

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

**FORM 20-F/A
(Amendment No.1)**

(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, 2022.

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)

60/F, Pearl River Tower
No. 15 West Zhujiang Road
Guangzhou, Guangdong 510623
People's Republic of China
(Address of principal executive offices)

Peng Ge, Chief Financial Officer

Tel: +86 20 83883033

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

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

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

<u>Title of Each Class</u>	<u>Ticker Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary shares, par value US\$0.001 per share*	FANH	The NASDAQ Stock Market LLC
American depositary shares, each representing 20 ordinary shares		(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.

1,072,842,484 ordinary shares, par value US\$0.001 per share as of December 31, 2022

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 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 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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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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EXPLANATORY NOTE

Fanhua Inc. (the “Company”) is filing this Amendment No. 1 to our annual report on Form 20-F for the fiscal year ended December 31, 2022 (the “Amendment No. 1”), which was originally filed with the Securities and Exchange Commission (the “SEC”) on April 25, 2023 (the “Original Filing”). The purpose of this Amendment No. 1 is solely to correct a typographical error in the date of the “Report of Independent Registered Public Accounting Firm” for the fiscal year ended December 31, 2020 (the “2020 Audit Report”) issued by our predecessor auditor Deloitte Touche Tohmatsu on Page F-4 of the Original Filing from April 25, 2023 to April 28, 2021, the actual issuance date of the 2020 Audit Report.

In order to comply with certain requirements of the SEC’s rules in connection with this filing, this Amendment No. 1 includes Item 18. Financial Statements. Consistent with the rules of the SEC, the certifications of the Company’s principal executive officer and principal financial officer as of the date of this Amendment No. 1 are attached as exhibits to this Amendment No. 1.

Except as described above, no other changes have been made to the Original Filing. This Amendment No. 1 speaks as of the filing date of the Original Filing. Other than as stated otherwise, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in the Original Filing, or reflect any events that have occurred since the date thereof. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Filing and any documents filed with or furnished to the SEC by the Company subsequent to April 25, 2023.

PART III

Item 18. Financial Statements

The consolidated financial statements of Fanhua Inc. and its subsidiaries and VIEs 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 depository 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 (File No. 001-33768), filed with the Securities and Exchange Commission on April 29, 2022)
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 Loan Agreement dated December 6, 2021 between Fanhua Insurance Sales and Service Group Company Limited and Shuangping Jiang (incorporated by reference to Exhibit 4.6 of our annual report on Form 20-F filed with the Commission on April 29, 2022)
4.6†	English translation of Equity Pledge Contract dated December 6, 2021 among Fanhua Insurance Sales and Service Group Company Limited, Shuangping Jiang and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.7 of our annual report on Form 20-F filed with the Commission on April 29, 2022)
4.7†	English translation of Exclusive Purchase Option Contract dated December 6, 2021 among Fanhua Insurance Sales and Service Group Company Limited, Shuangping Jiang and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.8 of our annual report on Form 20-F filed with the Commission on April 29, 2022)

Exhibit Number	Description of Document
4.8†	English translation of Power of Attorney dated December 6, 2021 of Shuangping Jiang (incorporated by reference to Exhibit 4.9 of our annual report on Form 20-F filed with the Commission on April 29, 2022)
4.9†	English translation of Technology Consulting and Service Agreement dated March 1, 2022 between Fanhua Insurance Sales and Service Group Company Limited and Shenzhen Xinbao Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.10 of our annual report on Form 20-F filed with the Commission on April 29, 2022)
4.10***	2022 Share Incentive Plan
4.11***†	English translation of Loan Agreement dated July 1, 2022 between Beijing Fanlian Investment Co., Ltd. and Peng Ge
4.12***†	English translation of Equity Pledge Contract dated July 1, 2022 among Beijing Fanlian Investment Co., Ltd., Peng Ge and Fanhua RONS (Beijing) Technologies Co., Ltd.
4.13***†	English translation of Exclusive Purchase Option Contract dated July 1, 2022 among Beijing Fanlian Investment Co., Ltd., Peng Ge and Fanhua RONS (Beijing) Technologies Co., Ltd.
4.14***†	English translation of Power of Attorney dated July 1, 2022 of Peng Ge
4.15***	English translation of Form of Consulting and Service Agreement among Fanlian Investment Co., Ltd. and Fanhua RONS Technologies Co., Ltd. and each of its subsidiaries
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 Hai Run Law Firm
15.3***	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP
15.4***	Consent of Deloitte Touche Tohmatsu
15.5	Letter from Deloitte Touche Tohmatsu to the Securities and Exchange Commission, dated April 29, 2022 (incorporated by reference to Exhibit 15.5 of our annual report on Form 20-F filed with the Commission on April 29, 2022)
15.6***	Submission under Item 16I(a) of Form 20-F in relation to the Holding Foreign Companies Accountable Act
101***	Financial information from Registrant for the year ended December 31, 2022 formatted in Inline eXtensible Business Reporting Language (iXBRL):
	(i) Consolidated Balance Sheets as of December 31, 2021 and 2022;
	(ii) Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2020, 2021 and 2022;
	(iii) Consolidated Statements of Shareholder's Equity for the Years Ended December 31, 2020, 2021 and 2022;
	(iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2021 and 2022;
	(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 Amendment No. 1.

** Furnished with this Amendment No. 1.

† Portions of this exhibit have been omitted in accordance with Instruction 4 to Item 19 of Form 20-F.

*** Previously filed with the Original Filing.

SIGNATURES

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

FANHUA INC.

By: /s/ Yinan Hu

Name: Yinan Hu

Title: Chief Executive Officer

Date: May 22, 2023

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, 2022 and 2021, the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows, for each of the two years in the period ended December 31, 2022, and the related notes and schedule I (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, 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 RMB329 million as of December 31, 2021, and its equity earnings in CNFinance of RMB11 million for the year ended December 31, 2021. Those statements were audited by other auditors whose report 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, 2022, 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 25, 2023, expressed an unqualified opinion on the Company’s internal control over financial reporting.

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 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 related 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.

Revenue recognition: Estimate of variable renewal commissions for long-term life insurance products and impact on revenue recognized — Refer to Note 2(q) to the financial statements

Critical Audit Matter Description

The Company recognized agency revenues for the life insurance business of approximately RMB2,237.3 million in 2022 of which RMB245.7 million relates to estimated variable renewal commissions for long-term life insurance products. As described in Note 2(q) to its financial statements, the Company uses the expected value method and considers constraints as well to estimate variable renewal commissions, which are contingent on future renewals of initial policies or achievement of certain performance targets. Given the material uncertainty around the future renewal of the insurance policies, the estimated renewal commissions expected to be collected are recognized as revenue only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved.

Auditing management's determination of estimated variable renewal commissions was complex and highly judgmental due to the complexity of the models used and the subjectivity required by the Company to estimate the amount for future renewals of policies, calculate the amount of commission revenue that is probable of not being reversed, and determine the timing and amount of any revenue adjustment that results from changes in the estimates of previously recorded estimated renewal commissions. The Company utilizes statistical methodologies to estimate renewal rate(s), which is a key driver when estimating the amount of future renewals of policies. To determine the constraint to be applied to estimated renewal commissions, the Company evaluates historical experiences and data and applies judgment. For the ongoing evaluation of assumptions, the Company also analyzes whether circumstances have changed and considers any known or potential modifications to the inputs into estimated renewal commissions model and the factors that can impact the amount of renewal commissions expected to be collected in future periods such as commission rates, insurance products composition, renewal terms of insurance products and changes in relevant laws and regulations. The judgment and assumptions are continuously re-evaluated and adjusted as needed along with the accumulation of historical experiences and data when new information becomes available.

Given the significant judgment required to determine the amount of estimated variable renewal commissions, performing audit procedures to evaluate the reasonableness of management's assessment required a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of the reasonableness of the Company's estimate of variable renewal commissions for long-term life insurance products discussed above included the following, among others:

- We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over the Company's process to estimate variable renewal commissions for long-term life insurance products.
- We engaged our internal actuarial specialists to assist in our evaluation of the appropriateness of the methodology, including the determination of portfolio of contracts, and assumptions used by management to estimate variable renewal commissions by benchmarking the methods and assumptions against general market practice within the insurance industry.
- We tested the completeness and accuracy of the underlying data that served as the basis for our substantial analytical procedures.
- We developed a range of independent estimates and comparing those to the renewal rate selected by management for evaluating the reasonableness of management's assumptions.
- We performed substantive analytical procedures by developing an independent expectation for comparison to the Company's estimate applying our own methods as well as assumptions with the Company's data, and evaluation of significant unexpected differences, if any.
- We performed retrospective review to compare the actual realized renewal commissions with the estimated value that has been recognized as revenues.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shenzhen, the People's Republic of China
April 25, 2023

We have served as the Company's auditor since 2021.

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 statement of income and comprehensive income, shareholders' equity, and cash flows of Fanhua Inc. and its subsidiaries (the "Company") for the year ended December 31, 2020, and the related notes and schedule I (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, and the results of its operations and its cash flows for the year 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 earnings in CNFinance of RMB18 million for the year ended December 31, 2020. This statement was audited by other auditors whose report (which, as to 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.

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.

/s/ Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 28, 2021

We began serving as the Company's auditor in 2007. In 2021 we became the predecessor auditor.

