales partners are obliged to fulfill their guarantee responsibility by selecting among different approaches, otherwise the CRMPs deposited by sales partners are confiscated by the Group. Net gains on confiscated CRMPs increased to RMB13,446,619 in 2020.
- (ii) The Group earns fees from providing mortgage agency services to borrowers applying for a bank loan. This kind of revenue is recognized at the time when loan is granted as that is the point of time the Group fulfils the customer's request, and is then recognized on an accrual basis in accordance with the terms of the relevant agreements. Mortgage agency service revenue consists of revenue earned from housing mortgage agency service and cars mortgage agency service.
- (iii) The changes of foreign exchange gain/(loss) are mainly due to exchange rate changes in cash and cash equivalents held by the group, including US dollar account and Hong Kong dollar account. The company recorded a foreign exchange (loss) as RMB5,345,004 in 2020, a decrease of RMB5,992,320 compared with that in 2019. The loss is mainly due to the decrease of the exchange rate between Hong Kong dollar and RMB and the US dollar against RMB.

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23. OTHER EXPENSES

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Advertising and promotion expenses	15,323,838	45,789,035	30,471,983
Litigation fees	22,467,468	25,305,057	24,764,412
Consulting fees	9,580,602	16,762,953	14,486,656
Research and development expenses	1,419,878	2,430,338	9,960,607
Office and commute expenses	14,425,608	21,835,262	9,120,261
Attorney fees	5,983,431	23,748,333	8,503,270
Entertainment and travelling expenses	14,237,820	10,905,234	7,010,704
Depreciation and amortization	13,299,246	10,917,300	6,047,226
Directors and officers liability insurance	-	6,433,824	4,232,722
Communication expenses	2,549,164	2,874,165	2,495,071
Others	14,268,602	15,677,035	6,949,270
Total	113,555,657	182,678,536	124,042,182

24. INCOME TAX EXPENSE

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains.

British Virgin Islands (BVI)

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in the British Virgin Islands.

Hong Kong

No provision for Hong Kong Profits Tax has been made for the subsidiary located in Hong Kong as the subsidiary has not derived any income subject to Hong Kong Profits Tax during the years.

Peoples Republic of China (PRC)

According to the PRC Corporate Income Tax ("CIT") Law that was effective from January 1, 2008, the Group's PRC subsidiaries are subject to PRC income tax at the statutory tax rate of 25%, unless otherwise specified.

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24. INCOME TAX EXPENSE (CONTINUED)

Income tax expense, all of which relates to the PRC, consists of the following for the years ended December 31:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Current tax expense	401,913,951	182,459,389	142,238,819
Deferred tax (benefit)/expense	(105,085,476)	3,908,847	(94,389,779)
Total income tax expense	296,828,475	186,368,236	47,849,040

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

	Year ended December 31,	
	2019	2020
	RMB	RMB
Deferred tax assets:		
Allowance for loans principal	254,945,409	299,532,574
Allowance for interest and financing fee receivables	22,654,969	22,733,700
Net operating loss carry-forwards	6,459,941	10,443,239
Lease liabilities	9,533,485	4,886,125
Other deferred tax assets	1,388,307	1,919,331
Total deferred tax assets	294,982,111	339,514,969
Valuation allowance	(6,459,941)	(10,443,239)
Deferred tax assets, net of valuation allowance	288,522,170	329,071,730
Deferred tax liabilities:		
Intangible assets	(742,500)	(742,500)
Investment securities	(57,014)	-
Right-of-use assets	(9,533,485)	(4,867,131)
Loans and other assets	-	(78,329,130)
Undistributed earnings from structured funds	(621,034,296)	(565,903,639)
Total deferred tax liabilities	(631,367,295)	(649,842,400)

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24. INCOME TAX EXPENSE (CONTINUED)

In 2020, the Group assessed and considered that RMB78,329,130 of the income taxes payable balance as of December 31, 2019 would be filed and settled on a future income tax return. Such amount was related to the intra-entity transfers of the loans and other assets. The Group has presented the tax effect of the intra-entity transfers of loans and other assets as deferred tax liabilities in 2020.

