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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2021.

OR

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

For the transition period from _____ to _____.

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-39216

Huize Holding Limited

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

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

Title of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
American depositary shares (each representing 20 Class A common shares, par value US\$0.00001 per share) Class A common shares, par value US\$0.00001 per share* *Not for trading, but only in connection with the listing on the Nasdaq Global Market of American depositary shares.	HUIZ	Nasdaq Global Market

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:

As of December 31, 2021, there were (i) 886,166,726 Class A common shares issued and outstanding, par value US\$0.00001 per share, and (ii) 150,591,207 Class B common shares issued and outstanding, par value US\$0.00001 per share.

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 the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 accountant firm that prepared or issued its audit report.

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

TABLE OF CONTENTS

INTRODUCTION	1
FORWARD-LOOKING INFORMATION	3
Part I.	4
Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	4
Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE	4
Item 3. KEY INFORMATION	4
Item 4. INFORMATION ON THE COMPANY	71
ITEM 4.A. UNRESOLVED STAFF COMMENTS	112
Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	112
Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	130
Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	139
Item 8. FINANCIAL INFORMATION	141
Item 9. THE OFFER AND LISTING	142
Item 10. ADDITIONAL INFORMATION	142
Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	152
Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	153
Part II	156
Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	156
Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS MATERIAL	156
Item 15. CONTROLS AND PROCEDURES	156
Item 16.A. AUDIT COMMITTEE FINANCIAL EXPERT	158
Item 16.B. CODE OF ETHICS	158
Item 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	158
Item 16.D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	158
Item 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	159
Item 16.F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	159
Item 16.G. CORPORATE GOVERNANCE	159
Item 16.H. MINE SAFETY DISCLOSURE	160
ITEM 16.I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS	160
Part III	161
Item 16. FINANCIAL STATEMENTS	161
Item 17. FINANCIAL STATEMENTS	161
Item 18. EXHIBITS	161

INTRODUCTION

In this annual report on Form 20-F, or this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “ADRs” are to the American depository receipts which may evidence the ADSs;
- “ADSs” are to the American depository shares, each of which represents 20 Class A common shares;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “Class A common shares” are to our Class A common shares, par value \$0.00001 per share, carrying one vote per share;
- “Class B common shares” are to our Class B common shares, par value \$0.00001 per share, carrying 15 votes per share;
- “common shares” are to our Class A common shares and/or our Class B common shares, par value US\$0.00001 per share, as the context may require;
- “GWP” are to gross written premiums, which include first year premiums and renewal premiums where applicable;
- “insurer partners” are to the insurance companies we work with who underwrite insurance products on our platform;
- “insurance clients” are to purchasers of insurance products we distribute through our platform; for travel insurance products, travel agencies usually purchase policies for multiple individuals, and we count each purchasing travel agency as an insurance client, and each such individual protected by any single policy as an insured;
- “insured” are to individuals that are insured under insurance policies; when calculating the number of insured for any given period, we eliminate duplicates so that an insured protected by more than one policy during the period would be counted as one insured for such period; when calculating the cumulative number of insured, we eliminate duplicates so that an insured protected by more than one policy through our platform would be counted as one insured;
- “our WFOE” are to Zhixuan International Management Consulting (Shenzhen) Co., Ltd.;
- “RMB” and “Renminbi” are to the legal currency of China;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” are to the legal currency of the United States;
- “VIE” are to Shenzhen Huiye Tianze Investment Holding Co., Ltd.;
- “we,” “us,” “our company” and “our” are to Huize Holding Limited, our Cayman Islands holding company and where the context may require, include its subsidiaries, and, in the context of describing our operations and consolidated financial information, its consolidated variable interest entity and the subsidiaries of the consolidated variable interest entity in China.

When disclosing our operating matrix, we only took into consideration our business operation in mainland China. An insurance product with a term that is longer than one year is categorized as a long-term insurance product. An independent platform refers to a platform that is not affiliated with insurance companies or other insurance industry participants.

[Table of Contents](#)

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report are made at a rate of RMB6.3726 to US\$1.00, the exchange rate in effect as of December 31, 2021 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all.

FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements that reflect our current expectations and views of future events. These forward looking statements are made under the “safe-harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our mission, goals and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of insurance industry in China;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with insurance clients, insurance companies and other partners;
- competition in our industry;
- our proposed use of proceeds;
- relevant government policies and regulations relating to our industry; and
- potential impact of COVID-19 pandemic on our current and future business development, financial condition and results of operations.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Other sections of this annual report include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should read thoroughly this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from, or worse than, what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This annual report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. The insurance industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of the ADSs. In addition, the rapidly evolving nature of this industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we refer to in this annual report and exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Our Holding Company Structure and Contractual Arrangements with the VIE

Huize Holding Limited is not an operating company but rather a Cayman Islands holding company with no equity ownership in its VIE. Our Cayman Islands holding company does not conduct business operations directly. We conduct our operations in China primarily through (i) the VIE with which we have maintained contractual arrangements, and (ii) the VIE's subsidiaries in China. PRC laws and regulations restrict and impose conditions on foreign direct investment in companies involved in internet-based business and insurance intermediary business. Therefore, we operate such business in China through the variable interest entity, Shenzhen Huiye Tianze Investment Holding Co., Ltd., which we refer to as the VIE in this annual report, and its subsidiaries in China, and rely on contractual arrangements among our WFOE, the VIE and its shareholders to control the business operations of the VIE. Investors in our ADSs thus are not purchasing direct equity interest in our operating entities in China but instead are purchasing equity interest in a Cayman Islands holding company. As used in this annual report, "Huize," "we," "us," "our company" or "our" refers to Huize Holding Limited, and where the context requires, includes its subsidiaries, and, in the context of describing our operations and consolidated financial information, the VIE and its subsidiaries in China.

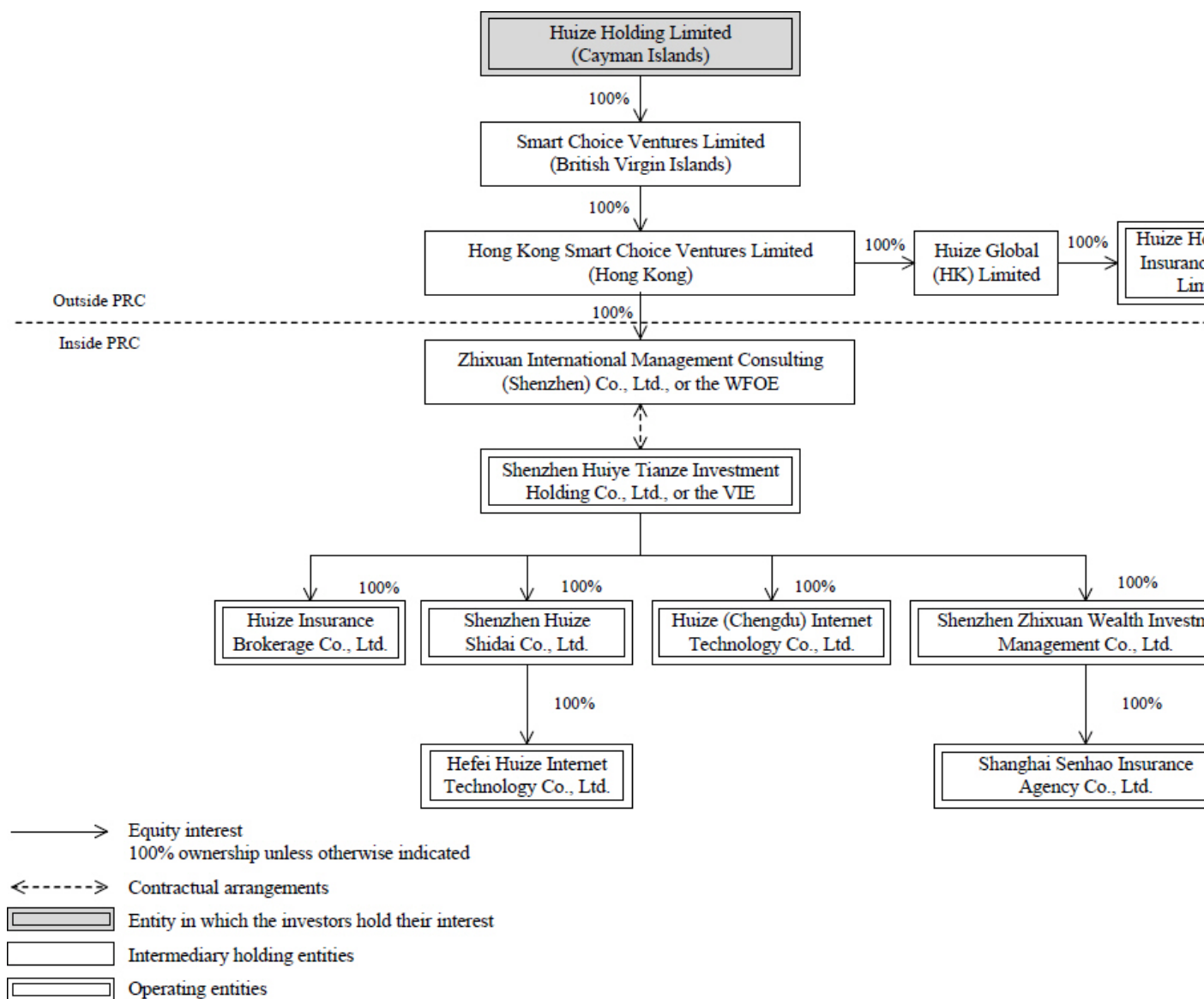
A series of contractual agreements, including power of attorney, equity pledge agreement, exclusive business cooperation agreement and exclusive option and equity custody agreement, have been entered into by and among our WFOE, the VIE and its shareholders. In particular, through:

- (i) the power of attorney, pursuant to which each shareholder of the VIE irrevocably authorized our WFOE or any person designated by our WFOE to act as its attorney-in-fact to exercise all of its rights as a shareholder of the VIE, and the equity pledge agreement, pursuant to which the shareholders of the VIE have pledged the 100% equity interests in the VIE to our WFOE to guarantee performance by the shareholders of their obligations under the exclusive business cooperation agreement, exclusive option and equity custody agreement and power of attorney, we retain effective control over the VIE;
- (ii) the exclusive business cooperation agreement, pursuant to which our WFOE has the exclusive right to provide the VIE with comprehensive technology and business support as well as the relevant consultations services required by the business of the VIE, or to appoint a third party to provide the VIE with such services, we may receive substantially all economic benefits from the VIE; and
- (iii) the exclusive option and equity custody agreement, pursuant to which each of the shareholders of the VIE has irrevocably granted our WFOE an exclusive option to purchase, or have its designated third party to purchase, at its discretion, all or part of his or its equity interests in the VIE and/or the assets that the VIE holds at a nominal consideration or the lowest price permitted by applicable PRC law, we have the option to purchase the equity interest in and assets of the VIE at low cost.

The VIE is consolidated for accounting purposes; however, neither our Cayman Islands holding company nor the investors in the holding company have an equity ownership or direct investment in the VIE. Our Cayman Island holding company is considered the ultimate primary beneficiary of the VIE and consolidates the VIE and its subsidiaries as required by Accounting Standards Codification topic 810, Consolidation. Accordingly, we treat the VIE as our consolidated entity under U.S. GAAP and we consolidate the financial results of the VIE in our consolidated financial statements in accordance with U.S. GAAP. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with The VIE and Its Shareholder.”