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

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$ Note 2(u)
ASSETS:			
Current assets:			
Cash and cash equivalents	564,624	567,525	82,283
Restricted cash (including restricted cash of the consolidated VIEs and VIEs' subsidiaries that can only be used to settle obligations of the VIEs of RMB24,082 and RMB15,832 as of December 31, 2021 and 2022, respectively)	76,303	59,957	8,693
Short term investments (including investments measured at fair value of RMB857,682 and RMB331,228 as of December 31, 2021 and 2022, respectively)	870,682	347,754	50,420
Accounts receivable, net of allowances of RMB27,934 and RMB15,361 as of December 31, 2021 and 2022, respectively	390,332	393,600	57,066
Contract assets, net of allowances of RMB53 and nil as of December 31, 2021 and 2022, respectively	263,425	273,954	39,720
Other receivables, net	60,755	231,049	33,499
Other current assets, net	39,947	419,735	60,856
Total current assets	2,266,068	2,293,574	332,537
Non-current assets:			
Restricted bank deposit – non-current (including restricted cash of the consolidated VIEs and VIEs' subsidiaries that can only be used to settle obligations of the VIEs of RMB6,261 and RMB11,283 as of December 31, 2021 and 2022, respectively)	15,595	20,729	3,005
Contract assets - non-current, net of allowances of RMB38 and nil as of December 31, 2021 and 2022, respectively	192,114	385,834	55,941
Property, plant, and equipment, net	46,800	98,459	14,275
Goodwill, net	109,869	109,997	15,948
Deferred tax assets	18,728	20,402	2,958
Investments in affiliates	335,808	4,035	585
Other non-current assets	31,459	11,400	1,653
Right of use assets	225,677	145,086	21,036
Total non-current assets	976,050	795,942	115,401
Total assets	3,242,118	3,089,516	447,938

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

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$ Note 2(u)
LIABILITIES AND EQUITY:			
Current liabilities:			
Short-term loan	—	35,679	5,173
Accounts payable (including accounts payable of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB4,929 and RMB8,600 as of December 31, 2021 and 2022, respectively)	335,721	362,352	52,536
Accrued commissions	41,837	74,432	10,792
Insurance premium payables (including insurance premium payables of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB24,054 and RMB16,571 as of December 31, 2021 and 2022, respectively)	24,054	16,580	2,404
Other payables and accrued expenses (including other payables and accrued expenses of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB1,601 and RMB3,267 as of December 31, 2021 and 2022, respectively)	178,157	174,326	25,275
Accrued payroll (including accrued payroll of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB2,166 and RMB10,941 as of December 31, 2021 and 2022, respectively)	111,672	96,279	13,959
Income taxes payable (including income taxes payable of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB6,617 and RMB7,509 as of December 31, 2021 and 2022, respectively)	130,222	130,024	18,852
Current operating lease liability (including current operating lease liability of the consolidated VIEs and VIEs' subsidiaries without recourse to the Company of RMB733 and RMB3,569 as of December 31, 2021 and 2022, respectively)	87,012	62,304	9,033
Total current liabilities	908,675	951,976	138,024

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

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$ Note 2(u)
Non-current liabilities:			
Accrued commissions – non-current	97,869	192,917	27,970
Other tax liabilities (including other tax liability of the consolidated VIEs and VIEs’ subsidiaries without recourse to the Company of nil and RMB26,147 as of December 31, 2021 and 2022, respectively)	73,213	36,647	5,313
Deferred tax liabilities	73,716	102,455	14,855
Non-current operating lease liability (including non-current operating lease liability of the consolidated VIEs and VIEs’ subsidiaries without recourse to the Company of RMB553 and RMB1,386 as of December 31, 2021 and 2022, respectively)	128,283	74,190	10,756
Total non-current liabilities	373,081	406,209	58,894
Total liabilities	1,281,756	1,358,185	196,918
Commitments and contingencies			
Equity:			
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued 1,073,891,784 and 1,074,291,784 shares, of which 1,073,891,784 and 1,072,842,484 shares were outstanding as of December 31, 2021 and 2022, respectively)	8,089	8,091	1,173
Treasury stock	—	(10)	(1)
Additional paid-in capital	—	461	67
Statutory reserves	557,221	559,520	81,123
Retained earnings	1,311,715	1,087,984	157,743
Accumulated other comprehensive loss	(39,140)	(32,643)	(4,733)
Total shareholders’ equity	1,837,885	1,623,403	235,372
Noncontrolling interests	122,477	107,928	15,648
Total equity	1,960,362	1,731,331	251,020
Total liabilities and shareholders’ equity	3,242,118	3,089,516	447,938

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,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$ Note 2(u)
Net revenues:				
Agency	2,834,997	2,811,936	2,376,851	344,611
Life insurance business	2,703,584	2,679,720	2,237,312	324,380
P&C insurance business	131,413	132,216	139,539	20,231
Claims adjusting	433,148	459,178	404,763	58,685
Total net revenues	3,268,145	3,271,114	2,781,614	403,296
Operating costs and expenses:				
Agency	(1,953,744)	(1,835,825)	(1,527,572)	(221,477)
Life insurance business	(1,866,227)	(1,742,640)	(1,436,606)	(208,288)
P&C insurance business	(87,517)	(93,185)	(90,966)	(13,189)
Claims adjusting	(260,121)	(279,342)	(268,031)	(38,861)
Total operating costs	(2,213,865)	(2,115,167)	(1,795,603)	(260,338)
Selling expenses	(288,460)	(306,463)	(272,706)	(39,539)
General and administrative expenses	(463,634)	(547,579)	(544,630)	(78,964)
Total operating costs and expenses	(2,965,959)	(2,969,209)	(2,612,939)	(378,841)
Income from operations	302,186	301,905	168,675	24,455
Other income, net:				
Investment income related to the realized gain on available-for-sale investments	34,789	32,898	17,809	2,582
Interest income	13,420	2,971	13,674	1,983
Others, net	11,907	33,314	(3,823)	(554)
Income before income taxes, share of income and impairment of affiliates, net	362,302	371,088	196,335	28,466
Income tax expense	(83,387)	(90,574)	(41,016)	(5,947)
Share of income of affiliates, net of impairment	(2,738)	(20,573)	(69,596)	(10,090)
Net income	276,177	259,941	85,723	12,429
Less: net income attributable to the noncontrolling interests	7,923	8,952	(14,549)	(2,109)
Net income attributable to the Company's shareholders	268,254	250,989	100,272	14,538

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

	Year Ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$ Note 2(u)
Net income per share:				
Basic	0.25	0.23	0.09	0.01
Diluted:	0.25	0.23	0.09	0.01
Shares used in calculating net income per share:				
Basic:	1,073,891,784	1,073,891,784	1,074,196,310	1,074,196,310
Diluted	1,074,291,360	1,074,291,194	1,074,457,821	1,074,457,821
Net income	276,177	259,941	85,723	12,429
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	9,639	(9,116)	3,728	541
Unrealized net gains (loss) on available-for-sale investments	23,811	6,252	(1,919)	(278)
Share of other comprehensive (loss) gain of affiliates	(3,016)	(1,281)	4,688	680
Total comprehensive income	306,611	255,796	92,220	13,372
Less: Comprehensive income (loss) attributable to the noncontrolling interests	7,923	8,952	(14,549)	(2,109)
Comprehensive income attributable to the Company's shareholders	298,688	246,844	106,769	15,481

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	Noncontrolling Interests	Total
	Number of Share	Amounts		Number of Share	Amounts			Comprehensive Loss		
		RMB	RMB		RMB	RMB	RMB	RMB	RMB	
Balance as of January 1, 2020	1,252,367,264	9,235	393	178,475,480	(1,146)	508,739	1,479,494	(65,429)	113,182	2,044,468
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 loss 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
Net income	—	—	—	—	—	—	250,989	—	8,952	259,941
Foreign currency translation	—	—	—	—	—	—	—	(9,116)	—	(9,116)
Provision for statutory reserves	—	—	—	—	—	3,310	(3,310)	—	—	—
Distribution of dividend	—	—	—	—	—	—	(242,518)	—	(7,580)	(250,098)
Unrealized net gains on available-for-sale investments	—	—	—	—	—	—	—	6,252	—	6,252
Share of other comprehensive loss of affiliates	—	—	—	—	—	—	—	(1,281)	—	(1,281)
Balance as of December 31, 2021	1,073,891,784	8,089	—	—	—	557,221	1,311,715	(39,140)	122,477	1,960,362

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	Noncontrolling Interests	Total
	Number of Share	Amounts		Number of Share	Amounts					
		RMB	RMB		RMB	RMB	RMB	RMB	RMB	RMB
Net income (loss)	—	—	—	—	—	—	100,272	—	(14,549)	85,723
Foreign currency translation	—	—	—	—	—	—	—	3,728	—	3,728
Exercise of share options	400,000	2	—	—	—	—	—	—	—	2
Repurchase of ordinary shares from open market	—	—	—	1,449,300	(10)	—	(3,974)	—	—	(3,984)
Share-based compensation	—	—	461	—	—	—	—	—	—	461
Provision for statutory reserves	—	—	—	—	—	2,299	(2,299)	—	—	—
Cash dividend	—	—	—	—	—	—	(52,069)	—	—	(52,069)
Pro rata distribution of equity method investee's shares to shareholders (Note 8)	—	—	—	—	—	—	(265,661)	—	—	(265,661)
Unrealized net loss on available-for-sale investments	—	—	—	—	—	—	—	(1,919)	—	(1,919)
Share of other comprehensive gain of affiliates	—	—	—	—	—	—	—	4,688	—	4,688
Balance as of December 31, 2022	1,074,291,784	8,091	461	1,449,300	(10)	559,520	1,087,984	(32,643)	107,928	1,731,331
Balance as of December 31, 2022 in US\$ (Note 2(u))	1,074,291,784	1,173	67	1,449,300	(1)	81,123	157,743	(4,733)	15,648	251,020