Movement of valuation allowance:

	2019 RMB	2020 RMB
At the beginning of year	5,743,768	6,459,941
Current year additions	2,843,639	5,420,745
Current year reversals	(2,025,434)	(1,374,712)
Current year charge-offs	(102,032)	(62,735)
At the end of year	<u>6,459,941</u>	<u>10,443,239</u>

In assessing the recoverability of its deferred tax assets, management considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the cumulative earnings and projected future taxable income in making this assessment. Recovery of a substantial majority of the Group's deferred tax assets is supported by reversing taxable temporary differences.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are recoverable, management believes that it is more likely than not that the Group will realize the benefits of its deferred tax assets, net of valuation allowance, as of December 31, 2019 and 2020.

Valuation allowances have been provided on deferred tax assets due to the uncertainty surrounding their realization. As of December 31, 2019 and 2020, the valuation allowance on deferred tax assets mainly arising from operating loss carry-forwards were provided because it was more likely than not that the Group will not be able to utilize the operating loss carry-forwards generated by certain unprofitable subsidiaries.

The Group operates through its subsidiaries and VIEs. Since each entity files a separate tax return, the valuation allowance is considered on an individual entity basis.

As of December 31, 2020, the Group had net operating loss carryforwards of RMB41,772,957 from its subsidiaries registered in the PRC, which can be carried forward to offset future taxable income. The Group had deferred tax assets related to net operating loss carryforwards of RMB10,443,239. Net operating losses of RMB20,089,976 will expire in 2024, and in 2025, about RMB21,682,981 will expire, if not utilized.

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24. INCOME TAX EXPENSE (CONTINUED)

Management intends to indefinitely reinvest the undistributed earnings of the subsidiaries located in the PRC. The cumulative amount of the temporary difference in respect of investments in PRC subsidiaries is RMB5,236,867,776 as of December 31, 2020. Upon repatriation of the subsidiaries' and the VIE's earnings, in the form of dividends or otherwise, the Group would be subject to 10% PRC withholding income tax when making distribution to foreign parent companies. However, the Group was not subject to withholding income tax in 2020 because the Group did not make any distribution to foreign parent companies. The related unrecognized deferred tax liabilities were RMB523,686,778.

The income before income tax expense is as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Cayman Islands	(5,671)	(4,424,505)	(2,847,746)
BVI	161,953	45,003	(22,126)
Hong Kong entities	(77,026)	2,014,052	3,424,910
PRC entities	1,157,657,930	723,377,628	162,146,528
Total	<u>1,157,737,186</u>	<u>721,012,178</u>	<u>162,701,566</u>

The reconciliation of the PRC statutory income tax rate of 25% to the effective income tax rate is as follows:

	Year ended December 31,		
	2018	2019	2020
PRC statutory income tax rate	25.00%	25.00%	25.00%
(Decrease)/increase in effective income tax rate resulting from:			
Effect of tax-free income	(0.03)%	(0.06)%	(8.02)%
Effect of non-deductible share option expense	0.86%	0.55%	9.54%
Effect of zero tax rate in foreign countries	(0.00)%	0.15%	0.44%
Changes in valuation allowance	(0.59)%	0.11%	2.49%
Others	0.42%	0.09%	(0.04)%
Effective income tax rate	<u>25.66%</u>	<u>25.84%</u>	<u>29.41%</u>

The Group's only major jurisdiction is China where tax returns generally remain open and subject to examination by tax authorities for tax years 1999 onwards.

The Group did not have any significant unrecognized tax benefits, and no interest and penalty expenses were recorded for the years ended December 31, 2018, 2019 and 2020.

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25. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2019 and 2020, for which the basic weighted average number of common shares are based on the 1,371,643,240, 1,371,643,240 and 1,371,643,240 common shares issued by the Company, as if those shares were issued as of the earliest date presented.