Our corporate structure is subject to risks associated with our contractual arrangements with the VIE. Our Cayman Islands holding company that investors own equity interest in may never directly hold equity interests in the businesses that are conducted by the VIE. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiary, the VIE, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, significantly affect the financial performance of the VIE and our company as a whole. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure.” In addition, the contractual arrangements may not be as effective as equity ownership in providing us with control over the VIE, and we may incur substantial costs to enforce the terms of the arrangements. Uncertainties in the PRC legal system may limit our ability, as a Cayman Islands holding company, to enforce these contractual arrangements. Meanwhile, based on officially published and publicly available judgements, the legality and validity of VIE contractual arrangements have not been tested in a court of law in the PRC. There are very few precedents as to whether contractual arrangements would be judged to form effective control over the relevant VIE through the contractual arrangements, or how contractual arrangements in the context of a variable interest entity should be interpreted or enforced by the PRC courts. Should legal actions become necessary, we cannot guarantee that the court will rule in favor of the enforceability of the variable interest entity contractual arrangements. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the VIE, and our ability to conduct our business may be materially adversely affected. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—We rely on contractual arrangements with the VIE, and its shareholders for our operations in China, which may not be as effective as equity ownership in providing operational control,” and “—The shareholders and directors of the VIE may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected.”

The following diagram illustrates our current corporate structure, which includes our significant subsidiaries, the VIE and its material subsidiaries as of the date of this annual report:



Note

(1) Shareholders of Shenzhen Huiye Tianze Investment Holding Co., Ltd., or Huiye Tianze, are: (1) Shenzhen Huidecheng Investment Development Limited Partnership and Shenzhen Huideli Consulting Management Limited Partnership, both as our PRC ESOP holding entities, holding an aggregate of 27.56% shares in Huiye Tianze; (2) PRC holding entities of the shareholders of our Cayman Islands holding company, holding shares in Huiye Tianze in a shareholding structure substantially identical to their respective shareholding in our company, and the PRC holding entity of SAIF IV Healthcare (BVI) Limited, a former shareholder of our Cayman Islands holding company.

We face various legal and operational risks and uncertainties associated with being based in or having our operations primarily in China and the complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offerings conducted overseas by and foreign investment in China-based issuers, the use of the VIE, anti-monopoly regulatory actions, oversight on cybersecurity and data privacy, as well as the lack of PCAOB inspection on our auditors, which may impact our ability to conduct certain businesses, accept foreign investments, or list on or remain listed on a United States or other foreign exchange. These risks could result in a material adverse change in our operations and the value of our ADSs, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, or cause the value of such securities to significantly decline or become worthless. In addition, since our auditor is headquartered in the mainland of China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is currently not inspected by the PCAOB. As a result, our ADSs may be delisted and our ADSs and shares may be prohibited from trading in the over-the-counter market under the Holding Foreign Companies Accountable Act. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections. For a detailed description of risks related to doing business in China, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China.”

PRC government's significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline or become worthless. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs."

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

Permissions Required from the PRC Authorities for Our Operations

We conduct our business primarily through our PRC subsidiary, the VIE and its subsidiaries in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, as advised by Commerce & Finance Law Offices, our legal counsel as to PRC Law, our PRC subsidiary, the VIE and its subsidiaries have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company, the VIE and its subsidiaries in the PRC in all material respects, including, among others, the value-added telecommunications business operating license, the license to operate insurance brokerage business, the license to operate insurance agency business, the record-filing certificate on insurance adjustment assessment business and the record-filing certificate on the graded protection of information system security. Any failure to obtain or delay in obtaining such permissions or approvals, or a rescission of any such approval if obtained by us, would subject us to sanctions by the applicable PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our ADSs. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future. For more detailed information, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Failure to obtain, renew, or retain licenses, permits or approvals may affect our ability to conduct or expand our business" and "—We may be adversely affected by the complexity, uncertainties and changes in PRC regulations of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations."

Furthermore, as advised by Commerce & Finance Law Offices, our legal counsel as to PRC Law, the VIE or one of its subsidiaries in China specified by us may be required to fulfill filing procedures and obtain approval from the China Securities Regulatory Commission, or the CSRC, in connection with offering and listing in an overseas market. Under current PRC laws, regulations and regulatory rules, our operating entities in China may also be required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC. As of the date of this annual report, we have not been required to file with the CSRC, nor have we been subject to any cybersecurity review initiated by the CAC. If (i) we fail to obtain the relevant approval or complete other filing procedures, (ii) we inadvertently conclude that such approval or filing procedures are not required, while they actually are required, or (iii) we are required to obtain the relevant approval or complete other filing procedures as a result of changes of applicable laws, regulations or interpretations thereof but fail to do so, we may face sanctions by the CSRC or other PRC regulatory authorities, which may include fines and penalties on our operations in China, limitations on our operating privileges in China, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, restrictions on or delays to our future financing transactions offshore, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. For more detailed information, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing" and "—Our business generates and processes a large amount of data, and is subject to complex and evolving Chinese and international laws and regulations regarding data privacy and cybersecurity. Any failure to protect the core data, important data or a large amount of personal information as required by relevant laws and regulations, or improper use or disclosure of such data may subject us to liabilities imposed by data privacy and protection laws and regulations, negatively impact our reputation, and deter our clients from using our online platform."

Cash Flows through Our Organization

We have established stringent controls and procedures for cash flows within our organization. Each transfer of cash between our Cayman Islands holding company and a subsidiary, the VIE or the subsidiaries of the VIE is subject to internal approval. The cash of our group is under the unified management of our finance department, and is dispatched and applied to each operating entity based on the budget and operating conditions of the specific operating entity. Each cash requirement, after raised by an operating entity, is required to go through a three-level review process of our finance department. The funding team of the finance department will allocate the cash to the operating entity after the application for cash requirement is approved by the responsible person in the finance department. To date, we have not had difficulty in transferring cash between our Cayman Islands holding company and a subsidiary, the VIE or the subsidiaries of the VIE. The cash inflows of the Cayman Islands holding company were primarily generated from our initial public offering in February 2020. In 2020 and 2021, the Cayman Islands holding company transferred cash in the total amount of RMB196.7 million (US\$30.9 million) to our PRC subsidiary and the subsidiaries of the VIE through our offshore intermediate holding entities in two methods: (i) Hong Kong Smart Choice Ventures Limited, our Hong Kong subsidiary, made capital contribution to Zhixuan International Management Consulting (Shenzhen) Co., Ltd., our WFOE, in the amount of RMB0.5 million in 2020, and RMB129.5 million (US\$20.3 million) in 2021; our WFOE and its subsidiary then provided inter-company loan of RMB128.0 million (US\$20.1 million) to the VIE in 2021; (ii) through cross-border guarantee, where our Hong Kong subsidiary provided guarantee to certain China-based commercial banks or their offshore branches by pledging offshore cash deposits, and the onshore branches of these banks granted loans to the subsidiaries of the VIE, namely, Huize Insurance Brokerage Co., Ltd. and Shenzhen Huize Shidai Co., Ltd, in the amount of RMB85.4 million in 2020, and RMB14.0 million (US\$2.2 million) in 2021. The subsidiaries of the VIE repaid the loan in a total amount of RMB32.7 million (US\$5.1 million) in 2021. For the years ended December 31, 2019, 2020 and 2021, no assets other than cash were transferred between our Cayman Islands holding company and a subsidiary, no subsidiaries paid dividends or made other distributions to the Cayman Islands holding company, and no dividends or distributions were paid or made to U.S. investors. We intend to settle service fees under our contractual arrangements with the VIE when there is a business need and as our WFOE sees fit. For details of the financial position, cash flows and results of operations of the VIE and its subsidiaries, see “Item 3. Financial Information Related to the Consolidated Variable Interest Entity.”

As a Cayman Islands holding company, we may receive dividends from our PRC subsidiary through Hong Kong Smart Choice Ventures Limited. The Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementing rules, provide that dividends paid by a PRC entity to a nonresident enterprise for income tax purposes is subject to PRC withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with China.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediate holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. Furthermore, effective from January 1, 2020, a Hong Kong entity is entitled to judge by itself that it meets the conditions for entitlement to such treaty benefits. It could obtain such entitlement by itself at the time of making tax returns, or at the time of making withholding declarations via withholding agents. At the same time, the Hong Kong entity shall collect, gather and retain relevant materials for future reference in accordance with applicable rules, and shall accept the follow-up administration of tax authorities. In addition, there is no assurance that the PRC government will not intervene or impose restrictions on our ability to transfer cash in the future. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—We may rely principally on dividends and other distributions on equity paid by our WFOE to fund any cash and financing requirements we may have, and any limitation on the ability of our WFOE to pay dividends to us could have a material adverse effect on our ability to conduct our business.”

If our holding company in the Cayman Islands or any of our subsidiaries outside of the mainland of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China— If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within China, assuming that: (i) we have taxable earnings, and (ii) we determine to pay dividends in the future:

	Taxation Scenario ⁽¹⁾ Statutory Tax and Standard Rates
Hypothetical pre-tax earnings ⁽²⁾	100%
Tax on earnings at statutory rate of 25% ⁽³⁾	(25%)
Net earnings available for distribution	75%
Withholding tax at standard rate of 10% ⁽⁴⁾	(7.5%)
Net distribution to Parent/Shareholders	67.5%

Notes:

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount, not considering timing differences, is assumed to equal Chinese taxable income.
- (2) Under the terms of the contractual arrangements among our WFOE, the VIE and its Shareholders, our WFOE may charge the VIE for services provided to the VIE. These fees shall be recognized as expenses of the VIE, with a corresponding amount as service income by our WFOE and eliminate in consolidation. For income tax purposes, our WFOE and VIE file income tax returns on a separate company basis. The fees paid are recognized as a tax deduction by the VIE and as income by our WFOE and are tax neutral.
- (3) For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate of 25% would be effective.
- (4) The EIT Law of the PRC imposes a withholding income tax of 10% on dividends distributed by a Foreign Invested Enterprises (“FIE”) to its immediate holding company outside of China. A lower withholding income tax rate of 5% is applied if the FIE’s immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax rate of 10% would be applied.

The table above has been prepared under the assumption that all profits of the VIE will be distributed as fees to our WFOE under tax neutral contractual arrangements. If in the future, the accumulated earnings of the VIE exceed the fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the VIE could, as a matter of last resort, make a non-deductible transfer to our WFOE for the amounts of the stranded cash in the VIE. This would result in such transfer being non-deductible expenses for the VIE but still taxable income for our WFOE.

Under PRC laws and regulations, we are subject to restrictions on foreign exchange and cross-border cash transfers, including to U.S. investors. Our ability to distribute earnings to the holding company and U.S. investors is also limited. We are a Cayman Islands holding company and we may rely on dividends and other distributions on equity paid by our PRC subsidiary, which in turn relies on consulting and other fees paid to us by the VIE, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. When any of our PRC subsidiary incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Our WFOE, being a foreign-invested enterprise established in China, is required to make appropriations to certain statutory reserves, namely, a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in its PRC statutory accounts. Our WFOE is required to allocate at least 10% of its after-tax profits after making up the previous year’s accumulated losses each year, if any, to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the board of directors of the PRC subsidiary.

Under PRC laws and regulations, our WFOE, the VIE and its subsidiaries are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of the consolidated variable interest entity in which we have no legal ownership.

In addition, our WFOE, the VIE and its subsidiaries generate their revenue primarily in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to pay dividends to us. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may rely principally on dividends and other distributions on equity paid by our WFOE to fund any cash and financing requirements we may have, and any limitation on the ability of our WFOE to pay dividends to us could have a material adverse effect on our ability to conduct our business,” and “—Government control of currency conversion and future fluctuation of Renminbi exchange rates could have a material adverse effect on our results of operations and financial condition, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.”

Financial Information Related to the Consolidated Variable Interest Entity

The following table presents the condensed consolidating schedule of financial position for the consolidated variable interest entity and other entities as of the dates presented.