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,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$ Note 2(u)
Cash flows from operating activities:				
Net income	276,177	259,941	85,723	12,429
Adjustments to reconcile net income to net cash generated from operating activities:				
Depreciation expense	17,658	18,342	19,473	2,823
Amortization of intangible assets	281	45	—	—
Non-cash operating lease expense	95,423	101,448	90,419	13,109
Provision for (reversal of) allowance for credit losses on financial assets	18,837	(235)	30,701	4,451
Compensation expenses associated with stock options	(393)	—	461	67
Loss on disposal of property, plant and equipment	1,295	1,394	2,825	410
Investment income	(14,321)	(3,171)	(10,963)	(1,590)
Gain on disposal of subsidiaries	—	(2,051)	—	—
Share of income of affiliates, net of impairment	2,738	20,573	69,596	10,090
Deferred taxes	15,778	23,905	27,845	4,037
Interest accrued for other receivables (loan receivables)	—	—	(3,353)	(486)
Changes in operating assets and liabilities:				
Accounts receivable	157,844	(5,528)	(1,491)	(216)
Contract assets	(67,294)	(257,182)	(204,249)	(29,613)
Insurance premium receivables	5,067	—	—	—
Other receivables	4,452	(31,066)	37,262	5,402
Other current assets	13,839	1,201	8,623	1,250
Other non-current assets	2,245	2,284	(51)	(7)
Accounts payable	(5,496)	(37,104)	22,099	3,204
Accrued commissions	—	139,706	127,643	18,506
Insurance premium payables	17,520	(1,367)	(7,375)	(1,068)
Other payables and accrued expenses	(32,159)	(131)	(16,264)	(2,358)
Accrued payroll	4,075	6,265	(15,771)	(2,286)
Income taxes payable	(9,269)	(15,880)	(262)	(38)
Lease liability	(98,866)	(101,186)	(88,573)	(12,842)
Other tax liabilities	(3,131)	5,995	(36,566)	(5,302)
Net cash generated from operating activities	402,300	126,198	137,752	19,972
Cash flows from investing activities:				
Purchase of short term investments	(7,947,662)	(8,184,363)	(2,550,300)	(369,759)
Proceeds from disposal of short term investments	8,287,924	8,646,532	3,239,556	469,691
Purchase of property, plant and equipment	(15,250)	(30,785)	(77,746)	(11,272)
Proceeds from disposal of property and equipment	324	1,025	3,799	551
Disposal of subsidiaries, net of cash disposed of nil, RMB2,040 and nil in 2020, 2021 and 2022, respectively	—	960	—	—
Cash lent to third parties	(90,000)	—	(205,800)	(29,838)

FANHUA INC.
Consolidated Statements of Cash Flows—(Continued)
(In thousands)

	Year Ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$ Note 2(u)
Repayment of loan receivables from third parties	90,000	6,830	24,500	3,552
Prepayment for purchase of short-term investments	—	—	(540,000)	(78,293)
Payment for business acquisition, net of cash acquired	—	—	(21,571)	(3,127)
Others	—	10,200	—	—
Net cash generated from (used in) investing activities	325,336	450,399	(127,562)	(18,495)
Cash flows from financing activities:				
Proceeds from bank borrowings	—	—	35,679	5,173
Repayment of refundable share rights deposits to the 521 Plan participants	(250,312)	—	—	—
Dividends paid	(388,499)	(242,518)	(52,069)	(7,549)
Dividend distributed to noncontrolling interest	—	(7,580)	—	—
Repurchase of ordinary shares from open market	—	—	(3,984)	(578)
Others	—	(10,200)	3	—
Net cash used in financing activities	(638,811)	(260,298)	(20,371)	(2,954)
Net increase (decrease) in cash and cash equivalents, and restricted cash	88,825	316,299	(10,181)	(1,477)
Cash and cash equivalents and restricted cash at beginning of year	265,605	350,098	656,522	95,187
Effect of exchange rate changes on cash and cash equivalents	(4,332)	(9,875)	1,870	271
Cash and cash equivalents and restricted cash at the end of the year	350,098	656,522	648,211	93,981
Reconciliation in amounts on the consolidated balance sheets:				
Cash and cash equivalents at the end of the year	245,428	564,624	567,525	82,283
Restricted cash at the end of the year	104,670	91,898	80,686	11,698
Total of cash and cash equivalents and restricted cash at the end of the year	350,098	656,522	648,211	93,981
Supplemental disclosure of cash flow information:				
Income taxes paid	79,063	74,323	47,029	6,819
Supplemental disclosure of non-cash operating activity:				
Effect on operating assets upon the adoption of ASU 2016-13 on January 1, 2020	7,523	—	—	—

FANHUA INC.
Consolidated Statements of Cash Flows—(Continued)
(In thousands)

	Year Ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$ Note 2(u)
Supplemental disclosure of non-cash investing activities:				
Right-of-use assets obtained in exchange for lease obligations, net of decrease of right-of-use assets for early terminations	108,178	125,487	4,462	647
Supplemental disclosure of non-cash financing activities:				
Dividend distribution in equity method investee's shares	—	—	265,661	38,517

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 the consolidated 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 order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates certain of its businesses which are subject to restrictions in the PRC through PRC domestic companies, whose equity interests are held by certain individuals (“Nominee Shareholders”). The Group obtained control over these PRC domestic companies by entering into a series of contractual arrangements with these PRC domestic companies and their respective Nominee Shareholders. Management concluded that these PRC domestic companies are consolidated VIEs of the Group, of which the Group is the primary beneficiary. As such, the Group consolidated the financial results of these PRC domestic companies and their subsidiaries in the Group’s consolidated financial statements. See Note 10 for details.

(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 evaluates estimates, including those related to the amounts of variable considerations of revenue contracts with respect to long-term life insurance products, the allowance for credit losses of accounts receivable, contract assets, other receivables, fair values of certain debt and equity investments, the useful lives of property, plant and equipment, impairment of long-lived assets, goodwill, investments in affiliates and other long-term equity investments, and deferred tax valuation allowance among others. The Group, based 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. Actual results could differ from those estimates.

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

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 that are readily convertible to known amounts of cash, and have insignificant risk of changes in value related to changes in interest rates.

In its capacity as an insurance agent, the Group collects premiums from the insureds and remits the premiums to the appropriate insurance companies. Accordingly, as reported in the consolidated statements of balance sheets, “premiums” are receivables from the insureds of RMB24,459 and RMB15,847 as of December 31, 2021 and 2022, 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 RMB51,844 and RMB44,110 as of December 31, 2021 and 2022, 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. The balance for guarantee was RMB15,595 and RMB20,729 as of December 31, 2021 and 2022, respectively.

(d) Short Term Investments

All highly liquid investments with original maturities less than twelve months or investments that are expected to be realized in cash during the next twelve months are classified as short-term investments. The Group accounts for short-term debt investments in accordance with ASC Topic 320, *Investments – Debt Securities* (“ASC 320”). The Company classifies the short-term investments in debt securities as held-to-maturity or available-for-sale, whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized.

Securities that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost less allowance for credit losses. The Group has no debt investments classified as trading. The Group’s short term investments are mainly available-for-sale 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.

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

(2) Summary of Significant Accounting Policies (Continued)

(d) Short Term Investments (Continued)

The Group evaluates each individual available-for-sale debt securities 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 income 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, 2022, there were no investments held by the Group that had been in continuous unrealized loss position.

No impairment loss on short term investments was identified for years ended December 31, 2020, 2021 and 2022, respectively.

(e) Accounts Receivable and Contract Assets

Accounts receivable are recorded at the amount that the Group expects to collect and do not bear interest. Accounts receivables represent fees receivable on agency and claims adjusting services primarily from insurance companies.

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, the age of the accounts receivable and contract assets balances, 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 and Contract Assets, net is analyzed as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Accounts receivable	418,266	408,961
Contract Assets (See Note 2(q))	455,630	659,788
Allowance for doubtful accounts	(28,025)	(15,361)
Accounts receivable and Contract Assets, net	<u>845,871</u>	<u>1,053,388</u>

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 Contract Assets (Continued)

The following table summarizes the movement of the Group's allowance for expected credit losses of accounts receivable and contract assets:

	<u>2020</u>	<u>2021</u>	<u>2022</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Balance at the beginning of the year	20,495	29,000	28,025
Cumulative-effect adjustment upon adoption of ASU 2016-13	7,436	—	—
Current period provision (reversal of) for expected credit losses	4,831	2,095	(1,378)
Write-offs	(3,762)	(3,070)	(11,286)
Balance at the end of the year	<u>29,000</u>	<u>28,025</u>	<u>15,361</u>

(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:

	<u>Estimated useful life (Years)</u>	<u>Estimated residual value</u>
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:

	<u>2020</u>	<u>2021</u>	<u>2022</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Operating costs	199	791	822
Selling expenses	7,350	5,778	5,106
General and administrative expenses	10,109	11,773	13,545
Depreciation expense	<u>17,658</u>	<u>18,342</u>	<u>19,473</u>

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) Business combinations and non-controlling interests

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Transactions in which the acquired is considered a business are accounted for as a business combination as described below. Conversely, transactions not considered as business acquisition are accounted for as acquisition of assets and liabilities. In such transactions, the cost of acquisition is allocated proportionately to the acquired identifiable assets and liabilities, based on their proportionate fair value on the acquisition date. In an assets acquisition, no goodwill is recognized, and no deferred taxes are recognized in respect of the temporary differences existing on the acquisition date.

The Group accounts for its business combinations using the acquisition method of accounting in accordance with ASC 805 “Business Combinations”. The cost of an acquisition is measured as the aggregate of the acquisition date fair value of the assets transferred, liabilities incurred by the Group to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total costs of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill.

For the Group’s majority-owned subsidiaries, VIEs and subsidiaries of VIEs, a non-controlling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Group. Consolidated net income on the consolidated statements of income and comprehensive income includes the net income attributable to non-controlling interests. The cumulative results of operations attributable to non-controlling interests, are recorded as non-controlling interests on the Group’s consolidated balance sheets.

(h) 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 years ended December 31, 2021 and 2022.

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.

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

(2) Summary of Significant Accounting Policies (Continued)

(h) Goodwill and Other Intangible Assets (Continued)

Goodwill and amortization of intangible assets (Continued)

In 2021 and 2022, 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, 2021 and 2022, respectively.