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Net income	860,908,711	534,643,942	114,852,526
Basic weighted average number of common shares outstanding	1,251,608,224	1,371,643,240	1,371,643,240
Effect of dilutive share options	137,727,545	96,143,147	153,589,125
Dilutive weighted average number of ordinary shares	1,389,335,769	1,467,786,387	1,525,232,365
Basic earnings per share	0.69	0.39	0.08
Diluted earnings per share	0.62	0.36	0.08

26. SHARE-BASED COMPENSATION EXPENSES**(a) Description of share-based compensation arrangements**

On January 3, 2017, the Group adopted a new share incentive plan, or the 2017 Share Incentive Plan. Options to purchase 187,933,730 ordinary shares pursuant to the 2017 Share Incentive Plan were issued to certain management and employees. Accordingly, 60%, 20% and 20% of the award options shall vest on December 31, each of the years 2017 to 2019, respectively. Unless terminated earlier, the 2017 Share Incentive Plan will terminate automatically in 2022.

On August 27, 2018, 2018 Share Incentive Plan (the “2018 Option”) for granting shares award of CNFinance to certain management members and employees of the Group was issued to concurrently replace the 2017 Share Incentive Plan which granted Sincere Fame’s share. Except for the above mentioned change of grantor, all terms of the 2017 Share Incentive Plan and the 2018 Share Incentive Plan were the same. No change in the fair value, vesting conditions or the classification of the 2017 Share Incentive Plan and the 2018 Share Incentive Plan.

On December 31, 2019, the Group granted options to certain management and employees to purchase 119,674,780 ordinary shares pursuant to the 2018 Share Incentive Plan (the “2019 Option”). Accordingly, 50%, 30% and 20% of the award options shall vest on December 31, each of the years 2020 to 2022, respectively, with expiration dates on December 31, each of the years 2025 to 2027.

26. SHARE-BASED COMPENSATION EXPENSES (CONTINUED)

Share-based payment transactions with employees, such as share options are measured based on the grant date fair value of the equity instrument. The Group recognizes the compensation costs net of estimated forfeitures over the applicable vesting period. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expenses to be recognized in future periods. There were no market conditions associated with the share option grants.

(b) Fair value of share options and assumptions

The fair value of options granted to employees is determined based on a number of factors including valuations. In determining the fair value of equity instruments, the Group referred to valuation reports prepared by an independent third-party appraisal firm, based on data the Group provided. The valuation reports provided the Group with guidelines in determining the fair value of the equity instruments, but the Group is ultimately responsible for the determination of all amounts related to share-based compensation recorded in the financial statements.

Excluding the options containing service vesting conditions, the Group calculated the estimated fair value of the options on the respective grant dates using a binomial option pricing model with assistance from independent valuation firms, with the following assumptions:

	Share awards granted on January 3, 2017 (2018 Option)	Share awards granted on December 31, 2019 (2019 Option)
Expected volatility	40.00%	41.52%
Expected dividends	-	-
Risk-free interest rate	3.10%	3.12%
Expected term (in years)	5	5
Expected life (in years)	6	8

The contractual life of the share option is used as an input into the binomial option pricing model. Exercise multiple and post-vesting forfeit are incorporated into the model as well.

2018 Option

When the options of the 2018 Option were issued, the Group's shares had not been publicly traded and its shares were rarely traded privately. Therefore, the expected volatility is estimated based on the historical volatility of comparable entities with publicly traded shares for the period before the date of grant with length commensurate to contractual life of the options. Since the contractual life of the options is 6 years, the risk-free rate for the expected term of the options is determined based on the yield to maturity of China 6-year government bond at the date of grant.