Selected Condensed Consolidated Statements of Income Information

	For the Year Ended December 31, 2019					For the Year Ended December 31, 2020					For the Year Ended December 31, 2021							
	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 1) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 1) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 1) RMB'000	Consolidated RMB'000
Operating revenue																		
Brokerage commission income	—	8,409	—	973,715	—	982,124	—	—	1,215,434	—	1,215,434	—	865	—	2,231,388	—	2,232	
Other income	—	—	—	11,195	—	11,195	228	—	4,560	—	4,788	1,269	—	—	11,494	—	12	
Total operating revenue	—	8,409	—	984,910	—	993,319	228	—	1,219,994	—	1,220,222	1,269	865	—	2,242,882	—	2,245	
Operating costs and expenses																		
Cost of revenue	—	(6,625)	—	(622,906)	—	(629,531)	—	—	(813,507)	—	(813,507)	—	(317)	—	(1,687,770)	—	(1,688)	
Other cost	—	(1,546)	—	(163,119)	—	(164,665)	—	—	(2,846)	—	(2,846)	—	—	—	(2,670)	—	(2)	
Total operating costs and expenses	—	(6,625)	—	(624,743)	—	(631,368)	—	—	(816,353)	—	(816,353)	—	(317)	—	(1,690,440)	—	(1,690)	
Operating (loss)/income	(521)	(7,698)	(35)	9,893	—	1,639	(4,383)	(8,668)	(7)	(12,853)	—	(25,911)	(4,725)	(22,471)	(52)	(87,163)	—	(114)
Other income/(expenses)																		
Interest (expenses)/income	—	7	—	(197)	—	(190)	11	645	(1,813)	—	(1,157)	4	840	42	(4,092)	—	(3)	
Unrealized exchange (loss)/income	(97)	38	—	421	—	362	421	(14)	(421)	—	(9)	—	(59)	—	—	—	—	
Investment income	—	718	—	—	—	718	—	—	137	—	137	—	(3,959)	—	(1,369)	—	(5)	
Others, net	—	(14)	—	12,690	—	12,676	—	24	10,153	—	10,177	—	—	—	12,627	—	12	
Profit before income tax, and share of (loss)/income of equity method investee	(618)	(6,949)	(35)	22,807	—	15,205	(3,951)	(8,013)	(2)	(4,797)	—	(16,763)	(4,721)	(25,649)	(10)	(79,997)	—	(110)
Income tax expense	—	(37)	—	(20)	—	(57)	—	—	(1,768)	—	(1,768)	—	—	—	—	—	—	
Share of income/(loss) of equity method investee	—	—	—	(180)	—	(180)	—	—	239	—	239	—	—	—	2,660	—	2	
Share of income/(loss) of subsidiaries and VIE	15,520	22,572	22,607	—	(60,699) ⁽ⁱ⁾	—	(14,341)	(6,328)	(6,326)	—	26,995 ⁽ⁱ⁾	—	(102,945)	(77,296)	(77,286)	—	257,527 ⁽ⁱ⁾	

[Table of Contents](#)

	For the Year Ended December 31, 2019						For the Year Ended December 31, 2020						For the Year Ended December 31, 2021					
	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 1) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 1) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 1) RMB'000	Consolidated RMB'000
Net profit/(loss)	14,902	15,586	22,572	22,607	(60,699)	14,968	(18,292)	(14,341)	(6,328)	(6,326)	26,995	(18,292)	(107,666)	(102,945)	(77,296)	(77,337)	257,527	(107)
Net profit/(loss) attributable to non-controlling interests	—	66	—	—	—	66	—	—	—	—	—	—	—	—	—	(51)	—	—
Net profit/(loss) attributable to Huize Holding Limited	14,902	15,520	22,572	22,607	(60,699)	14,902	(18,292)	(14,341)	(6,328)	(6,326)	26,995	(18,292)	(107,666)	(102,945)	(77,296)	(77,286)	257,527	(107)
Redeemable preferred shares redemption value accretion	(32,854)	—	—	—	—	(32,854)	(4,274)	—	—	—	—	(4,274)	—	—	—	—	—	—
Allocation to redeemable preferred shares	(7,431)	—	—	—	—	(7,431)	1,074	—	—	—	—	1,074	—	—	—	—	—	—
Net (loss)/profit attributable to common shareholders	(25,383)	15,520	22,572	22,607	(60,699)	(25,383)	(21,492)	(14,341)	(6,328)	(6,326)	26,995	(21,492)	(107,666)	(102,945)	(77,296)	(77,286)	257,527	(107)
Net profit/(loss)	14,902	15,586	22,572	22,607	(60,699)	14,968	(18,292)	(14,341)	(6,328)	(6,326)	26,995	(18,292)	(107,666)	(102,945)	(77,296)	(77,337)	257,527	(107)
Foreign currency translation adjustment, net of tax	119	105	—	—	(84) ⁽ⁱ⁾	140	(22,386)	451	—	—	(451) ⁽ⁱⁱ⁾	(22,386)	(5,323)	1,742	—	—	(1,742) ⁽ⁱⁱ⁾	(5)
Comprehensive income/(loss)	15,021	15,691	22,572	22,607	(60,783)	15,108	(40,678)	(13,890)	(6,328)	(6,326)	26,544	(40,678)	(112,989)	(101,203)	(77,296)	(77,337)	255,785	(113)
Comprehensive income/(loss) attributable to non-controlling interests	—	87	—	—	—	87	—	—	—	—	—	—	—	—	—	(51)	—	—
Comprehensive income/(loss) attributable to Huize Holding Limited	15,021	15,604	22,572	22,607	(60,783)	15,021	(40,678)	(13,890)	(6,328)	(6,326)	26,544	(40,678)	(112,989)	(101,203)	(77,296)	(77,286)	255,785	(112)

Note 1:

- (i) The elimination represents equity pick-up of net profits and losses in the subsidiaries of the parent company, WFOE and the VIE and its subsidiaries.
- (ii) The elimination represents equity pick-up of other comprehensive income in the subsidiaries of the parent company.

Selected Condensed Consolidated Balance Sheets Information

	As at December 31, 2020					As at December 31, 2021						
	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 2) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 2) RMB'000	Consolidated RMB'000
Assets												
Current assets												
Cash and cash equivalent	187,217	4,893	529	211,979	—	404,618	16,291	34,783	7,073	323,011	—	381,158
Restricted cash	—	106,380	—	217,950	—	324,330	—	56,093	—	127,315	—	183,408
Contract Assets	216	—	—	—	—	216	—	—	—	—	—	—
Account receivables, net of allowance for impairment	—	—	—	232,589	—	232,589	—	207	—	777,055	—	777,262
Insurance premium receivables	—	—	—	1,974	—	1,974	—	—	—	1,217	—	1,217
Amount due from related parties	189	62	—	—	—	251	106	22	—	—	—	128
Prepaid expense and other receivables	131,895	711	—	66,323	(154,552) ⁽ⁱ⁾	44,377	291,666	2,812	128,000	106,865	(451,832) ⁽ⁱⁱ⁾	77,511
Total current assets	319,517	112,046	529	730,815	(154,552)	1,008,355	308,063	93,917	135,073	1,335,463	(451,832)	1,420,684
Non-current assets												
Restricted cash	—	—	—	—	—	—	—	19,738	—	24,680	—	44,418
Property, Plant and Equipment, net	—	34	—	10,217	—	10,251	—	661	—	47,800	—	48,461
Intangible assets, net	—	—	—	2,030	—	2,030	—	2,647	—	18,979	—	21,626
Deferred tax assets	—	—	—	605	—	605	—	—	—	605	—	605
Long-term investments	—	9,195	—	36,889	—	46,084	—	13,551	—	59,450	—	73,001
Investment in subsidiaries	179,059	189,606	—	—	(368,665) ⁽ⁱⁱ⁾	—	76,030	239,113	—	—	(315,143) ⁽ⁱⁱ⁾	—
Investment in VIE	—	—	189,159	—	(189,159) ⁽ⁱⁱ⁾	—	—	109,172	—	—	(109,172) ⁽ⁱⁱ⁾	—
Operating lease right-of-use assets	—	—	—	267,352	—	267,352	—	5,939	—	241,880	—	247,819
Goodwill	—	—	—	461	—	461	—	—	—	461	—	461
Other Assets	—	—	—	838	—	838	—	—	—	379	—	379
Total non-current assets	179,059	198,835	189,159	318,392	(557,824)	327,621	76,030	281,649	109,172	394,234	(424,315)	436,770
Total assets	498,576	310,881	189,688	1,049,207	(712,376)	1,335,976	384,093	375,566	244,245	1,729,697	(876,147)	1,857,454
Liabilities, and Shareholders' Equity												
Short-term borrowings												
Accounts payable	—	—	—	227,532	—	227,532	—	186	—	680,183	—	680,369
Insurance premium payables	—	—	—	187,219	—	187,219	—	—	—	124,019	—	124,019
Contract liabilities	—	—	—	—	—	—	4,555	—	—	2,681	—	7,236
Other payables and accrued expenses	14,836	131,368	82	39,419	(154,552) ⁽ⁱ⁾	31,153	17,892	292,602	5,132	207,461	(451,832) ⁽ⁱⁱ⁾	71,255
Payroll and welfare payable	10,901	454	—	52,564	—	63,919	1,357	—	—	92,094	—	93,451
Income taxes payable	—	—	—	2,440	—	2,440	—	—	—	2,440	—	2,440
Operating lease liabilities	—	—	—	12,763	—	12,763	—	2,524	—	12,362	—	14,886
Amount due to related parties	—	—	—	—	—	—	—	—	—	11,875	—	11,875
Total current liabilities	25,737	131,822	82	553,477	(154,552)	556,366	23,804	295,312	5,132	1,349,825	(451,832)	1,222,241
Non-current liabilities												
Long-term borrowings	—	—	—	53,860	—	53,860	—	—	—	20,000	—	20,000
Deferred tax liabilities	—	—	—	605	—	605	—	437	—	4,455	—	4,892
Operating lease liabilities	—	—	—	252,106	—	252,106	—	3,787	—	245,396	—	249,183
Payroll and welfare payable	4,156	—	—	—	—	4,156	225	—	—	—	—	225
Total non-current liabilities	4,156	—	—	306,571	—	310,727	225	4,224	—	269,851	—	274,30
Total liabilities	29,893	131,822	82	860,048	(154,552)	867,293	24,029	299,536	5,132	1,619,676	(451,832)	1,496,541
Shareholders' equity												
Common shares	—	—	485	44,766	(45,251) ⁽ⁱⁱ⁾	—	—	—	129,989	44,766	(174,755) ⁽ⁱⁱ⁾	—
Class A common shares	62	—	—	—	—	62	62	—	—	—	—	62
Class B common shares	10	—	—	—	—	10	10	—	—	—	—	10
Treasury stock	(2,063)	—	—	—	—	(2,063)	(9,545)	—	—	—	—	(9,545)
Additional paid-in capital	884,920	513,631	507,623	462,858	(1,484,112) ⁽ⁱⁱ⁾	884,920	896,772	511,805	504,922	460,157	(1,476,884) ⁽ⁱⁱ⁾	896,772
Accumulated other comprehensive loss	(21,972)	454	—	—	(454) ⁽ⁱⁱ⁾	(21,972)	(27,295)	2,196	—	—	(2,196) ⁽ⁱⁱ⁾	(27,295)
Accumulated (deficit)/equity	(392,274)	(335,026)	(318,502)	(318,465)	971,993 ⁽ⁱⁱ⁾	(392,274)	(499,940)	(437,971)	(395,798)	(395,751)	1,229,520 ⁽ⁱⁱ⁾	(499,940)
Total shareholders' equity attributable to Huize Holding Limited shareholders	468,683	179,059	189,606	189,159	(557,824)	468,683	360,064	76,030	239,113	110,021	(424,315)	360,064
Non-controlling interests	—	—	—	—	—	—	—	—	—	849	—	849
Total shareholders' equity	468,683	179,059	189,606	189,159	(557,824)	468,683	360,064	76,030	239,113	110,021	(424,315)	360,913
Total liabilities and shareholders' equity	498,576	310,881	189,688	1,049,207	(712,376)	1,335,976	384,093	375,566	244,245	1,729,697	(876,147)	1,857,454

Note 2: (i) The elimination mainly represents inter-company loans that the parent company grant to the subsidiaries of the parent company.