Identifiable intangible 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 is computed using the accelerated method, while amortization for other identifiable intangible assets is computed using the straight-line method over the intangible assets’ economic lives. Intangible assets with indefinite economic lives are not amortized but carried at cost less any subsequent accumulated impairment losses. If an intangible asset that is not being amortized is subsequently determined to have a finite economic life, it will be tested for impairment and then amortized prospectively over its estimated remaining economic life and accounted for in the same manner as other intangible assets that are subject to amortization. Intangible assets with indefinite economic lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

The intangible assets, net consisted of trade names with a cost of RMB8,898 as of December 31, 2021 and 2022, respectively. The trade names have an estimated useful life of 9.4 to 10 years and accumulated amortization of RMB8,898 as of December 31, 2021 and 2022, respectively. The residual balance is nil as of December 31, 2021 and 2022, respectively. Aggregate amortization expenses for intangible assets were RMB281, RMB44 and nil for the years ended December 31, 2020, 2021 and 2022, respectively.

Impairment of intangible assets with definite lives

The Group evaluates the recoverability of identifiable intangible assets with determinable useful lives whenever events or changes in circumstances indicate that these assets’ carrying amounts may not be recoverable. The Group measures the carrying amount of identifiable intangible 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. The Group recognized no impairment losses on identifiable intangible assets with determinable useful lives in the years ended December 31, 2020, 2021 and 2022.

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 a potential purchase quote from a third party, if any. The Group recognized no impairment losses on its indefinite-lived intangible assets in the years ended December 31, 2020, 2021 and 2022.

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(2) Summary of Significant Accounting Policies (Continued)

(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 publicly 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.

(j) Long-term Equity Investments

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

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. Significant judgments are required to determine whether observable price changes are orderly transactions and identical or similar to an investment held by the Group.

During 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 value 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. If a qualitative assessment indicates that the investment is impaired, the entity has to estimate the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the Group recognizes an impairment loss in earnings equal to the difference between the carrying value and fair value.

The Group recorded an impairment of RMB10,929, nil and RMB20,110 during the years ended December 31, 2020, 2021 and 2022, respectively, in the consolidated statements of income and comprehensive income.

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(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.

(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 records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Group recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Group recognizes interest and penalties related to unrecognized tax benefits, if any, on the income tax expense line in the accompanying consolidated statement of income and comprehensive income. Accrued interest or penalties are included on the other tax liabilities line in the consolidated balance sheets.

(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. The Group has made an accounting policy election to account for forfeitures when they occur for an award with only service conditions. For an award with a performance condition, the Group continues to assess at each reporting period whether it is probable that the performance condition will be achieved. No compensation cost is recognized for instruments that employees and nonemployees forfeit because a service condition or a performance condition is not satisfied.

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(2) Summary of Significant Accounting Policies (Continued)

(o) Share-based Compensation (Continued)

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

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.

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(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.

Share-based compensation expenses of RMB(393), nil and RMB461 for the years ended December 31, 2020, 2021 and 2022, respectively, were included in the selling, general and administrative expenses. During fiscal year ended December 31, 2020, the Group reversed cumulative cost recognized in prior periods as the stock option were not probable to be vested because the performance target was not probable to be met.

(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

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 "Revenue from Contracts with Customers" ("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.

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(2) Summary of Significant Accounting Policies (Continued)

(q) Revenue Recognition (Continued)

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 an 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 premiums 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 0.1% of the total commission and fee revenues during years ended December 31, 2020, 2021 and 2022, 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, 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 are 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.

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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)

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 represents 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, 2020, 2021 and 2022, the Group recognized contingent performance bonus of RMB17,265, RMB3,887 and RMB11,387, 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 represents 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 when determining the amount which should be included in the transaction price.

For years prior to 2021, 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 is 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.

The Group performs ongoing evaluation of the appropriateness of the constraint applied, and will consider the sufficiency of evidence that would suggest that the long-term expectation underlying the assumptions has changed. Starting from January 1, 2021, the Group believes that it has already accumulated adequate scale of historical data and experiences at a confidence level that through which the Group can utilize to make a reasonable estimate of variable considerations over its portfolio of contracts. The estimated renewal commissions are contingent on future renewals of initial policies or achievement of certain performance targets. Given the material uncertainty around the future renewal of the insurance policies, the estimated renewal commissions expected to be collected are recognized as revenue only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved. The judgment and assumptions are continuously re-evaluated and adjusted as needed along with the accumulation of historical experiences and data when new information becomes available. Actual renewal commissions in the future may differ significantly from those previously estimated.

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(2) Summary of Significant Accounting Policies (Continued)

(q) Revenue Recognition (Continued)

Insurance agency services revenue (Continued)

Renewals of a life insurance policy (Continued)

For the year ended December 31, 2020, 2021 and 2022, the Group recognized revenues related to estimated variable renewal commissions with respect to long-term life insurance products amounting to nil, RMB258,715 and RMB245,717, respectively.

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, 2021 and 2022 are all derived from contracts with customers.

Started in 2021, the Group recognized revenues and correspondent contract assets derived from estimated renewal commissions. Accordingly, the Group presented separately, in the consolidated balance sheets as of December 31, 2021 and 2022, respectively.

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

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 income 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 RMB20,610, RMB19,235 and RMB14,681 for the years ended December 31, 2020, 2021 and 2022, respectively.

Total value-added taxes paid by the Group during the years ended December 31, 2020, 2021 and 2022 amounted to RMB179,663, RMB179,183 and RMB130,743 respectively.

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(2) Summary of Significant Accounting Policies (Continued)

(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 payables, other receivables, accounts payable and other payables, approximate their fair values due to the short-term nature of these instruments.

Measured at fair value on a recurring basis

As of December 31, 2021 and 2022, 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, 2021	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	857,682	—	857,682	—

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(2) Summary of Significant Accounting Policies (Continued)

(r) Fair Value of Financial Instruments (Continued)

Measured at fair value on a recurring basis (Continued)

Description	As of December 31, 2022	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	331,228	—	331,228	—

The majority of debt security consists of investments in bank financial products, 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 the 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.

Goodwill (Note 7) and intangible assets (Note 2(h)) 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 8) 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.

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(2) Summary of Significant Accounting Policies (Continued)

(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 RMB595,428 and RMB600,901 of cash and cash equivalents and restricted cash denominated in RMB as of December 31, 2021 and 2022, respectively.

(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 = RMB6.8972, representing the noon buying rate in the City of New York for cable transfers of RMB on December 30, 2022, the last business day in fiscal year 2022, 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, 2021 and 2022, 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. 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 21(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 and no impact in 2021 and 2022.

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(2) Summary of Significant Accounting Policies (Continued)

(x) Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to RMB37,389, RMB35,300 and RMB18,822 for the years ended December 31, 2020, 2021 and 2022, respectively.

(y) Leases

The Group leases office space, vehicles and certain equipment under operating leases for terms ranging from short term (under 12 months) to 7 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 7 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 statements of 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.

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, 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 components. Therefore, the Group does not allocate the consideration in the contract to the separate lease component and the non-lease components.

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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(2) Summary of Significant Accounting Policies (Continued)

(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) Government grants

Government grants primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. The Group records such government subsidies as other income or reduction of expenses or cost of revenues when it has fulfilled all of its obligation related to the subsidy. The Group recognized RMB27,352, RMB17,448 and RMB10,396 in the year ended December 31, 2020, 2021 and 2022.

(ab) Recently Adopted Accounting Pronouncements

Government Assistance (Topic 832) – In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance (“ASU 2021-10”)*. It requires issuers to make annual disclosures about government assistance, including the nature of the transaction, the related accounting policy, the financial statement line items affected and the amounts applicable to each financial statement line item, as well as any significant terms and conditions, including commitments and contingencies. The amendments in this Update are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. The Company adopted this guidance on January 1, 2022 with no material impact on its audited consolidated financial statements.

Business Combinations (Topic 805) – In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (“ASU 2021-08”)*, which provides guidance on the acquirer’s accounting for acquired revenue contracts with customers in a business combination. The amendments require an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination at the acquisition date in accordance with ASC 606 as if it had originated the contracts. This guidance also provides certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination. The new guidance should be applied prospectively to business combinations occurring on or after the date of adoption. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods therein. Early adoption is permitted. The Group early adopted the new standard beginning January 1, 2022 with no material impact on the consolidated financial statements.

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(3) Acquisitions and disposals

Acquisition of an agency intermediate company in 2022

In August of 2022, to support the Group’s new strategy on “Open Platform”, the Group acquired 100% equity interest in an agency intermediate for cash consideration of RMB31,390. The Group accounted for this acquisition as business combination.

The consideration, fair value of assets acquired and liabilities assumed, as well as goodwill resulted from the acquisition are as follows:

	RMB
Consideration:	
Cash	31,390
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	9,819
Short term investments	5,360
Accounts receivables	401
Other receivable and current assets	33,192
Property and equipment	11
Right of use assets	521
Total assets acquired	49,304
Accounts payables	(4,532)
Accrued expenses and other current liabilities	(13,045)
Lease liability	(465)
Total liabilities assumed	(18,042)
Net assets acquired	31,262
Goodwill	128

Goodwill arising from the acquisition of this agency intermediate was attributable to the benefit of expected synergies as of the date of acquisition and recorded in insurance agency segment. The resulted goodwill is not expected to be tax deductible for tax purposes.

The result of operation of aforementioned acquisition has been consolidated by the Group from August 2022, and the results of operations for the aforementioned acquisition is not material to the Group’s consolidated financial statements as a whole.

Pro forma financial information is not presented for the aforementioned business acquisition in the fiscal year 2022 as it is immaterial to the reported results.

Disposal of subsidiaries in 2021

In 2021, the Group disposed of two subsidiaries for a total consideration of RMB3,600 and recognized a gain of RMB2,051 in aggregate. As of December 31, 2021, RMB600 of the consideration remained outstanding as a payable which was subsequently settled in 2022.