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26. SHARE-BASED COMPENSATION EXPENSES (CONTINUED)

2019 Option

When the options of the 2019 Option were issued, the Group's shares were already publicly traded. Since the shares have only been publicly traded for just over a year, the expected volatility is estimated based on the historical volatility of comparable entities with publicly traded shares for the period before the date of grant with length commensurate to contractual life of the options. The contractual life of the options is 6 years, 7 years and 8 years, respectively. Therefore, the risk-free rate for the expected term of the options is determined based on the yield to maturity of China 5-year, 7-year and 10-year government bond, using interpolation method, at the date of grant.

The Group has not declared or paid any cash dividends on its capital stock and does not anticipate any dividend payments on its ordinary shares in the foreseeable future.

If any of the assumptions used in the binomial option pricing model changes significantly, share-based compensation expenses for future awards may differ materially compared with the awards granted previously.

A summary of share option activity under the 2018 Option is as follows:

	Number of shares	Weighted average exercise price RMB	Weighted average grant date fair value RMB
Balance, December 31, 2016	-	-	-
Granted	187,933,730	-	1.27
Exercised	-	-	-
Surrendered	-	-	-
Balance, December 31, 2017	187,933,730	-	1.27
Exercisable, December 31, 2017	112,760,238	-	1.27
Expected to vest, December 31, 2017	75,173,492	-	1.27
Balance, December 31, 2017	187,933,730	-	1.27
Granted	-	-	-
Exercised	-	-	-
Surrendered	-	-	-
Balance, December 31, 2018	187,933,730	-	1.27
Exercisable, December 31, 2018	150,346,984	-	1.27
Expected to vest, December 31, 2018	37,586,746	-	1.27
Balance, December 31, 2018	187,933,730	-	1.27
Granted	-	-	-
Exercised	-	-	-
Surrendered	-	-	-
Balance, December 31, 2019	187,933,730	-	1.27
Exercisable, December 31, 2019	187,933,730	-	1.27
Expected to vest, December 31, 2019	-	-	-

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26. SHARE-BASED COMPENSATION EXPENSES (CONTINUED)

A summary of share option activity under the 2019 Option is as follows:

	Number of shares	Weighted average exercise price RMB	Weighted average grant date fair value RMB
Balance, December 31, 2018	-	-	-
Granted	119,674,780	-	0.72
Exercised	-	-	-
Surrendered	-	-	-
Balance, December 31, 2019	119,674,780	-	0.72
Exercisable, December 31, 2019	-	-	-
Expected to vest, December 31, 2019	119,674,780	-	0.72
Balance, December 31, 2019	119,674,780	-	0.72
Granted	-	-	-
Exercised	-	-	-
Surrendered	-	-	-
Balance, December 31, 2020	119,674,780	-	0.72
Exercisable, December 31, 2020	59,837,390	-	0.72
Expected to vest, December 31, 2020	59,837,390	-	0.72

The following table sets forth the fair value of options and ordinary shares estimated at the dates of option grants indicated below with the assistance from an independent valuation firm.

Date of options grant	Options granted	Exercise price	Fair value of option	Fair value of ordinary shares
January 3, 2017	75,173,492	RMB 0.50	RMB 1.26	RMB 1.72
January 3, 2017	112,760,238	RMB 0.50	RMB 1.27	RMB 1.72
December 31, 2019	83,772,346	RMB 1.00	RMB 0.71	RMB 1.40
December 31, 2019	35,902,434	RMB 1.00	RMB 0.75	RMB 1.40

For the option granted on January 3, 2017, the Group recognized compensation expenses of RMB39,715,168 and RMB15,886,067 in year 2018 and 2019, respectively. There was no income tax benefit recognized associated with the share-based compensation expenses. As of December 31, 2019, the expenses in relation to the 2018 Option have been fully recognized.

For the 2019 Option, the Group recognized compensation expenses of RMB62,073,367. There was no income tax benefit recognized associated with the share-based compensation expenses. As of December 31, 2020, there is total unrecognized compensation cost of RMB24,540,633, which is expected to be recognized over a weighted average period of 1.24 years.