(ii) The elimination represents offsetting entries for investment of the parent company against the equities of the subsidiaries of parent company and the VIE.

Selected Condensed Consolidated Cash Flows Information

	For the Year Ended December 31, 2019					For the Year Ended December 31, 2020					For the Year Ended December 31, 2021							
	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 2) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 3) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 3) RMB'000	Consolidated RMB'000
Net cash provided by/(used in) operating activities	—	(2,505)	(37)	120,566	—	118,024	(6,128)	(24,429)	(2)	168,225	—	137,666	(4,576)	(18,487)	(10)	(152,844)	—	(175,917)
Cash flows from investing activities:																		
Purchase of long-term investment	—	—	—	(2,000)	—	(2,000)	—	—	—	(22,450)	—	(22,450)	—	(11,013)	—	(22,601)	—	(33,614)
Purchase of property, equipment and intangible assets	—	—	—	(6,035)	—	(6,035)	—	(34)	—	(8,162)	—	(8,196)	—	(702)	—	(37,359)	—	(38,061)
Proceeds from disposal of property, equipment and intangible assets	—	—	—	60	—	60	—	—	—	—	—	—	19	—	961	—	980	
Acquisition of subsidiary, net of cash paid	—	—	—	—	—	—	—	—	(569)	—	(569)	—	(2,487)	—	(11,805)	—	(14,292)	
Disposal of subsidiary	—	1,037	—	—	—	1,037	—	—	—	—	—	—	—	—	—	—	—	
Investment in subsidiaries from parent	—	—	—	—	—	—	(245)	—	—	245 ⁽ⁱ⁾	—	(247)	—	—	—	—	247 ⁽ⁱ⁾	
Investment in WFOE from subsidiaries	—	—	—	—	—	—	—	(485)	—	485 ⁽ⁱⁱ⁾	—	—	(129,504)	—	—	—	129,504 ⁽ⁱⁱ⁾	
Payments of inter-company balances	—	(50)	—	—	50 ⁽ⁱⁱⁱ⁾	—	(139,123)	—	—	139,123 ⁽ⁱⁱⁱ⁾	—	(161,216)	—	(128,000)	(5,050)	294,266 ⁽ⁱⁱⁱ⁾	—	
Proceeds from disposal of investments	—	—	—	—	—	—	—	—	—	—	—	—	2,930	—	890	—	3,820	
Others	—	—	—	11	—	11	—	—	137	—	137	—	—	—	241	—	241	
Net cash provided by/(used in) investing activities	—	987	—	(7,964)	50	(6,927)	(139,368)	(519)	(31,044)	139,853	(31,078)	(161,463)	(140,757)	(128,000)	(74,723)	424,017	(80,926)	
Cash flows from financing activities:																		
Proceeds from issuance of common share and redeemable preferred shares during Reorganization	62	—	—	(62)	—	—	—	—	—	—	—	—	—	—	—	—	—	
Proceeds from borrowings	—	—	—	30,000	—	30,000	—	—	105,400	—	105,400	—	—	—	184,000	—	184,000	
Repayments of borrowings	—	—	—	(35,285)	—	(35,285)	—	—	(61,266)	—	(61,266)	—	—	—	(40,503)	—	(40,503)	

[Table of Contents](#)

	For the Year Ended December 31, 2019					For the Year Ended December 31, 2020					For the Year Ended December 31, 2021							
	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 3) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 3) RMB'000	Consolidated RMB'000	Parent company RMB'000	Subsidiaries of parent company RMB'000	WFOE RMB'000	VIE and its subsidiaries RMB'000	Elimination (Note 3) RMB'000	Consolidated RMB'000
Repayments of convertible bonds	—	—	—	(8,794)	—	(8,794)	—	—	—	—	—	—	—	—	—	—	—	—
Proceeds from IPO, net of insurance costs	—	—	—	—	—	340,479	—	—	—	—	—	340,479	—	—	—	—	—	—
Proceeds from inter-company balances	—	—	50	—	(50) ⁽ⁱⁱ⁾	—	139,092	31	—	(139,123) ⁽ⁱⁱ⁾	—	340,479	161,216	5,050	128,000	(294,266) ⁽ⁱⁱ⁾	—	
Repurchase of Class A common shares	—	—	—	—	—	(2,063)	—	—	—	(2,063)	(2,063)	(3,003)	—	—	—	—	(3,003)	
Proceeds from exercise of share options	—	—	—	—	—	503	—	—	245	(245) ⁽ⁱⁱ⁾	503	497	—	—	—	247	(247) ⁽ⁱⁱ⁾	
Cash received by subsidiaries from minority shareholders	—	—	—	—	—	—	—	—	—	(485) ⁽ⁱⁱ⁾	—	—	—	—	900	(129,504) ⁽ⁱⁱ⁾	900	
Capital injection from subsidiaries	—	—	—	—	—	—	—	—	—	(139,853)	—	—	—	—	134,554	(424,017)	—	
Net cash provided by/(used in) financing activities	62	—	50	(14,141)	(50)	(14,079)	338,919	139,092	516	44,379	(139,853)	383,053	(2,506)	161,216	134,554	272,644	(424,017)	141,891
Effect of exchange rate changes on cash and cash equivalents	—	38	—	—	—	38	(6,268)	(3,752)	—	—	(10,020)	(2,381)	(2,631)	—	—	—	—	(5,012)
Net increase in cash and cash equivalents and restricted cash	62	(1,480)	13	98,461	—	97,056	187,155	110,392	514	181,560	—	479,621	(170,926)	(659)	6,544	45,077	—	(119,964)
Total cash and cash equivalents and restricted cash at beginning of year	—	2,361	2	149,908	—	152,271	62	881	15	248,369	—	249,327	187,217	111,273	520	429,929	—	728,948
Total cash and cash equivalents and restricted cash at end of year	62	881	15	248,369	—	249,327	187,217	111,273	529	429,929	—	728,948	16,291	110,614	7,073	475,006	—	608,984

Note 3: (i) The elimination represents the cash flow from exercise of share option between the parent company and the VIE and its subsidiaries.
(ii) The elimination represents inter-company capital injections between subsidiaries and WFOE.
(iii) The elimination represents inter-company loans among the parent company, its subsidiaries, WFOE and the VIE.

Selected Consolidated Financial Data

The following selected consolidated statements of comprehensive (loss)/income data for the years ended December 31, 2019, 2020 and 2021, selected consolidated balance sheet data as of December 31, 2020 and 2021 and selected consolidated cash flow data for the years ended December 31, 2019, 2020 and 2021 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The following selected consolidated statements of operations data for the years ended December 31, 2017 and 2018 have been derived from our audited consolidated financial statements not included in this annual report. The following selected consolidated balance sheet data as of December 31, 2017, 2018 and 2019 and selected consolidated cash flow data for the years ended December 31, 2017 and 2018 have been derived from our audited consolidated financial statements that are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

	For the Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for percentages, share and per share data)						
Summary Consolidated Statements of Comprehensive						
(Loss)/Income Operating revenue						
Brokerage income	251,556	503,547	982,124	1,215,434	2,232,253	350,289
Other income	11,776	5,281	11,195	4,788	12,763	2,003
Total operating revenue	263,332	508,828	993,319	1,220,222	2,245,016	352,292
Operating costs and expenses						
Cost of revenue ⁽¹⁾	(164,750)	(316,397)	(629,531)	(813,507)	(1,688,087)	(264,898)
Other cost	(1,919)	(1,905)	(1,837)	(2,846)	(2,670)	(419)
Total operating costs	(166,669)	(318,302)	(631,368)	(816,353)	(1,690,757)	(265,317)
Selling expenses ⁽¹⁾	(104,980)	(94,613)	(164,665)	(230,438)	(350,573)	(55,012)
General and administrative expenses ⁽¹⁾	(41,877)	(46,177)	(161,816)	(150,207)	(197,619)	(31,011)
Research and development expenses ⁽¹⁾	(50,107)	(24,944)	(33,831)	(49,135)	(120,478)	(18,906)
Total operating costs and expenses	(363,633)	(484,036)	(991,680)	(1,246,133)	(2,359,427)	(370,246)
Operating (loss)/profit	(100,301)	24,792	1,639	(25,911)	(114,411)	(17,954)
Other income/(expenses)						
Interest income/(expenses)	655	(27,111)	(190)	(1,157)	(3,206)	(503)
Unrealized exchange income/(loss)	36	(354)	362	(9)	(59)	(9)
Investment income	811	—	718	137	(5,328)	(836)
Others, net	1,171	4,569	12,676	10,177	12,627	1,981
(Loss)/profit before income tax, and share of income of equity method investee	(97,628)	1,896	15,205	(16,763)	(110,377)	(17,321)
Income tax expense	(406)	(278)	(57)	(1,768)	—	—
Share of income/(loss) of equity method investee	989	1,310	(180)	239	2,660	417
Net (loss)/profit	(97,045)	2,928	14,968	(18,292)	(107,717)	(16,904)
Net profit/(loss) attributable to non-controlling interests	128	(224)	66	—	(51)	(8)
Net (loss)/profit attributable to Huize Holding Limited	(97,173)	3,152	14,902	(18,292)	(107,666)	(16,896)
Redeemable preferred shares redemption value accretion	(26,474)	(29,118)	(32,854)	(4,274)	—	—
Allocation to redeemable preferred shares	47,934	(1,558)	(7,431)	1,074	—	—
Net loss attributable to common shareholders	(75,713)	(27,524)	(25,383)	(21,492)	(107,666)	(16,896)

	For the Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for percentages, share and per share data)						
Weighted average number of common shares used in computing net (loss)/profit per share						
Basic and diluted	445,272,000	445,272,000	452,445,068	963,817,614	1,021,861,206	1,021,861,206
Net loss per share attributable to common shareholders						
Basic and diluted	(0.17)	(0.06)	(0.06)	(0.02)	(0.11)	(0.02)

(1) Share-based compensation expenses were allocated in operating costs and expenses as follows:

	Year Ended December 31,								
	2017	2018	2019	2020	2021				
	RMB	RMB	RMB	RMB	RMB	US\$			
(in thousands)									
Cost of revenue				26	9	43	410	(387)	(61)
Selling expenses				196	110	6,514	10,642	(475)	(75)
General and administrative expenses				386	726	87,980	40,820	(665)	(104)
Research and development expenses				203	122	421	381	(297)	(47)
Total				811	967	94,958	52,253	(1,824)	(287)

The following table presents our selected consolidated balance sheet data as of the dates indicated:

	As of December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Summary Consolidated Balance Sheet Data:						
Cash and cash equivalents	12,261	6,640	88,141	404,618	381,158	59,812
Restricted cash (including amounts of the consolidated VIE of RMB27,992, RMB145,599 thousand, RMB161,186 thousand, RMB217,950 thousand and RMB151,995 thousand as of December 31, 2017, 2018, 2019, 2020 and 2021, respectively)	28,019	145,631	161,186	324,330	227,826	35,751
Accounts receivable, net of allowance for doubtful accounts	70,690	108,434	180,393	232,589	777,262	121,969
Long-term investments	17,765	21,575	23,395	46,084	73,001	11,456
Total assets	165,777	334,084	508,805	1,335,976	1,857,454	291,475
Accounts payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB15,220 thousand, RMB72,989 thousand, RMB124,441 thousand, RMB227,532 thousand and RMB680,183 thousand as of December 31, 2017, 2018, 2019, 2020 and 2021, respectively)	15,453	73,448	124,441	227,532	680,369	106,765
Insurance premium payables (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB101,694 thousand, RMB114,447 thousand, RMB125,587 thousand, RMB187,219 thousand and RMB124,019 thousand as of December 31, 2017, 2018, 2019, 2020 and 2021, respectively)	101,694	114,447	125,587	187,219	124,019	19,461
Other payables and accrued expenses (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB25,522 thousand, RMB60,599 thousand, RMB37,678 thousand, RMB39,421 thousand and RMB207,462 thousand as of December 31, 2017, 2018, 2019, 2020 and 2021, respectively)	26,036	36,908	30,211	31,153	71,255	11,181

	As of December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Payroll and welfare payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB17,017 thousand, RMB31,850 thousand, RMB43,831 thousand, RMB52,564 thousand and RMB92,094 thousand as of December 31, 2017, 2018, 2019, 2020 and 2021, respectively)	17,017	31,850	43,993	63,919	93,451	14,665
Income taxes payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB206 thousand, RMB206 thousand, RMB206 thousand, RMB2,440 thousand and RMB2,440 thousand as of December 31, 2017, 2018, 2019, 2020 and 2021, respectively)	445	250	206	2,440	2,440	383
Total liabilities	183,919	297,549	362,831	867,293	1,496,541	234,839
Total mezzanine equity	367,228	421,773	454,627	—	—	—
Total shareholders' (deficit)/equity	(385,370)	(385,238)	(308,653)	468,683	360,913	56,636
Total liabilities, mezzanine equity and shareholders' (deficit)/equity	165,777	334,084	508,805	1,335,976	1,857,454	291,475

The following table sets forth our selected consolidated cash flow data for the years indicated:

	For the Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Summary Consolidated Cash Flow Data:						
Net cash (used in)/ provided by operating activities	(85,349)	66,853	118,024	137,666	(175,917)	(27,605)
Net cash provided by/(used in) investing activities	57,767	(3,554)	(6,927)	(31,078)	(80,926)	(12,700)
Net cash provided by/(used in) financing activities	22,988	48,572	(14,079)	383,053	141,891	22,266
Effect of exchange rate changes on cash and cash equivalents	(234)	120	38	(10,020)	(5,012)	(786)
Net (decrease)/ increase in cash and cash equivalents and restricted cash	(4,828)	111,991	97,056	479,621	(119,964)	(18,825)
Total cash and cash equivalents and restricted cash at beginning of the year	45,108	40,280	152,271	249,327	728,948	114,388
Total cash and cash equivalents and restricted cash at end of the year	40,280	152,271	249,327	728,948	608,984	95,563

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

An investment in our ADSs involves significant risks. Below is a summary of material risks we face, organized under relevant headings. These risks are discussed more fully in Item 3. Key Information—D. Risk Factors.

Risks Relating to Our Business and Industry

Risks and uncertainties relating to our business and industry include, but are not limited to, the following:

- we operate in the emerging, rapidly evolving and highly competitive online insurance product and service industry, which makes it difficult to predict our future prospects. Our historical operating and financial results may not be indicative of future performance (Page 21);

- our businesses are highly regulated, and the administration, interpretation and enforcement of the laws, regulations and regulatory requirements currently applicable to us are unclear, evolving and involve uncertainties. Non-compliance with applicable laws, regulations and regulatory requirements or failure to respond to legal and regulatory changes may materially and adversely affect our business and prospects (Pages 21 to 23);
- we incurred operating losses and net losses in the past, and we may not be able to return and stay profitable in the future (Page 23);
- our cooperation with user traffic channels is subject to changes in the regulatory requirements (Page 24);
- our business generates and processes a large amount of data, and is subject to complex and evolving Chinese and international laws and regulations regarding data privacy and cybersecurity. Any failure to protect the confidential information of third parties or improper use or disclosure of such data may subject us to liabilities imposed by data privacy and protection laws and regulations, negatively impact our reputation, and deter our clients from using our online platform (Pages 24 to 27);
- failure to obtain, renew, or retain licenses, permits or approvals may affect our ability to conduct or expand our business (Pages 27);
- if we fail to source, design and develop insurance products catering to the evolving needs of insurance clients, we may not be able to retain existing insurance clients or attract new insurance clients to our online platform (Page 27); and
- we leverage our user traffic channels to attract new insurance clients to our platform and incur significant costs on paying our user traffic channels service fees (Page 28).

Risks Relating to Our Corporate Structure

Risks and uncertainties relating to our corporate structure include, but are not limited to, the following:

- we are a Cayman Islands holding company with no equity ownership in the VIE and we conduct our operations in China primarily through (i) the VIE with which we have maintained contractual arrangements, and (ii) the VIE's subsidiaries in China. Investors in our ADSs thus are not purchasing equity interest in the VIE in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiary, the VIE, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, significantly affect the financial performance of the VIE and our company as a whole (Pages 42 to 44);
- we rely on contractual arrangements with the VIE, and its shareholders for our operations in China, which may not be as effective as equity ownership in providing operational control (Page 44);
- the shareholders and directors of the VIE may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected (Pages 44 to 45);
- substantial uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and its Implementation Regulations and how they may impact the viability of our current corporate structure, corporate governance, business operations and financial results (Page 45);
- Cayman Islands economic substance requirements may have an effect on our business and operations (Page 45);
- our ability to enforce the equity pledge agreements between us and the shareholders of the VIE may be subject to limitations based on PRC laws and regulations (Page 46);
- if the VIE and its subsidiaries becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy their assets, which could reduce the size of our operations and materially and adversely affect our business (page 46);
- our contractual arrangements with the VIE may result in adverse tax consequences to us (Page 47);
- contractual arrangements we have entered into among our WFOE, the VIE and its shareholders may be subject to scrutiny by the PRC tax authorities and they may determine that we or the VIE and its subsidiaries owe additional taxes, which could substantially reduce our consolidated net profit and the value of your investment (Page 47);
- we may rely principally on dividends and other distributions on equity paid by our WFOE to fund any cash and financing requirements we may have, and any limitation on the ability of our WFOE to pay dividends to us could have a material adverse effect on our ability to conduct our business (Pages 47 to 48); and
- PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of conversion of foreign currencies into Renminbi may delay or prevent us from using the proceeds of our initial public offering to make loans to our WFOE and VIE or to make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business (Pages 48 to 49).

Risks Relating to Doing Business in China

We are also subject to risks and uncertainties relating to doing business in China in general, including, but are not limited to, the following:

- the PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections (Page 49);
- our ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment (Page 49);
- the approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing (Pages 50 to 52);
- the PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs (Page 52);
- adverse changes in China's economic, political and social conditions, as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects (Page 53);
- uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us (Page 53);
- we may be adversely affected by the complexity, uncertainties and changes in PRC regulations of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations (Page 54);
- we face uncertainties with respect to the enactment, interpretation and implementation of the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (Pages 54);
- government control of currency conversion and future fluctuation of Renminbi exchange rates could have a material adverse effect on our results of operations and financial condition, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms (Page 55);
- you may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our directors and management named in the annual report based on foreign laws (Pages 55 to 56);
- fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment (Pages 56 to 57);
- PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our WFOE to liability or penalties, limit our ability to inject capital into our WFOE or limit our WFOE's ability to increase their registered capital or distribute profits (Page 57);
- failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions (Page 58);
- failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties (Page 58);
- inflation and increases in labor costs in China could negatively affect our profitability and growth (Page 59);
- any failure by us or our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation (Page 59);
- China's M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China (Page 60);
- we face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies (Pages 60 to 61);
- the dividends we receive from our WFOE may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our financial condition and results of operations (Page 61);
- if we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders (Page 61); and
- if the custodians or authorized users of controlling non-tangible assets of our company, including our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected (Pages 61 to 62).

Risks Relating to Our ADSs

In addition to the risks described above, we are subject to general risks relating to our ADSs, including, but not limited to, the following:

- the trading price of our ADSs has been and may continue to be volatile, which could result in substantial losses to investors (Pages 62 to 63);
- if securities or industry analysts do not publish or publish inaccurate or unfavorable research about our business, or if they adversely change their recommendations regarding our ADSs, the market price for our ADSs and trading volume could decline (Page 63); and
- techniques employed by short sellers may drive down the market price of our ADSs (Page 63).

Risks Relating to Our Business and Industry

We operate in the emerging, rapidly evolving and highly competitive online insurance product and service industry, which makes it difficult to predict our future prospects. Our historical operating and financial results may not be indicative of future performance.

We operate in China's online insurance product and service industry, which is rapidly evolving and may not develop as we anticipate. This industry is relatively new, and business models continue to evolve. The regulatory framework governing the insurance industry is also developing and may remain uncertain in the near future. As our business develops and in response to the evolving client needs and market competition, we will continue to introduce new insurance products and services, improve our existing products and services, or adjust and optimize our business model. In response to new regulatory requirements or industry standards, or in connection with the introduction of new products, we may impose more rigorous risk management system and/or policies, which may negatively affect the growth of our business. Any significant change to our business model may not achieve expected results and may have a material and adverse impact on our financial condition and results of operations. It is therefore difficult to effectively predict our future prospects.

The risks and challenges we encounter or may encounter in this emerging, dynamic and competitive market may have impacts on our business and prospects. These risks and challenges include our ability to, among other things:

- navigate in an evolving and complex regulatory environment;
- grow our insurance client base in a cost-efficient manner;
- develop and launch diversified and distinguishable products to effectively address the evolving needs of our insurance clients;
- develop and maintain relationships with our existing business partners and attract new business partners;
- enhance and maintain the recognition of our brand;
- enhance our risk management capabilities;
- maintain a reliable, secure, high-performance and scalable technology infrastructure;
- attract, retain and motivate talented employees; and
- anticipate and adapt to changing market conditions, including technological developments and changes in the competitive landscape.

If we fail to educate business partners and clients about the value of our platform and services, if the market for our products and services does not develop as we expect, if we fail to address the needs of our target clients, or if we are not able to effectively tackle other risks and challenges that we may encounter, our business and results of operations may be harmed.

Our businesses are highly regulated, and the administration, interpretation and enforcement of the laws, regulations and regulatory requirements currently applicable to us are unclear, evolving and involve uncertainties. Non-compliance with applicable laws, regulations and regulatory requirements or failure to respond to legal and regulatory changes may materially and adversely affect our business and prospects.

We operate in a highly regulated industry in China, and the regulatory regime continues to evolve. The China Banking and Insurance Regulatory Commission, or the CBIRC, has extensive authority to supervise and regulate the insurance industry in China. Since the online insurance product and service industry in China has emerged and keeps evolving rapidly, the CBIRC has been enhancing its supervision over this industry in recent years, and new laws, regulations and regulatory requirements have been promulgated and implemented from time to time. We face challenges brought by these new laws, regulations and regulatory requirements, as well as significant uncertainties in the interpretation and application thereof. Moreover, there are uncertainties as to how the regulatory environment might change.