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(4) Other Receivables, net

Other receivables, net consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Advances to staff (i)	16,437	11,397
Advances to entrepreneurial agents (i)	907	81
Advances to a third party channel vendor (ii)	17,898	22,818
Rental deposits	21,864	19,535
Amount due from third parties (iii)	—	183,353
Other	4,451	4,841
Less: Allowance for current expected credit losses	(802)	(10,976)
Other receivables, net	<u>60,755</u>	<u>231,049</u>

- (i) Amounts represented advances to staffs or entrepreneurial agents of the Group for daily business operations, which are unsecured, interest-free and repayable on demand.
- (ii) Amount represented advances to Shenzhen Chetong Technology Co., Ltd. (“Chetong”) who provides platform services to the Group. The advances were unsecured, interest-free and repayable on demand. With the cease of cooperation with Chetong in 2022, the Group requested repayment of the advances. The Group estimated the net amount expected to be collected was RMB14,736 and accordingly recorded an allowance for credit losses of RMB8,082 in others, net of the consolidated statement of income and comprehensive income.
- (iii) Amount represented 1) term-loan (matures in June 2023) to Sichuan Tianyi Real Estate Development Co., Ltd. (“Sichuan Tianyi”) of RMB80,000 and corresponding interest receivable RMB3,353 as of December 31, 2022. The loan is guaranteed by the ultimate controlling owner of Sichuan Tianyi, whom is jointly liable, with interest rate 7.2% per annum. 2) term-loan (matures in June 2023) to Shenzhen Yingxin Asset Management Co., Ltd. of RMB100,000 as of December 31, 2022, with the interest rate 7.3% per annum. The interest accrued until December 31, 2022 has been paid. These loan receivables are expected to be settled within one year.

(5) Property, Plant and Equipment, net

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

	As of December 31,	
	2021	2022
	RMB	RMB
Building	12,317	12,317
Office equipment, furniture and fixtures	141,313	162,573
Motor vehicles	19,694	18,641
Leasehold improvements	36,791	39,993
Total	210,115	233,524
Less: Accumulated depreciation	(163,315)	(191,945)
Construction in progress	—	56,880
	<u>46,800</u>	<u>98,459</u>

No impairment for property, plant and equipment was recorded for the years ended December 31, 2020, 2021 and 2022.

(6) Other current assets, net

Other current assets consist of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Prepayment for acquisition of short-term investments	—	390,000
Prepaid operating costs	15,206	12,594
Prepaid miscellaneous daily expenses	22,744	16,146
Other	1,997	2,790
Less: Allowance for current expected credit losses	—	(1,795)
	<u>39,947</u>	<u>419,735</u>

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(7) Goodwill, net

The gross amount of goodwill and accumulated impairment losses by reporting unit as of December 31, 2021 and 2022 are as follows:

	Agency segment RMB	Claims Adjusting segment RMB	Total RMB
Gross as of December 31, 2021	131,977	21,137	153,114
Addition in 2022	128	—	128
Accumulated impairment loss as of December 31, 2021 and 2022	(22,108)	(21,137)	(43,245)
Net as of December 31, 2021	109,869	—	109,869
Net as of December 31, 2022	109,997	—	109,997

The Group performed annual impairment analysis as of the balance sheet date. No impairment loss was recognized in goodwill for the years ended December 31, 2020, 2021 and 2022.

(8) Investments in Affiliates

As of December 31, 2021 and 2022, the Group's investments accounted for under the equity method were as follows:

	As of December 31,	
	2021 RMB	2022 RMB
CNFinance	329,158	—
Others	6,650	4,035
Total	335,808	4,035

Investment in CNFinance Holdings Limited (“CNFinance”)

The Group invested 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 member out of seven.

On May 27, 2022 (the “Declare Date”), the board of directors authorized and approved the Group's distribution of 252,995,600 ordinary shares of CNFinance to its shareholders on a pro rata basis. The distribution was completed on June 28, 2022, after which the Group's equity stake in CNFinance decreased from approximately 18.5% to approximately 0.01%. Upon the completion of the distribution, the Company ceased to account for the remaining equity investment in CNFinance using equity method as the Company no longer has significant influence over this investee. For the year ended December 31, 2022, due to the continued decline in the share price of CNFinance, the Group recognized an other-than-temporary impairment of RMB78,277 (for the year ended December 31, 2021 RMB29,316) to reduce the carrying value of the investment to reflect the market value of the shares held by the Group up to the date of disposal.

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

	As of December 31, 2021 RMB	
Statements of Balance Sheet		
Total assets		14,883,038
Total liabilities		10,783,449
	Year Ended December 31,	
	2020 RMB	2021 RMB
Results of Operation		
Income from operations	115,656	1,462
Net profit (loss)	89,820	(7,089)

Upon the completion of the disposal of CNFinance, the remaining two investees did not meet the significance test in accordance with SEC Regulation S-X, Rule 1-02(w) (i.e., the asset, investment, or income test). In accordance with SEC Regulation S-X, Rules 4-08(g), the Group did not disclose the investee's summarized financial information for the year ended December 31, 2022.

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(9) Leases

The Group's lease for office space include only fixed rental payments with no variable lease payment terms. As of December 31, 2021 and 2022, there were no leases that have not yet commenced.

The following represents the aggregate ROU assets and related lease liabilities as of December 31, 2021 and 2022:

	As of December 31,	
	2021	2022
	RMB	RMB
Operating lease ROU assets	225,677	145,086
Current operating lease liability	87,012	62,304
Non-current operating lease liability	128,283	74,190
Total operating leased liabilities	215,295	136,494

The weighted average lease term and discount rate as of December 31, 2021 and 2022 were as follows:

	As of December 31,	
	2021	2022
	Weighted average lease term:	
Operating leases	3.37	2.83
Weighted average discount rate:		
Operating leases	4.41%	4.28%

The components of lease expenses for the years ended December 31, 2021 and 2022 were as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Operating lease expense	111,197	97,576
Short term lease expense	3,373	1,227
Total	114,570	98,803

Supplemental cash flow information related to leases for the years ended December 31, 2021 and 2022 were as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	99,150	90,438
Supplemental noncash information:		
Right-of-use assets obtained in exchange for lease obligations net of decrease in right-of-use assets for early determinations	125,487	4,462

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(9) Leases (Continued)

Maturities of lease liabilities at December 31, 2022:

	Minimum Lease Payment
	RMB
Year ending December 31:	
2023	66,924
2024	37,435
2025	22,498
2026	13,516
2027	3,135
Thereafter	2,162
Total remaining undiscounted lease payments	145,670
Less: Interest	9,176
Total present value of lease liabilities	136,494
Less: Current operating lease liability	62,304
Non-current operating lease liability	74,190

(10) Variable Interest Entities (“VIEs”)

VIE related to Xinbao Investment and Fanhua RONS Technologies

The Measures on the Supervision of Internet Insurance Business implemented in February 2021 requires an insurance institution conducts online insurance business through its own online platform who owns the domain name.

Fanhua RONS Insurance Sales & Services Co., Ltd., (“Fanhua RONS”), a wholly-owned subsidiary of Shenzhen Xinbao Investment Co., Ltd. (“Xinbao Investment”), used to conduct its online P&C insurance business through an online platform (www.baoxian.com) owned and operated by another subsidiary within the Group. To comply with the newly implemented rules, the Group transferred the domain name and ICP license to Fanhua RONS. As the applicant for an ICP license may be subject to foreign investment restriction, the Group commenced a restructuring to re-establish the VIE structure.

Xinbao Investment was a wholly owned subsidiary of the Group who in December 2021 became 49% owned by the Group where the remaining 51% equity interests were transferred to Mr. Shuangping Jiang at nominal value who holds the interest on behalf of the Group, because Xinbao Investment is, under the new rule, prohibited to own more than 50% of the equity interests in a value-added telecommunications service provider, i.e., Fanhua RONS.

Through the contractual arrangements entered in December 2021, with Xinbao Investment and its nominee shareholder, the Group has the power to direct the activities that most significantly impact to and entitles to receive economic benefits from Xinbao Investment, the consolidated VIE.

In preparation for the application of an ICP license for Fanhua RONS (Beijing) Technology Co., Ltd. (“Fanhua RONS Technologies”), in July 2022, Beijing Fanlian Investment Co., Ltd. (“Fanlian Investment”), a wholly owned subsidiary, transferred its entire equity interests holding in Fanhua RONS Technologies to Mr. Peng Ge, the chief financial officer of the Group, who holds the equity interests on behalf of Fanlian Investment. Concurrently, Fanlian Investment entered into contractual arrangements with Fanhua RONS Technologies and Mr. Ge which are substantially similar to those among Fanhua Group Company, Xinbao Investment and its individual nominee shareholder.

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(10) Variable Interest Entities (“VIEs”) (Continued)

VIE related to Xinbao Investment and Fanhua RONS Technologies (Continued)

As a result, the Group currently conducts its insurance agency and claims adjusting business in China primarily through its wholly-owned subsidiaries Fanhua Group Company and Fanlian Investment (collectively the “relevant PRC entities”), and its subsidiaries and the VIEs for part of its online insurance business in China. The following is a summary of the contractual agreements that the Group entered into with Xinbao Investment, Fanhua RONS Technologies and their individual nominee shareholders:

Agreements that Provide the Group Effective Control over Xinbao Investment and Fanhua RONS Technologies

• ***Loan Agreement***

Mr. Jiang and Mr. Ge (collectively the “nominee shareholders”) entered into a loan agreement, with the Group’s wholly-owned subsidiaries. The principal loan amounts equal to the capital contributions to VIEs.

The term of the loan agreement is for ten years, which may be extended only upon written agreement of the parties. If the loan is not extended, then upon its expiration and subject to then applicable PRC laws, the loan can be repaid only with the proceeds from a transfer of the individual shareholder’s equity interests in VIEs to relevant PRC entities or another person or entity designated by them. Relevant PRC entities may accelerate the loan repayment upon certain events, including but not limited to if the individual shareholder resigns or is dismissed from employment by us or if relevant PRC entities exercise its option to purchase the shareholder’s equity interests in VIEs pursuant to the exclusive purchase option agreements described below.