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27. MATERIAL RELATED PARTY TRANSACTIONS

Name and relationship with related parties

During the years, transactions with the following parties are considered as related parties:

Name of related party	Relationship
CISG Holdings Limited	one of the shareholders
Fanhua Inc. and its subsidiaries	one of the owners beneficially owns 100% equity interests of CISG Holdings Limited

In 2017, the Chairman and Chief Executive Officer of the Group, Mr. Zhai Bin, entered into a loan agreement with the Group as lender with an amount of RMB5,010,800 with a daily market interest rate of 0.02%. The loan was settled in full in March 2018.

In May 2018, Jinghua Structured Fund 27, a VIE consolidated by the Group, was established with a contracted valid term for 10 years. Fanhua Inc. and its subsidiaries subscribed all of the senior units and intermediate units of Jinghua Structured Fund 27, which amounted to RMB115,000,000 and RMB23,000,000 respectively. The Group subscribed to all of the subordinated units of Jinghua Structured Fund 27 as well, which amounted to RMB15,350,000.

In 2018, Fanhua Inc. and its subsidiaries transferred all their senior units and intermediate units to a third party of the Group from May to July. As a result, amounts due to related parties is nil as of December 31, 2018. The total amount of interest expense of Jinghua Structured Fund 27 in 2018 is RMB6,308,306. As the result of the above transferring, interest expense paid to related parties is RMB610,405.

The Group did not have any related party transactions in the year ended December 31, 2020.

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28. OPERATING LEASES

The Group leases multiple office spaces which are contracted under various non-cancelable operating leases, most of which provide extension or early termination options and are generally expired in 1 to 4 years. The Group does not enter into any finance leases or leases where the Group is a lessor. Moreover, the existing operating lease agreements do not contain any residual value guarantees or material restrictive covenants.

Management determines if an arrangement is a lease at inception and record the leases in the financial statements upon lease commencement, which is the date when the underlying office space is made available for use by the lessor. The incremental borrowing rates determined for computing the lease liabilities are based on the People's Bank of China (PBOC) Benchmark Rates for terms of loans ranging from zero (exclusive) to 5 years and above.

The following tables present the operating lease cost and other supplemental information:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Operating lease cost ⁽¹⁾	58,317,758	36,607,623	21,719,042

	December 31, 2019 RMB	December 31, 2020 RMB
Weighted-average remaining lease term	2 Years	1.2 Years
Weighted-average discount rate	4.75%	4.73%
Cash paid for amounts included in the measurement of lease liabilities under operating cash flows	39,195,151	18,327,069
ROU assets obtained in exchange for new operating lease liabilities	38,133,941	19,468,523

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28. OPERATING LEASES (CONTINUED)

The following represents the Group's future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the lease liabilities (excluding short-term operating leases) as of December 31, 2020:

Year Ended December 31,	RMB
2021	14,245,045
2022	5,210,201
2023	700,106
2024	219,038
2025	-
Thereafter	-
Total future operating lease payments	20,374,390
Less: imputed interest	(829,891)
Total present value of operating lease liabilities	19,544,499

29. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

The Group's PRC VIEs and PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Group. The payment of dividends by entities organized in China is subject to limitations, procedures and formalities. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. The Group's subsidiaries are also required to set aside at least 10% of its net income based on PRC accounting standards each year to its statutory reserves account until the accumulative amount of such reserves reaches 50% of its respective registered capital. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

In addition, the Group's operations and revenues are conducted and generated in China, all of the Group's revenues being earned and currency received are denominated in RMB. RMB is subject to the foreign exchange control regulation in China, and, as a result, the Group may be unable to distribute any dividends outside of China due to PRC foreign exchange control regulations that restrict the Group's ability to convert RMB into US Dollars.

Regulation S-X requires the condensed financial information of registrant shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party. The condensed parent company financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the Group's PRC subsidiary and VIE exceed 25% of the consolidated net assets of the Group.