China's insurance regulatory regime is undergoing significant changes. Further development of regulations applicable to us may result in additional restrictions on our business operations or more intensive competition in this industry. We might be required to spend significant time and resources in order to comply with any material changes in the regulatory environment, which could trigger significant changes to the competitive landscape of our industry and we may lose some or all of our competitive advantages during this process. We may change the insurance product mix we offer online or offline in response to the changing market demands following any change of regulatory requirements. We may need to add to our product mix insurance products offered online or offline that we have little experience with, or reduce or cease the offering of insurance products that used to be popular, either of which may adversely affect our results of operations. Our plans to further expand into the offline insurance intermediary market would also subject us to applicable laws and regulations with respect to offline insurance intermediary business, and we cannot assure you that we will be able to fully comply with applicable laws and regulations or fully satisfy the relevant regulatory requirements, failure of which will subject us to regulatory reviews and inspections or even legal liabilities, which could negatively affect our business and results of operations.

In November 2020, the Circular on Matters concerning the Use of the Illness Definitions for Critical Illness Insurance and the Definition of Illness under Critical Illness Insurance was promulgated, reclassifying the definition of illness under critical illness insurance and expanding the scope of certain diseases. Given that the reclassification is deemed to be less favorable for insurance clients, in order to keep our long-term critical illness insurance products competitive, we may need to invest in developing more attractive products to retain our existing insurance clients and expand our insurance client base. Additionally, on October 12, 2021, the CBIRC issued the Notice on Further Regulating Matters Concerning Internet Personal Insurance Business, which became effective on the same day. The notice aims to further regulate the operation of internet personal insurance business of insurance institutions and require the internet personal insurance products to be dedicatedly managed by insurance companies. Pursuant to the notice, internet personal insurance products include accident insurance, health insurance (except nursing insurance), term life insurance, ordinary life insurance with a policy period of more than ten years (except term life insurance) and ordinary annuity insurance with a policy period of more than ten years, and other personal insurance products stipulated by the CBIRC. Internet personal insurance products that do not meet the requirements thereof are prohibited from being offered online, and public display of, or direction to, hyperlinks to the webpages of placing orders on the internet of such internet personal insurance products are prohibited as well. The notice puts forward higher standards for insurance institutions to carry out internet personal insurance business in terms of technical capabilities, online operation capabilities and service capabilities. Moreover, it introduces classification requirements regarding different forms of internet personal insurance business that the insurance institutions can carry out based on different types of insurance product. Insurance intermediaries also need to satisfy the corresponding basic requirements. The notice also provides that customer service personnel of insurance intermediaries are not allowed to actively conduct marketing activities with regard to internet personal insurance products, and their compensation shall not be linked to the sales results of internet personal insurance products. Subsequent to its effective date, the offering of internet insurance products and the commission fee rate would be subject to uncertainties, which may have adversely affect on our business, results of operations and financial conditions. The attention of our management team could be diverted to the efforts to cope with an evolving regulatory or competitive environment. Meanwhile, staying compliant with the restrictions may result in limitation to our business scope, limitation to our product and service offerings, and reduction in our attraction to clients. We have made adjustments to our business operations to comply with the notice. However, we cannot assure you that our current and future business operations will fully satisfy regulatory requirements applicable to us, or that we will not be subject to any future regulatory reviews and inspections where other non-compliance incidents might be identified. If we fail to do so, our business, financial condition, results of operations and prospects will be materially and adversely affected.

In addition, there are uncertainties regard to how the changing laws, regulations and regulatory requirements would apply to our business. The CBIRC and its local counterparts have wide discretion in administration, interpretation and enforcement of these laws, regulations and regulatory requirements, as well as the authority to impose regulatory sanctions on industry participants. In certain circumstances it may be difficult to determine which actions or omissions may be deemed to be in violation of applicable laws, regulations or regulatory requirements. For example, as part of our marketing efforts, we have in the past offered potential insurance clients small amounts of cash rewards to encourage their engagement with our platform before they purchased insurance products. Such amounts were deductible from the premiums payable should such potential clients subsequently purchase insurance products on our platform. It is unclear whether such arrangement might be deemed as additional benefits offered to insurance clients other than those benefits stipulated in the insurance contracts, which is prohibited under relevant PRC laws and regulations. As of the date of this annual report, we no longer offer these cash rewards, but there is no guarantee that our practice in the past would not subject us to administrative measures with retrospective effect to be taken by regulatory authorities. Furthermore, misconduct of our insurer partners, user traffic channels or other business partners in violation of any of these laws, regulations or regulatory requirements might subject us to fines, civil or criminal liabilities, being required to modify or terminate part or all of our business operations or even being disqualified from providing services to our insurer partners or insurance clients. The occurrence of any of the above could have a material adverse effect on our business, results of operations, financial condition and prospects.

Moreover, Chinese regulatory authorities may conduct various reviews and inspections on our business operations from time to time, which could cover a broad range of aspects, including financial reporting, tax reporting, internal control and compliance with applicable laws, rules and regulations. If any non-compliance incidents in our business operation are identified, we may be required to take certain rectification measures in accordance with applicable laws and regulations, or we may be subject to other regulatory actions such as administrative penalties. For example, the CBIRC and its local counterparts have conducted several inspections, reviews and inquiries on us and identified certain non-compliance incidents in our business operation, risk management and internal control, including incidents with respect to settlement of insurance premiums through and our cooperation with user traffic channels that do not meet regulatory requirements. In particular, (i) we have in the past misused funds in the insurance premium accounts; and (ii) some of our business partners, including certain travel agencies and user traffic channels lacking relevant licenses or approvals, have in the past collected a small portion of insurance premiums on our behalf. According to relevant PRC laws, insurance brokerage companies like us are required to set up separate accounts to receive and hold the insurance premiums they receive from insurance clients on behalf of insurance companies and are prohibited from using or misusing such funds. Failure to comply with such regulatory requirements may subject us to making rectifications, warnings, fines, or further, revocation of our License for Operating Insurance Brokerage Services, or the Insurance Brokerage Licence, in the case where regulatory authorities consider such action as a material violation. In addition, entities that do not hold licenses required by PRC regulatory authorities are not allowed to collect insurance premiums on behalf of us under relevant PRC laws and regulations. We have taken remedial measures to rectify the aforementioned non-compliance incidents. As of the date of this annual report, we have returned all of the insurance premiums that we had misused in the past, and we have terminated cooperation with entities that do not hold the relevant licenses required for collecting insurance premiums on our behalf. We plan to adopt a more rigorous internal control system to manage our cooperation with unlicensed business partners with regard to the collection of insurance premiums on our behalf.

We are in the process of rectifying all non-compliance incidents that we are aware of under the unclear and changing regulatory environment. However, we cannot assure you that we will be able to fully rectify all non-compliance incidents in a timely manner or fully satisfy the regulatory requirements, or we will not be subject to any future regulatory reviews and inspections where other non-compliance incidents might be identified, which might materially and adversely affect our business, financial condition, results of operations and prospects.

We incurred operating losses and net losses in the past, and we may not be able to return and stay profitable in the future.

Although we generated net profit and operating profit in 2019, in 2020 and 2021, we had net loss of RMB18.3 million and RMB107.7 million (US\$16.9 million), respectively, and had operating loss of RMB25.9 million and RMB114.4 million (US\$18.0 million), respectively. We cannot assure you that we will return and remain profitable in the future. We anticipate that our operating costs and expenses will increase in the foreseeable future as we continue to grow our business, acquire new clients and further develop our insurance product and service offering and increase brand recognition. These efforts may prove more costly than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. There are other factors that could negatively affect our financial condition. For example, if we fail to compete successfully with our existing or potential competitors, or if our tailor-made insurance products are not accepted by the market as we expect, we will receive lower-than-expected insurance brokerage income, and our financial results will be adversely affected. If regulatory authorities promulgate new laws, regulations and regulatory requirements that limit our business operations, especially with regard to our fee or cost model, our results of operations will suffer. As a result of the foregoing and other factors, our net profit margins may decline or we may incur net losses again in the future and may not be able to maintain profitability on a quarterly or annual basis.

Our cooperation with user traffic channels is subject to changes in the regulatory requirements.

We leverage our user traffic channels to convert their user traffic to our insurance clients. On December 7, 2020, the CBIRC published the Regulatory Measures for Online Insurance Business, or the Online Insurance Measures, which became effective on February 1, 2021 and replaced the Interim Regulatory Measures for Online Insurance Business, promulgated by the predecessor of CBIRC on July 22, 2015. The Online Insurance Measures changed regulatory requirements for online insurance business in various aspects. For example, it sets a higher standard for insurance institutions and online industry participants to improve IT infrastructure and cybersecurity protection. In particular, insurance institutions engaged in online insurance business shall have IT systems that are equipped with the insurance sales or insurance application function, and are certified as Safety Level III Computer Information Systems. The Online Insurance Measures requires online insurance transactions being conducted through online surfaces operated by insurance institutions only. Under the Online Insurance Measures, our user traffic channels or other business partners who are neither insurance companies nor insurance intermediaries are forbidden to conduct online insurance business, including but not limited to: (i) providing insurance product consulting services; (ii) comparing insurance products, conducting trial calculation of premium or quotation comparison; (iii) designing insurance application plans for policyholders; (iv) going through insurance application procedures; and (v) collecting premiums. Furthermore, insurance institutions shall not, in internet insurance sales or brokerage activities, pay commission fee or remuneration directly or in a disguised way to any person who has not carried out practice registration with it. Pursuant to the Online Insurance Measures, insurance institutions shall (i) make corresponding rectifications regarding system development, marketing and publicity, sales management and information disclosure by May 2021, (ii) complete the rectification of other problems such as business and operation by August 2021, and (iii) complete the certification of the cybersecurity graded protection for their self-running network platform by February 2022. Our system was certified as Safety Level III Computer Information System on January 15, 2020. We have made rectifications in accordance with the Online Insurance Measures, including changing our cooperative business model and terminating our cooperation with some user traffic channels that do not meet regulatory requirements. However, we cannot assure you that our business operation after the rectification fully complies with regulatory requirements. In addition, some of our user traffic channels have been conducting online insurance business. We cannot guarantee that these user traffic channels that we work with have rectified their operations to fully comply with these regulatory requirements. Failure of us or our user traffic channels to comply with relevant regulatory requirements will subject us or the user traffic channels to warnings, fines, confiscation of illegal gains and revocation of licenses, which will materially and adversely affect our business, financial condition, results of operations and prospects.

Furthermore, under our agreements with certain insurer partners, we are not allowed to distribute their insurance products through user traffic channels that fail to comply with relevant online insurance regulatory requirements. Therefore, we may breach the agreements with them if we distribute their insurance products through user traffic channels that fail to comply with relevant online insurance regulatory requirements, which might subject us to defaulting liabilities and adversely affect our financial condition.

Our business generates and processes a large amount of data, and is subject to complex and evolving Chinese and international laws and regulations regarding privacy, data protection and cybersecurity. Any failure to protect the confidential information of third parties or improper use or disclosure of such data may subject us to liabilities imposed by data privacy and protection laws and regulations, negatively impact our reputation, and deter our clients from using our online platform.

Our platform stores and processes certain personal and other sensitive data provided by insurance clients, and we make certain personal information provided by clients or third party data providers available to insurer partners with user consent. There are numerous laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and data. Specifically, personally identifiable and other confidential information is increasingly subject to legislation and regulations in PRC and numerous foreign jurisdictions. PRC government authorities have enacted a series of laws and regulations relating to the protection of privacy and personal information, under which internet service providers and other network operators are required to clearly indicate the purposes, methods and scope of any information collection and usage, to obtain appropriate user consent and to establish user information protection systems with appropriate remedial measures. However, this regulatory framework for privacy issues in China and worldwide is currently evolving and is likely to remain uncertain for the foreseeable future.