• ***Equity Pledge Agreement***

Relevant nominee shareholders entered into an equity pledge agreement, pledging their respective equity interests in VIEs to relevant PRC entities to secure their obligations under the loan agreement. Relevant nominee shareholders also agreed not to transfer or create any encumbrances adverse to relevant PRC entities on their equity interests in VIEs. During the term of the equity pledge agreement, relevant PRC entities are entitled to all the dividends declared on the pledged equity interests. The equity pledge agreements will expire when the individual shareholders fully performs their respective obligations under the loan agreement. The equity pledge was recorded on the shareholder’ register of VIEs, and registered with the relevant local administration of industry and commerce.

• ***Power of Attorney***

Relevant nominee shareholders executed powers of attorney, each appointing a person designated by relevant PRC entities as his attorney-in-fact on all matters requiring shareholder approval. Further, if relevant PRC entities designate the shareholder to attend a shareholder’s meeting of VIEs, the individual shareholder agrees to vote his shares as instructed by relevant PRC entities. The term of the power of attorney is for ten years.

Agreements that Transfer Economic Benefits to the Group

• ***Exclusive Purchase Option Agreement***

Relevant nominee shareholders entered into an exclusive purchase option agreement to irrevocably grant relevant PRC entities an exclusive option to purchase part or all of their equity interests in VIEs, when and to the extent permitted by PRC law. The purchase price will be the minimum price permitted under applicable PRC law.

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(10) Variable Interest Entities (“VIEs”) (Continued)

VIE related to Xinbao Investment and Fanhua RONS Technologies (Continued)

Agreements that Transfer Economic Benefits to the Group (Continued)

• ***Technology Consulting and Service Agreement***

Pursuant to technology service agreements between (i) relevant PRC entities, and (ii) VIEs, relevant PRC entities agreed to provide VIEs with training services and consulting and other services relating to IT platform and internal control compliance. In exchange, VIEs agree to pay a quarterly fee calculated primarily based on a percentage of its revenues. The agreement has a term of one year and can be renewed each year upon mutual agreement.

Because of contractual arrangements with VIEs and their nominee shareholders, the Group is the primary beneficiary of VIEs and their subsidiaries and consolidated them into consolidated financial statements.

VIEs related to the 521 Plan

On June 14, 2018, the Group announced that its board of directors 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 in exchange for employee and non-employee services, if service and performance conditions are achieved. 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.

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:

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 years or upon termination of agency relationship and employment relationship or the settlement of the loan, whichever comes first.

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(10) Variable Interest Entities (“VIEs”) (Continued)

VIE related to Xinbao Investment and Fanhua RONS Technologies (Continued)

Agreements that Transfer Economic Benefits to the Group (Continued)

VIEs related to the 521 Plan (Continued)

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 has 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 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.

As disclosed in Note 21(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.

In December 2020, upon the cancellation of the 521 Plan, the Group refunded all share rights deposits amounted to RMB266,901 back to the Participants which was presented as cash outflows from financing activities.

Risks in relation to the VIE Arrangement (Continued)

In the opinion of the Company’s legal counsel, (i) the ownership structure relating to the consolidated VIEs of the Company is in compliance with PRC laws and regulations; (ii) the contractual arrangements with the consolidated VIEs and the individual shareholders are legal, valid and binding obligation of such party, and enforceable against such party in accordance with their respective terms; and (iii) the execution, delivery and performance of the consolidated VIEs and its shareholders do not result in any violation of the provisions of the articles of association and business licenses of the VIEs, and any violation of any current PRC laws and regulations.

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(10) Variable Interest Entities (“VIEs”) (Continued)

Risks in relation to the VIE Arrangement (Continued)

Uncertainties in the PRC legal system could cause the Company’s current corporate structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company’s ability, through the Primary Beneficiary, to enforce its rights under these contractual arrangements. Furthermore, the shareholders of the VIEs may have interests that are different from those of the Company, which could potentially increase the risk that the shareholders would seek to breach the existing terms of the aforementioned agreements.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC laws, the Company may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Company’s business and operating licenses, being required to restructure the Company’s operations or discontinue the Company’s operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company’s ability to conduct its operations. In such case, the Company may not be able to operate or control VIEs, which may result in deconsolidation of VIEs.

Summarized below is the information related to VIEs, including total assets, total current liabilities, total liabilities, net revenues, total operating costs and expenses, net income (loss) and cash flows after intercompany elimination are as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Total assets	69,792	102,965
Total current liabilities	(40,100)	(50,457)
Total liabilities	(40,653)	(77,990)

	Year Ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Net revenues	—	16,267	141,086
Operating costs and expenses	—	1,814	67,788
Net income (loss)	—	14,431	(4,136)
Net cash generated from operating activities	—	48,923	98,715
Net cash used in financing activities	(266,901)	—	—

As of December 31, 2022 there were no consolidated VIE assets that are collateral for the VIE’s obligations or are restricted solely to settle the VIEs’ obligations, other than aforementioned in the restricted cash as described in Note 2(c). In the year ended December 31, 2022, aggregate revenues derived from these VIEs contributed 5.1% of the total consolidated net revenues, based on the corporate structure as of the end of 2022. As of December 31, 2022, the VIEs accounted for an aggregate of 3.3% of the consolidated total assets. The creditors of the VIEs’ third-party liabilities did not have recourse to the general credit of the Company in normal course of business. The Company has not provided any financial support that it was not previously contractually required to provide to the VIEs.

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(11) Other Payables and Accrued Expenses

Components of other payables and accrued expenses are as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Business and other tax payables	65,228	77,502
Refundable deposits from employees and agents	21,284	19,789
Professional fees	8,998	3,586
Accrued expenses to third parties	23,719	29,861
Contributions from members of eHuzhu mutual aid program (Note 2(c))	51,144	43,140
Others	7,784	448
Total	178,157	174,326

(12) Short-term loan

Short-term loans and total outstanding balance as of December 31, 2021 and 2022 amounted to nil and RMB35,679, respectively, which is RMB-denominated borrowing made by the Company's subsidiaries from financial institutions in mainland China. In 2022, insurance agency segment borrowed RMB35,679 one-year loan for its general working capital purposes.

As of December 31, 2021 and 2022, the weighted average interest rates for the outstanding borrowings were approximately nil and 4.50%, respectively, and the aggregate amounts of unused lines of credit for short-term loans were nil and RMB164,321, respectively.

(13) 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 a 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, 2020, 2021 and 2022, the Group contributed and accrued RMB52,942, RMB118,837 and RMB131,385, respectively.

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(14) 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 its income or capital gains. In addition, upon any payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

Subsidiaries in Hong Kong are subject to Hong Kong Profits Tax rate at 16.5%, and foreign-derived income is exempted from income tax. Under the two-tiered profits tax rates regime, 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, 2020, 2021 and 2022.

The Group's subsidiaries and VIEs incorporated in the PRC are subject to the PRC Enterprise Income Tax and a unified 25% enterprise income tax rate, except for certain entities that are entitled to preferential tax treatments.

Preferential EIT rates at 15% is available for qualified enterprises located in the western China regions in an industry sector encouraged by the PRC government. Fanhua Lianxing Insurance Sales Co., Ltd., the Group's wholly-owned subsidiary, which is the holding entity of the Group's life insurance operations, was entitled to a preferential tax rate of 15% for the years ended December 31, 2020, 2021 and 2022, respectively. Tibet Zhuli Investment Co. Ltd. ("Tibet Zhuli"), the Group's wholly-owned subsidiary, was entitled to a preferential tax rate of 15% for the year ended December 31, 2020. Tibet Zhuli no longer enjoys such a preferential rate from 2021 to 2022.

Pursuant to the relevant laws and regulations in the PRC, Shenzhen Huazhong United Technology Co., Ltd. ("Shenzhen Huazhong"), a subsidiary 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 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, 2020 and 2021, Shenzhen Huazhong no longer enjoys such a preferential rate from 2022.

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 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, 2020, 2021 and 2022 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, 2021 and 2022, the balance of unrecognized tax benefits is comprised of amounts mainly arising from gain on disposal of subsidiaries and certain transfer pricing arrangements.

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(14) Income Taxes (Continued)

The movements of unrecognized tax benefits are as follows:

	RMB
Balance as of January 1, 2020	70,350
Change in unrecognized tax benefits	—
Decrease in tax positions	(3,131)
Balance as of December 31, 2020	67,219
Change in unrecognized tax benefits	—
Increase in tax positions	5,994
Balance as of December 31, 2021	73,213
Change in unrecognized tax benefits	—
Decrease in tax positions	(36,566)
Balance as of December 31, 2022	36,647

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 benefits 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 amounting to RMB36,566 when its statute of limitation expired in 2022.

Income tax expenses are comprised of the following:

	Year Ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Current tax expense	67,609	66,665	13,169
Deferred tax expense	15,778	23,909	27,847
Income tax expense	83,387	90,574	41,016

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(14) Income Taxes (Continued)

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

	As of December 31,	
	2021	2022
	RMB	RMB
Deferred tax assets:		
Operating loss carryforward	53,179	96,173
Intangible assets, net	3,675	2,856
Less: valuation allowances	(38,126)	(78,627)
Total	18,728	20,402
Deferred tax liabilities:		
Fair value adjustments in relation to short-term investments	14,734	13,954
Estimated profit arising from future renewal commissions	29,752	59,271
PRC dividend withholding taxes	29,230	29,230
Total	73,716	102,455

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 RMB38,126 and RMB78,627 valuation allowance for the years ended December 31, 2021 and 2022, respectively.