The condensed financial information of the parent company has been prepared in accordance with SEC Regulation S-X Rule 5-04 and Rule 12-04, using the same accounting policies as set out in the Group's consolidated financial statements, except that the Group uses the equity method to account for investments in its subsidiaries. The footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Group, as such, these statements are not the general-purpose financial statements of the reporting entity and should be read in conjunction with the notes to the consolidated financial statements of the Group.

On January 8, 2014, the Group was incorporated in the Cayman Islands with one subscriber's share allotted and issued at par value of HKD0.0001, representing 100% of the entire ordinary share of the Group. The shareholder as well as shareholder's equity remained the same until the reorganization with Sincere Fame.

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29. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)

Condensed balance sheets

	December 31, 2019 RMB	December 31, 2020 RMB
Assets		
Cash and cash equivalents	7,192,877	3,315,160
Investments in subsidiaries	392,559,403	392,559,403
Other assets	316,693,899	296,210,723
Total assets	716,446,179	692,085,286
Liabilities and shareholders' equity		
Accrued employee benefits	418,572	97,555
Other operating liabilities	10,988,499	10,508,460
Total liabilities	11,407,071	10,606,015
Ordinary shares (3,800,000,000 shares authorized; 1,371,643,240 shares with USD0.0001 as par value issued as of December 31, 2019 and December 31, 2020)	916,743	916,743
Additional paid-in capital	705,422,445	705,422,445
Retained earnings	(4,430,177)	(7,277,923)
Accumulated other comprehensive income:		
Foreign currency translation adjustment	3,130,097	(17,581,994)
Total shareholders' equity	705,039,108	681,479,271
Total liabilities and shareholders' equity	716,446,179	692,085,286

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29. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)

Condensed statements of comprehensive income

	<u>2019</u> RMB	<u>2020</u> RMB
Interest and fees income		
Interest on deposits with banks	426,672	5,713
Total interest and fees income	426,672	5,713
Other revenue	3,353,216	-
Total non-interest income	3,353,216	-
Total Revenue	3,779,888	5,713
Operating expenses		
Employee compensation and benefits	(660,018)	(397,404)
Other expenses	(7,544,375)	(2,456,055)
Total operating expenses	(8,204,393)	(2,853,459)
Income before income tax	(4,424,505)	(2,847,746)
Income tax expense	-	-
Net loss	(4,424,505)	(2,847,746)
Other comprehensive income/(losses)		
Foreign currency translation adjustment	5,255,576	(20,712,092)
Comprehensive income/(losses)	831,071	(23,559,838)

CNFINANCE HOLDINGS LIMITED

Notes to the consolidated financial statements

(Expressed in Renminbi unless otherwise stated)

29. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)

Condensed statements of cash flows

	<u>2019</u>	<u>2020</u>
	RMB	RMB
Cash flows from operating activities:		
Net loss	(4,424,505)	(2,847,746)
Other operating assets	(316,693,899)	20,483,176
Other operating liabilities	<u>3,248,087</u>	<u>(801,055)</u>
Net cash (used in)/provided by operating activities	<u>(317,870,317)</u>	<u>16,834,375</u>
Net (decrease)/increase in cash and cash equivalents	<u>(317,870,317)</u>	<u>16,834,375</u>
Cash and cash equivalents at the beginning of year	319,807,618	7,192,877
Effect of exchange rate change on cash and cash equivalents	5,255,576	(20,712,092)
Cash and cash equivalents at the end of year	<u>7,192,877</u>	<u>3,315,160</u>

30. COMMITMENTS AND CONTINGENCIES

The Group has not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, the Group has not entered into any derivative contracts that are indexed to the Group's shares and classified as shareholders' equity, or that are not reflected in the Group's consolidated financial statements. Furthermore, the Group does 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. Moreover, the Group does not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to the Group or engages in leasing, hedging or product development services with the Group.

31. SUBSEQUENT EVENTS

The Group has considered subsequent events through April 28, 2021, which was the date of these consolidated financial statements were issued, and has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.