In December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision also requires internet operators to take measures to ensure confidentiality of information of users. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users' personal information in the provision of telecommunication service and internet information service in China. In August 2015, the Standing Committee of the National People's Congress promulgated the Ninth Amendment to the Criminal Law, which became effective in November 2015 and amended the standards of crime of infringing citizens' personal information and reinforced the criminal culpability of unlawful collection, transaction, and provision of personal information. It further provides that any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders will be subject to criminal liability. In November 2016, the Standing Committee of the National People's Congress promulgated the PRC Cyber Security Law, which requires, among others, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. The Civil Code promulgated in 2020 also provides specific provisions regarding the protection of personal information.

On June 10, 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law, among others, provides for a security review procedure for the data activities that may affect national security. Furthermore, on December 28, 2021, the CAC and 12 other governmental authorities jointly published the Measures for Cybersecurity Review, or the Measures, which became effective on February 15, 2022. Pursuant to the Measures, the following operators shall apply with the Cybersecurity Review Office of CAC for a cybersecurity review: (i) internet platform operators holding over one million individuals' personal information pursuing a foreign listing, (ii) operators of "critical information infrastructure" that intend to purchase internet products and services that will or may affect national security, and (iii) internet platform operators carrying out data processing activities which has affected or may affect national security. Furthermore, the Measures also provide that the relevant authorities may initiate a cybersecurity review at their discretion, if the relevant authorities consider that certain network products and services or data processing activities has affected or may affect national security. The Measures also elaborate the factors to be considered when assessing national security risks of the relevant activities, including, among others, risks of core data, important data or a large amount of personal information being stolen, leaked, destroyed, illegally used or exported, and risks of critical information infrastructure, core data, important data or a large amount of personal information data being affected, controlled and maliciously used by foreign governments after an overseas listing. On July 30, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. As of the date of this annual report, no detailed rules or implementation has been issued by any authority and we have not been informed as a critical information infrastructure operator by any government authorities. Furthermore, the definition of "affects or may affect national security" has not been clarified by any PRC regulatory authorities, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties as to how the aforementioned rules will be interpreted or implemented, and it is unclear as to whether and to what extent listed companies like us will be subject to these requirements. If we are subject to a cybersecurity review, or if the PRC regulatory agencies later promulgate new rules or interpretations that subject us to their approvals, we may be unable to obtain a waiver for such requirements, and we may face penalties for failure to obtain or delay in obtaining approvals. If we are required to comply with these requirements but fail to do so in a timely manner, or at all, our business operation, financial conditions and business prospect, as well as the trading price of our listed securities, may be adversely and materially affected.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations, and were open for public comments until December 13, 2021. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) the listing of data processors in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. However, there have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that "affects or may affect national security." See "Item 4. Information on the Company—B. Business Overview—Regulations." As of the date of this annual report, the Draft Regulations were released for public comment only, and the provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. The Measures and the Draft Regulations remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and Hong Kong, such as us. We cannot predict the impact of the Measures and the Draft Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the Measures and the enacted versions of the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange and Hong Kong Exchanges, such as us, we may face uncertainties as to whether such clearance can be timely obtained, or at all. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis. However, if we are not able to comply with the cybersecurity and network data security requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, among other sanctions, which could materially and adversely affect our business and results of operations. In addition to the cybersecurity review, the Draft Regulations requires that data processors processing "important data" or listed overseas shall conduct an annual data security assessment by itself or commission a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. If a final version of the Draft Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing.

On August 20, 2021, the Standing Committee of the National People’s Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. Our mobile apps and websites only collect user personal information that is necessary to provide the corresponding services. We do not collect any sensitive personal information or other excessive personal information that is not related to the corresponding services. We update our privacy policies from time to time to meet the latest regulatory requirements of the CAC and other authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law raises the protection requirements for processing personal information, and many specific requirements of the Personal Information Protection Law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations. See “Item 4. Information on the Company—B. Business Overview—Regulations.”

The PRC Cyber Security Law, the Data Security Law and Civil Code are relatively new and subject to interpretation by the regulators. Although we only gain access to user information that is necessary for, and relevant to, the services provided, the data we obtain and use may include information that is deemed as “personal information”, “network data” or “important data” under the PRC Cyber Security Law, the Civil Code and related data privacy and protection laws and regulations. As such, we have adopted a series of measures to ensure that we comply with relevant laws and regulations in the collection, use, disclosure, sharing, storage, and security of user information and other data. The Data Security Law also stipulates that the relevant authorities will formulate the catalogues for important data and strengthen the protection of important data, and state core data, i.e. data having a bearing on national security, the lifelines of national economy, people’s key livelihood and major public interests, shall be subject to stricter management system. “Item 4.B. Information on the Company—Business Overview—Regulations.” The exact scopes of important data and state core data remain unclear and may be subject to further interpretation. If any data that we are in possession of constitutes important data or state core data, we may be required to adopt stricter measures for protection and management of such data.

In addition, we may need to comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in Hong Kong, the U.S., Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation, or the GDPR, which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR) and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks.

We generally comply with industry standards and are subject to the terms of our own privacy policies. Compliance with any additional laws could be expensive, and may place restrictions on the conduct of our business and the manner in which we interact with our customers. Any failure to comply with applicable regulations could also result in regulatory enforcement actions against us, and misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental authorities or other authorities, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Significant capital and other resources may be required to protect against information security breaches or to alleviate problems caused by such breaches or to comply with our privacy policies or privacy-related legal obligations. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims. Any perception by the public that online transactions or the privacy of user information are becoming increasingly unsafe or vulnerable to attacks could inhibit the growth of online retail and other online services generally, which may reduce the number of orders we receive.

We cannot assure you that our existing privacy and personal protection system and technical measures will be considered sufficient under applicable laws and regulations. We could be adversely affected if legislation or regulations in China are expanded to require changes in business practices or privacy policies, or if the PRC governmental authorities interpret or implement their legislation or regulations in ways that negatively affect our business, financial condition and results of operations. In addition to laws, regulations and other applicable rules regarding privacy and privacy advocacy, industry groups or other private parties may propose new and different privacy standards. Because the interpretation and application of privacy and data protection laws and privacy standards are still uncertain, it is possible that these laws or privacy standards may be interpreted and applied in a manner that is inconsistent with our practices. Any inability to adequately address privacy concerns, even if unfounded, or to comply with applicable privacy or data protection laws, regulations and privacy standards, could result in additional cost and liability for us, damage our reputation, inhibit the use of our platform and harm our business.

Failure to obtain, renew, or retain licenses, permits or approvals may affect our ability to conduct or expand our business.

We are required to obtain applicable licenses, permits and approvals from different PRC regulatory authorities in order to conduct or expand our business. Various governmental authorities in the PRC have promulgated various regulations on the insurance business and internet-based services, including regulations requiring an Insurance Brokerage License, a License for Operating Insurance Agent Services, or the Insurance Agency License and an ICP License. We have obtained, renewed and maintained our Insurance Brokerage License, our Insurance Agency Licenses and our ICP License as required by the PRC regulatory authorities. However, there is no assurance that the PRC regulatory authorities will not issue new regulations governing the internet or the insurance product and service industry that might require us to obtain additional licenses, permits or approvals for our current or future business operations, which may materially and adversely affect our business operations and financial condition.

If we fail to source, design and develop insurance products catering to the evolving needs of insurance clients, we may not be able to retain existing insurance clients or attract new insurance clients to our online platform.

Our future growth depends on our ability to continue to attract new insurance clients and to generate new purchases from existing clients. We must stay abreast of emerging client preferences and product trends that will appeal to existing and potential insurance clients. Our platform makes personalized recommendations of insurance products to clients based on their needs, and offers a comprehensive suite of services to ensure a smooth and efficient insurance experience. We also develop insurance products in cooperation with our insurer partners to meet the evolving needs of insurance clients. Our ability to provide these products and services is dependent on our insurance expertise and our market data analytical capabilities. However, there is no assurance that the insurance products and services that we design and develop together with our insurer partners will cater to the needs of potential or existing insurance clients, sustain for a period of time that we expect them to, or be welcomed or accepted by the market at all. If insurance clients cannot find their desired products on our platform at attractive prices and terms, or find their experience with us dissatisfactory, they may lose trust in us and turn to other channels for their insurance needs, which in turn may materially and adversely affect our business, financial condition and results of operations.

We leverage our user traffic channels to attract new insurance clients to our platform and incur significant costs on paying our user traffic channels service fees.

In addition to growing our client base organically, we also cooperate with our user traffic channels to convert their user traffic to client base of our platform. Our agreements with user traffic channels are generally one to three years subject to renewal. We believe that we generally maintain good relationships with our user traffic channels. However, we cannot assure you that we will be able to maintain long-term cooperative relationship with them. If our user traffic channels terminate their cooperation with us, do not renew their agreements with us, choose to work with our competitors, or terminate their cooperation with us due to regulatory requirements, we may lose potential clients and our business and results of operations will be negatively affected. In addition, if our user traffic channels lose influence over their traffic or otherwise fail to effectively convert their users to our clients, our business and results of operations may suffer.

Furthermore, we have incurred significant expenses on paying our user traffic channels service fees and advertisement fees. If certain of our existing user traffic channels require higher rates of service fees or we fail to negotiate favorable terms with them or find new user traffic channels, our client acquisition costs may increase, and our results of operations may be adversely affected.

Any harm to our brand, failure to maintain and enhance our brand recognition, or failure to do so in a cost-effective manner may materially and adversely affect our business and results of operations.

We believe that the recognition and reputation of our “Huize” brand among our insurance clients, insurer partners, user traffic channels and other industry participants have contributed significantly to the growth and success of our business. Maintaining and enhancing the recognition and reputation of our brand are critical to our business and competitiveness. Many factors, some of which are beyond our control, are important to maintain and enhance our brand. These factors include our ability to:

- provide compelling products and insurance experience to clients;
- maintain or improve satisfaction with our client services;
- increase brand awareness through marketing and brand promotion activities;
- maintain the reliability of our online platform and technology-based systems;
- preserve our reputation and goodwill in the event of any negative publicity on us, our partners or the industry in general; and
- maintain our cooperative relationships with business partners.

If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our online platform, products and services, it may be difficult to maintain and grow our client base, and our business and growth prospects may be materially and adversely affected.

Furthermore, if we are unable to conduct our branding and marketing activities cost-effectively, our financial condition and results of operations may be materially and adversely affected. We have incurred expenses on a variety of different sales and marketing efforts designed to enhance our brand recognition and increase sales of insurance products on our platform. Our marketing and promotional activities may not be well received by clients and may not achieve anticipated results. Marketing approaches and tools in insurance market in China are evolving. This further requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and consumer preferences, which may not be as cost-effective as our marketing activities in the past and may lead to significantly higher marketing expenses in the future. Failure to refine our existing marketing approaches or to introduce new effective marketing approaches in a cost-effective manner could impact our revenues and profitability.

We depend on our cooperation with our insurer partners. Our business may be negatively affected if our insurer partners do not continue their relationship with us or if their operations fail.

Our relationship with insurer partners is crucial to our success. We generate a substantial portion of our revenues from commission fees paid by insurer partners. Certain insurer partners have accounted for a significant portion of our revenues in the past. Our five largest insurer partners in terms of operating revenue contribution aggregately accounted for 60.7%, 63.0% and 78.4% of our total operating revenue in 2019, 2020 and 2021, respectively. While we continually seek to diversify our insurer partners, there can be no assurance that the concentration will decrease. Our ability to attract clients depends on the quantity and quality of insurance products offered by insurer partners on our platform. We provide intelligent underwriting services and integrated solutions to our insurer partners. Our arrangements with our insurer partners are typically not exclusive, and they may have similar arrangements with our competitors. If insurer partners are dissatisfied with our services and solutions or find us ineffective in enhancing their profitability, they may terminate their relationships with us and decide to cooperate with our competitors.