The Group had total operating loss carry-forwards of RMB213,184 and RMB385,155 as of December 31, 2021 and 2022, respectively. As of December 31, 2022, all of the operating loss carry-forwards will expire in the years from 2023 to 2027. During the years ended December 31, 2020, 2021 and 2022, RMB5,321, RMB8,314 and RMB18,349, respectively, of tax loss carried forward has been expired and canceled.

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(14) 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,		
	2020	2021	2022
	RMB	RMB	RMB
Income from continuing operations before income taxes, share of income of affiliates, net	362,302	371,088	196,335
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	90,576	92,772	49,084
Expenses not deductible for tax purposes:			
—Entertainment	2,428	2,950	2,099
—Other	202	81	479
Effect of tax holidays on concessionary rates granted to PRC entities	(18,114)	(13,523)	(12,671)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,732	2,070	2,342
Change in valuation allowance	(3,355)	2,999	40,501
Deferred income tax for dividend distribution	18,483	10,349	—
Effect of non-taxable income*	(13,648)	(13,777)	(4,620)
Unrecognized tax benefits arising from certain transfer pricing arrangements	—	5,994	(36,566)
Other	4,083	659	368
Income tax expense	<u>83,387</u>	<u>90,574</u>	<u>41,016</u>

* *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 RMB18,114, RMB13,523 and RMB12,671 for the years ended December 31, 2020, 2021 and 2022, respectively. Without such exemption, the Group's basic net profit per share for the years ended December 31, 2020, 2021 and 2022 would have been decreased by RMB0.02, RMB0.01 and RMB0.01, and diluted net profit per share for the years ended December 31, 2020, 2021 and 2022 would have been decreased by RMB0.02, RMB0.01 and RMB0.01, 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 a 5% reduced tax rate under Bulletin [2018] No. 9 for the years ended December 31, 2020 and 2021, respectively.

Aggregate undistributed earnings of the Group's subsidiaries and VIEs in the PRC that are available for distribution to the Group of approximately RMB1,283,166 and RMB1,399,701 as of December 31, 2021 and 2022 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 RMB64,158 and RMB69,985, respectively.

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(14) Income Taxes (Continued)

During the years ended December 31, 2020, 2021 and 2022, the Group provided RMB18,483, RMB10,349 and nil, 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.

(15) Capital Structure

During 2022, the Company repurchased an aggregate of 72,465 ADSs from the open market, representing 0.1% of the total shares outstanding as of December 31, 2022, at an average price of US\$7.85 per ADS for a total amount of approximately RMB3,984, under its share buyback program to repurchase up to US\$20 million ADSs, as previously announced by its board of directors in December 2022. The Group accounts for repurchased ordinary shares under the par value method and includes such treasury stock as a component of the shareholders' equity.

(16) Net Income per Share

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

	Year Ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
<i>Basic:</i>			
Net income	276,177	259,941	85,723
Less: Net income (loss) attributable to the noncontrolling interests	7,923	8,952	(14,549)
Net income attributable to the Company's shareholders	268,254	250,989	100,272
Weighted average number of ordinary shares outstanding	1,073,891,784	1,073,891,784	1,074,196,310
Basic net income per ordinary share	0.25	0.23	0.09
Basic net income per ADS	5.00	4.67	1.87

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(16) Net Income per Share (Continued)

	Year Ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
<i>Diluted:</i>			
Net income	276,177	259,941	85,723
Less: Net income (loss) attributable to the noncontrolling interests	7,923	8,952	(14,549)
Net income attributable to the Company's shareholders	268,254	250,989	100,272
Weighted average number of ordinary shares outstanding	1,073,891,784	1,073,891,784	1,074,196,310
Weighted average number of dilutive potential ordinary shares from share options	399,576	399,410	261,511
Total	1,074,291,360	1,074,291,194	1,074,457,821
Diluted net income per ordinary share	0.25	0.23	0.09
Diluted net income per ADS	4.99	4.67	1.87

(17) 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, 2021 and 2022. 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 RMB557,221 and RMB559,520 as of December 31, 2021 and 2022, respectively.

Under PRC laws and regulations, there are restrictions on the Company's PRC subsidiaries and VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts of restricted net assets include paid in capital and statutory surplus reserve of the Company's PRC subsidiaries and the net assets of the VIEs in which the Company has no legal ownership, totaling RMB1,458,915 and RMB1,461,214 as of December 31, 2021 and 2022, respectively, which were not eligible to be distributed.

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(18) Related-party Balances and Transactions

The principal related-party balances as of December 31, 2021 and 2022, and transactions for the years ended December 31, 2020, 2021 and 2022 are as follows:

- (i) On December 28, 2020, the Group entered into a framework strategic partnership agreement, or, the “Agreement”, with Puyi Enterprise Management Consulting Co., Ltd (“Puyi Consulting”), which was controlled by Puyi, the Group’s affiliate. Pursuant to the Agreement, both parties, on the basis of full compliance with relevant regulatory and legal requirements will share customer and channel resources and explore collaboration opportunities on the provision of value-added asset management services to Chinese households, by leveraging both parties’ respective strength in insurance and financial services. For the year ended December 31, 2021, the Group incurred RMB5,386 commission cost to Puyi Consulting and the balance of accounts payable as of December 31, 2021 was RMB2,894. For the year ended December 31, 2022, the Group incurred RMB13,548 commission cost to Puyi Consulting and the balance of account payable as of December 31, 2022 was RMB4,987. In order to diversify the Group’s services and product offerings, the Group provided referral services of publicly-raised and privately-raised fund products provided by Puyi’s clients, the Group referred Puyi’s financial advisors to their clients and Puyi’s financial advisors will be responsible for providing product information and handling purchasing procedures. For the year ended December 31, 2022, the Group incurred RMB1,166 referral service fee from Puyi and the balance of account receivable as of December 31, 2022 was RMB1.
- (ii) On March 7, 2022, the Group entered into an agreement with Puyi Consulting. Pursuant to this agreement, Puyi Consulting provided training services and customer salon support services to the Group. For the year ended December 31, 2022, the Group incurred RMB7,017 services expense to Puyi Consulting and the balance of other payable as of December 31, 2022 was RMB4,177.

(19) Commitments and Contingencies

- (i) See Note 9 for the Group’s commitments for future minimum lease payments under operating leases.
- (ii) As of December 31, 2022, 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.

(20) Concentrations of Credit Risk

Concentration risks

Customers accounting for 10% or more of total net revenues excluding estimated renewal commissions are as follows:

	Year ended December 31,					
	2020	% of sales	2021	% of sales	2022	% of sales
	RMB		RMB		RMB	
Sinatay Life Insurance Co., Ltd. (“Sinatay”)	504,489	15.4%	451,840	15.0%	497,143	19.6%
Aeon Life Insurance Co., Ltd. (“Aeon”).	560,341	17.1%	437,132	14.5%	*	*
Huaxia Life Insurance Company Limited (“Huaxia”)	606,581	18.6%	323,800	10.7%	*	*
Evergrande Life Insurance Co., Ltd. (“Evergrande”)	339,567	10.4%	*	*	*	*
Subtotal	2,010,978	61.5%	1,212,772	40.2%	497,143	19.6%

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

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(20) Concentrations of Credit Risk (Continued)

Concentration risks (Continued)

Customers which accounted for 10% or more of gross accounts receivable excluding estimated renewal commissions are as follows:

	As of December 31,			
	2021	%	2022	%
	RMB		RMB	
Sinatay	186,289	31.1%	124,847	23.4%
Greatwall Life Insurance Co., Ltd	*	*	85,616	16.0%
Subtotal	186,289	31.1%	210,463	39.4%

* 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-term investments with financial institutions with low credit risk.

(21) 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, 2021 and 2022, share-based compensation expenses of nil were recognized in connection with the 2012 Options G, respectively.

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(21) Share-based Compensation (Continued)

(a) 2012 Option G (Continued)

For the year ended December 31, 2022, 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, 2022	400,000	0.25	0.01	924
Exercised	(400,000)	—	—	—
Forfeited	—	—	—	—
Outstanding as of December 31, 2022	—	—	—	—
Exercisable as of December 31, 2022	—	—	—	—

As of December 31, 2022, all of the above options were fully vested and exercised.

(b) The 521 Plan

The 521 Plan was designed to incentivize the Participants and was originally accounted for as grant of share options.

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. Upon a modification of the settlement terms of the 521 Plan from cash settlement to net share settlement of vested ADS options in November 2019, 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. The modification resulted in a change of awards' classification from liability to equity. 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.

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 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, 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 stock options related to the 521 Plan were estimated to be improbable to vest. As of December 31, 2021 and 2022, there was no unrecognized share-based compensation expense related to the 521 Plan.

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(21) Share-based Compensation (Continued)

(c) 2022 Options

On August 12, 2022, the Company granted share options (“2022 Options”) to its independent directors to purchase up to 4,000,000 ordinary shares of the Company. Pursuant to the option agreements entered into between the Company and the option grantees, the options vest over a four-year service period starting from the date of grant, with 30% (“Option D1”), 30% (“Option D2”), 20% (“Option D3”) and the remaining 20% (“Option D4”) of the options being vested on August 31 of each of the years starting from 2023 to 2026, respectively, subject to the continuous service of the option grantees. The 2022 Options expire no later than August 1, 2032, subject to earlier termination upon an optionee’s cessation of service. The 2022 Options had an exercise price of US\$0.2305 (RMB1.59) and an intrinsic value of US\$0.0020 (RMB0.01) per ordinary share on the date of grant.

The Group used the Black-Scholes option pricing model in determining the fair value of the options granted, which requires the input of highly subjective assumptions, including the expected life of the stock option, stock price volatility, dividend rate and risk-free interest rate. The assumptions used in determining the fair value of the 2022 Options on the grant date were as follows:

Assumptions	August 12, 2022
Expected dividend yield (Note i)	3.69%
Risk-free interest rates (Note ii)	2.92% ~ 2.96%
Expected volatility (Note iii)	119.9% ~ 131.9%
Expected life in years (Note iv)	5.54 ~ 7.04
Fair value of options on grant date	US\$0.1590 ~ US\$0.1646

(i) Expected dividend yield:

The expected dividend yield was estimated by the Group based on its historical and future dividend policy.

(ii) Risk-free interest rate:

Risk-free interest rate was estimated based on the US Government Bond yield and pro-rated according to the tenor of the options 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 estimated based on the midpoint between the end of the vesting period and the contractual term of the award of the 2022 Options.

As of December 31, 2022, the Group had reserved 161,143,768 ordinary shares available to be granted as options under the 2022 Options. No actual forfeitures occurred for the independent directors for the year ended December 31, 2022.

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(21) Share-based Compensation (Continued)

(c) 2022 Options (Continued)

A summary of share options outstanding as of December 31, 2022, and activity during the year then ended, is presented below:

	Number of options	Weighted average exercise price in USD	Weighted average remaining contractual life (In years)	Aggregate Intrinsic Value USD
Outstanding as of January 1, 2022	-	-	-	
Granted	4,000,000	0.2305	6.19	
Exercised	-	-	-	
Forfeited	-	-	-	
Outstanding as of December 31, 2022	<u>4,000,000</u>	<u>0.2305</u>	<u>6.19</u>	<u>558</u>

For the year ended December 31, 2022, share-based compensation expenses of RMB461 were recognized in connection with the 2022 Options. As of December 31, 2022, unrecognized share-based compensation expense related to unvested share options granted to the independent directors totaled US\$572 (RMB3,942), which is expected to be recognized over a weighted-average period of 3.6 years. The aggregate intrinsic value of the share options as of December 31, 2022 was US\$558 (RMB3,849).

(22) Segment Reporting

As of December 31, 2021 and 2022, 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 ("CODM") in deciding how to allocate resources and in assessing performance. The Group's CODM is the Chief Executive Officer.

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(23) Subsequent events

Acquisitions of quality insurance intermediaries companies

On January 3, 2023, the Group entered into definitive agreements with the existing shareholders of Zhongrong Smart Finance Information Technology Co., Ltd. (“Zhongrong”), to acquire 57.73% of the equity interests of Zhongrong. As of March 31, 2023, the Group has acquired 53.44% of the equity interests of Zhongrong with a capital contribution of RMB122.7 million to Zhongrong. Zhongrong is currently in the process of repurchasing its shares from certain of its existing shareholders which will result in its shareholding in Zhongrong ultimately increasing to 57.73%. In connection with the acquisition, 61,853,580 ordinary shares of the Company have been issued to the existing shareholders of Zhongrong as of March 31, 2023. The consideration, adjustable based on the achievement of certain performance targets in the next three years by Zhongrong, is subject to a lock-up period of three years and will be released from lock-up in two batches after 2025.

On February 6, 2023, the Group entered into a definitive agreement with the existing shareholders of Jilin Zhongji Shi’An Insurance Agency Co., Ltd (“Zhongji”), to acquire 51% of the equity interests of Zhongji. In connection with the acquisition, 13,660,720 ordinary shares of the Company have been issued to the existing shareholders of Zhongji as of March 31, 2023. The consideration, adjustable based on the achievement of certain performance targets in the next three years by Zhongji, is subject to a lock-up period of three years and will be released from lock-up in two batches after 2025.

On February 8, 2023, the Group entered into an another definitive agreement with the existing shareholders of Wuhan Taiping Online Insurance Agency Co., Ltd. (“Taiping”), to acquire 51% of the equity interests of Taiping. In connection with the acquisition, 9,107,140 ordinary shares of the Company have been issued to the existing shareholders of Taiping as of March 31, 2023. The consideration, adjustable based on the achievement of certain performance targets in the next three years by Taiping, is subject to a lock-up period of three years and will be released from lock-up in two batches after 2025.

The Group is in the process of assessing the accounting treatment of the above mentioned acquisitions.

Share incentive plan

On February 6, 2023, the board of directors (the “board”) has approved the grant options to purchase an aggregate of 13,680,000 ordinary shares to certain top agents who have met the requirements for Million Dollar Round Table (the “MDRT”) Membership. Pursuant to the MDRT share incentive program, the exercise price of these options is US\$0.05 per ordinary share. The options are scheduled to vest over a two-year period starting from March 31, 2024, subject to the achievement of certain key performance indicators by the option holders and their continued service with the Group. The Group is in the process of assessing the accounting treatment of the above mentioned share incentive program.

FANHUA INC.
SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF THE COMPANY

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

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
			Note2(u)
ASSETS:			
Current assets:			
Cash and cash equivalents	14,507	38,512	5,584
Short term investments	34,705	27,619	4,004
Other receivables and amounts due from subsidiaries and affiliates	635,953	417,613	60,549
Total current assets	685,165	483,744	70,137
Non-current assets:			
Investment in subsidiaries	3,328,864	2,520,667	365,463
Investment in an affiliate	6,378	4,035	585
Total assets	4,020,407	3,008,446	436,185
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Other payables and accrued expenses and amounts due to subsidiaries	2,182,522	1,385,043	200,813
Total liabilities	2,182,522	1,385,043	200,813
Ordinary shares (Authorized shares:10,000,000,000 at US\$0.001 each; issued 1,073,891,784 and 1,074,291,784 shares, of which 1,073,891,784 and 1,072,842,484 shares were outstanding as of December 31, 2021 and 2022, respectively)	8,089	8,091	1,173
Treasury Stock	—	(10)	(1)
Additional paid-in capital	—	461	67
Retained earnings	1,868,936	1,647,504	238,866
Accumulated other comprehensive loss	(39,140)	(32,643)	(4,733)
Total equity	1,837,885	1,623,403	235,372
Total liabilities and shareholders' equity	4,020,407	3,008,446	436,185

FANHUA INC.
SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF THE COMPANY—(Continued)

Statements of Income and Comprehensive Income
(In thousands)

	Year Ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
General and administrative expenses	(4,204)	(331)	(11,318)	(1,641)
Selling expenses	281	—	—	—
Interest income	1,044	2	5	1
Others, net	—	—	17,495	2,536
Equity in earnings of subsidiaries and an affiliate	271,133	251,318	94,090	13,642
Net Income attributable to the Company's shareholders	268,254	250,989	100,272	14,538
Other comprehensive income (loss):				
Foreign currency translation adjustments	9,639	(9,116)	3,728	541
Unrealized net gains on available-for-sale investments	23,811	6,252	(1,919)	(278)
Share of other comprehensive (loss) gain of affiliates	(3,016)	(1,281)	4,688	680
Comprehensive income attributable to the Company's shareholders	298,688	246,844	106,769	15,481

FANHUA INC.
SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF THE COMPANY—(Continued)

Statements of Cash Flows
(In thousands)

	Year Ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
Cash flow from operating activities:				
Net income	268,254	250,989	100,272	14,538
Adjustments to reconcile net income to net cash used in operating activities:				
Equity in earnings of subsidiaries and an affiliate	(271,133)	(251,318)	(94,090)	(13,642)
Compensation expenses associated with stock options	(393)	—	461	67
Changes in operating assets and liabilities:				
Other receivables	26	392	—	—
Other payables	(7,707)	(847)	696	102
Net cash (used in) from operating activities	(10,953)	(784)	7,339	1,065
Cash flows (used in) generated from investing activities				
Purchase of short-term investments	(71,382)	—		
Changes in investment in subsidiaries and an affiliate	26,195	43,757	907,006	131,504
Advances to subsidiaries and affiliates	660,004	157,582	(689,780)	(100,009)
Proceeds from disposal of short-term investments	73,310	—	10,095	1,464
Net cash generated from investing activities	688,127	201,339	227,321	32,959
Cash flows generated from (used in) financing activities:				
Proceeds on exercise of stock options	—	—	2	—
Dividends paid	(388,499)	(242,518)	(317,730)	(46,067)
Repurchase of ordinary shares from open market	—	—	(3,984)	(578)
Repayment of subscription from the 521 Plan participants	(250,312)	—	—	—
Net cash generated used in financing activities	(638,811)	(242,518)	(321,712)	(46,645)
Net increase (decrease) in cash and cash equivalents	38,363	(41,963)	(87,052)	(12,621)
Cash and cash equivalents and restricted cash at beginning of year	32,314	66,345	14,507	2,103
Effect of exchange rate changes on cash and cash equivalents	(4,332)	(9,875)	111,057	16,102
Cash and cash equivalents and restricted cash at end of the year	66,345	14,507	38,512	5,584

FANHUA INC.
Note to Schedule I
(In thousands, except for shares)

Schedule I 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, 2022, RMB1,461,214 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, 2020, 2021 and 2022.

As of December 31, 2022, 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, 2021 and 2022 and the years ended 2020, 2021 and 2022.

Certification by Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Yinan Hu, certify that:

1. I have reviewed this annual report on Form 20-F of Fanhua Inc. (the "Company"), as amended by Amendment No. 1 thereto on Form 20-F/A;
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 officers 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 officers 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: May 22, 2023

By: /s/ Yinan Hu

Name: Yinan Hu

Title: Chairman and Chief Executive Officer

Certification by 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"), as amended by Amendment No. 1 thereto on Form 20-F/A;
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 officers 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 officers 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: May 22, 2023

By: /s/ Peng Ge

Name: Peng Ge

Title: Chief Financial Officer

Certification by 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, 2022 as filed with the Securities and Exchange Commission on April 25, 2023, as amended by Amendment No. 1 thereto on Form 20-F/A (the "Report"), I, Yinan Hu, 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: May 22, 2023

By: /s/ Yinan Hu

Name: Yinan Hu

Title: Chairman and Chief Executive Officer

Certification by 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, 2022 as filed with the Securities and Exchange Commission on April 25, 2023, as amended by Amendment No. 1 thereto on Form 20-F/A (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: May 22, 2023

By: /s/ Peng Ge

Name: Peng Ge

Title: Chief Financial Officer