Moreover, insurance companies we work with may develop their own technology capabilities to serve insurance clients online. There can be no assurance that we can maintain relationships with our existing insurer partners on commercially desirable terms. If we fail to prove that our technology capabilities could help improve their operating efficiency or are otherwise valuable to them, our business, financial performance and prospects will be materially and adversely affected.

Furthermore, if our insurer partners or the reinsurance companies they partner with fail to properly fulfill their obligations as insurers under the insurance policies sold on our platform, our clients may lose faith in our platform. If our insurer partners or the reinsurance companies they partner with become insolvent, our clients may not be able to realize the protection expected from the insurance policies, which will negatively affect our reputation and results of operations.

We may not be able to ensure the accuracy and completeness of product information and the effectiveness of our recommendation of insurance products on our platform.

Our insurance clients rely on the insurance product information we provide on our platform. While we believe that such information is generally accurate, complete and reliable, there can be no assurance that the accuracy, completeness or reliability of the information can be maintained in the future. We had in the past failed to provide legally required disclosure on our platform to the attention of our clients, including how we are paid as an insurance broker, and whether we or our senior management are related parties of our insurer partners and other insurance institutions. If we provide any inaccurate or incomplete information on our platform due to either our own fault or that of our insurer partners, or we fail to present accurate or complete information of any insurance products which could lead to our clients' failure to get the protection or us being warned or punished by regulatory authorities, our reputation could be harmed and we could experience reduced user traffic to our platform, which may adversely affect our business and financial performance.

We may not be able to recommend suitable insurance products to our clients. Our search and recommendation engine may fail to function properly. The data provided to us by our clients, insurer partners and user traffic channels may not be accurate or up to date. Our professional consultation team may not fully understand the clients' insurance needs and recommend suitable products to them. If our clients are recommended insurance products that do not suit their protection needs, they may lose trust in our platform. Meanwhile, our insurer partners may find our recommendation ineffective. Our insurance clients and insurer partners may consequently be reluctant to continue to use our platform, and our insurer partners may be hesitant to continue to partner with us. As a result, our business, reputation, financial performance and prospects will be materially and adversely affected.

Our business is subject to intense competition, and we may fail to compete successfully against existing or new competitors, which may reduce demand for our services, reduce operating margins, and further result in loss of market share, departures of qualified employees and increased capital expenditures.

The online independent insurance service industry in China is intensely competitive. Our current or potential competitors include (i) other online independent insurance product and service platforms, (ii) traditional insurance intermediaries, (iii) online direct sales channels of large insurance companies, (iv) major internet companies that have commenced insurance distribution businesses, and (v) other online insurance technology companies. New competitors may emerge at any time. Some of our competitors also offer their insurance products on our platform, so they both compete and cooperate with us. Existing or potential competitors may have substantially greater brand recognition and possess more financial, marketing and research resources than we do. Our competitors may introduce platforms with more attractive products, content and features, or services or solutions with competitive pricing or enhanced performance that we cannot match. Some of our competitors may have more resources to develop or acquire new technologies and react quicker to changing requirements of clients and insurance companies. In addition, our target insurance clients, PRC residents with potential insurance needs, may seek insurance products and services in well-equipped and developed neighboring insurance markets. We may fail to compete effectively with our competitors and industry participants in neighboring insurance markets, even if we take initiatives in developing our insurance service capabilities in these neighboring insurance markets, which may reduce demand for our services, result in loss of market share, and further result in reduction of operating margins and departures of qualified employees.

The proper functioning of our internet platform and technology infrastructure is essential to our business. Any disruption to our IT systems and infrastructure could materially affect our ability to maintain the satisfactory performance of our platform and deliver consistent services to our users.

The reliability, availability and satisfactory performance of our IT systems are critical to our success, our ability to attract and retain clients and our ability to maintain a satisfactory user experience and client service. Our servers may be vulnerable to computer viruses, traffic spike that exceeds the capacity of our servers, electricity power interruptions, physical or electronic break-ins and similar disruptions, which could lead to system interruptions, website slowdown and unavailability, delays in transaction processing, loss of data, and the inability to accept and fulfill client orders. We have not experienced system interruptions that materially affected our operations in the past, but we can provide no assurance that we will not experience unexpected interruptions in the future. We can provide no assurance that our current security mechanisms will be sufficient to protect our IT systems and technology infrastructure from any third-party intrusions, electricity power interruptions, viruses and hacker attacks, information and data theft, and other similar activities. Any such future occurrences could damage our reputation and result in a material decrease in our revenues.

We have identified deficiencies in our information technology system relating to (i) lack of necessary management and supervision of super user/administrative accounts, and (ii) lack of formal management control during program development and change process. We have engaged risk assurance advisors to help us design and implement IT controls necessary for us, including updating our IT security policy, enhancing management of IT system and database. However, there can be no assurance that the foregoing deficiencies can be cured in a timely and cost-effective manner. We may identify other deficiencies in the future, which may require us to expend significant resources to remediate.

Additionally, we are constantly upgrading our platform and infrastructure to comply with regulatory requirements and provide increased scale, improved performance and additional built-in functions and additional capacities. For example, on June 22, 2020, the CBIRC issued the Notice on Regulating the Traceability Management of Internet Insurance Sales, which came into effect from October 1, 2020 and provides that insurance institutions shall conduct retrospective review and management of internet insurance sales, and shall immediately suspend online insurance sales if they fail to comply with those requirements by the time the notice came into force. As of October 1, 2020, we had made rectifications in accordance with this notice. Furthermore, on January 5, 2021, the CBIRC promulgated the Measures for the Regulation of Informatization of Insurance Intermediaries, which aims to improve informatization of insurance intermediaries and stipulates regulatory requirements in respect of the construction and management of the informatization, IT system and information security. It provides that insurance intermediaries shall make self-examination accordingly and complete the rectifications by February, 2022. As of the date of this annual report, we have completed such self-examination and rectifications. However, we cannot assure you that we will be able to complete rectifications in a timely manner or fully satisfy the regulatory requirements. In addition, rectifying, maintaining and upgrading our technology infrastructure require significant investment of time and resources, including adding new hardware, updating software, and recruiting and training new engineering personnel. During updates, our systems may experience interruptions, and the new technologies and infrastructures may not be fully integrated with the existing systems timely, or at all. Any failure to maintain and improve our technology infrastructure could result in unanticipated system disruptions, slower response times, impaired quality of user experience and delays in reporting accurate operating and financial information, which, in turn, could materially and adversely affect our business, financial condition and results of operations.

Failure to prevent cybersecurity breaches will materially and adversely affect our business, reputation, financial condition and results of operations.

The massive volume of data that we process and store makes us or third party service providers who host our servers an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. While we have taken steps to protect our database, our security measures could be breached. Because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our platform could cause confidential information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users and insurer partners could be severely damaged, we could incur significant liability and our business and operations could be adversely affected. The PRC Network Security Law promulgated by the Standing Committee of the National People's Congress, effective on June 1, 2017, stipulates that a network operator, including internet information services providers among others, must adopt technical measures and other necessary measures in accordance with applicable laws and regulations as well as compulsory national standards to safeguard the safety and stability of network operations, effectively respond to network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. Over the past few years, the CBIRC has enhanced its supervision and has promulgated many regulation measures and requirements towards cybersecurity of online insurance business. While we have adopted comprehensive measures to comply with the applicable laws, regulations and standards, there can be no assurance that such measures will be effective. If we were found by the regulatory authorities to have failed to comply with the relevant regulatory requirements, we would be subject to warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of our platform or even criminal liabilities and our business, financial condition and results of operations would be adversely affected.

The sophisticated and innovative technologies we use for the operation of our business are new and require continuous developments and upgrades. We cannot assure you that these technologies will fully support our business.

We regard technology as critical to our ability to provide high-quality products and superior client services. We have invested substantial resources in developing the sophisticated and innovative technology systems that we use for our daily operations. We expect these technologies to support the smooth performance of key functions in our platform, such as searching for and finding suitable insurance products, intelligent underwriting, and claim application and settlement. To adapt to evolving client needs, requirements of insurer partners, and emerging industry trends, we may need to develop other new technologies or upgrade existing platform and systems. If our efforts to invest in the development of new technologies or the upgrade of existing technologies are unsuccessful, our business, financial condition and results of operations may be materially and adversely affected.

In addition, the maintenance and processing of various operating and financial data is essential to our data analytical capabilities and the day-to-day operation of our business. Our ability to provide products and services and to conduct day-to-day business operations depend, in part, on our ability to maintain and make timely and cost-effective enhancement and upgrade to our technology and introduce innovative functions which can meet changing business and operational needs. Failure to do so could put us at a disadvantage to our competitors and cause economic losses. We can provide no assurance that we will be able to keep up with technological improvements or that the technology developed by others will not render our services less competitive or attractive.

Negative publicity about us, our shareholders, insurer partners, user traffic channels and individual and institutional promoters that we cooperate with, and other participants in the insurance industry may harm our brand and reputation and have a material adverse effect on our business and operating results.

Our brand and reputation are critical to our business and competitiveness. Factors that are vital to our reputation include but are not limited to our ability to:

- recommend suitable insurance products to users;
- provide effective and smooth insurance experience to insurance clients;
- enhance risk management capabilities;
- innovate and improve the products and services we provide;
- effectively manage and resolve complaints from users and insurer partners; and
- effectively protect private information and data.

Any negative publicity about the foregoing or other aspects of our company, including but not limited to our directors, management, shareholders, business, legal compliance, financial condition or prospects, whether with merit or not, could severely compromise our reputation and harm our business and operating results. In addition, regulatory inquiries or investigations, lawsuits initiated against us, employee misconduct, among other things, could also result in negative publicity on us. Furthermore, negative publicity with respect to our business partners or the industry in which we operate may materially and adversely affect our business and results of operations.

Our business model may be replicated by other online insurance distributors or product and service platforms, and internet companies and traditional insurance companies aiming to engage in online insurance distribution business.

The leading Chinese internet companies have experienced the fast-moving internet development in China in past decades and have demonstrated their strong capacities in client-centric and efficiency driven business development and innovation. We are operating in an emerging industry, and we may be exposed to uncertainties and risks. Given the large amount of data and strong capacity of technological development the leading Chinese internet companies have, we believe it is possible that these companies can develop their insurance business to compete with us in a short period of time. In addition, we have seen certain traditional insurance companies and other insurance service providers enter the online insurance service market in order to take advantage of the soaring opportunities emerged from online ecosystems. Considering these internet companies' strong abilities in promoting their products through their existing abundant online channels and the potential of traditional insurance companies and other insurance service providers to convert their offline resources and clients online, we may face severe competition in the near future from these potential competitors. Moreover, given that terms of insurance product are relatively transparent, our competitors can copy the insurance products we design and develop together with our insurer partners soon after they are launched, possibly at lower prices than what we offer. If we fail to continue to upgrade our insurance product offerings that meet market demand quickly, we may not be able to keep our edge in the competition, and our business and results of operations will be negatively affected.

Because the brokerage income we earn on the sale of insurance products is based on premiums, and commission fee rates agreed between us and our insurer partners, any decrease in these premiums or commission fee rates may have an adverse effect on our results of operations.

We are engaged in the insurance brokerage business and derive revenues primarily from commission fees paid by the insurer partners whose insurance policies our clients purchase. The commission fee rates are set by insurer partners or negotiated between insurer partners and us, and are based on the premiums that the insurer products charge. Commission fee rates and premiums can change based on the prevailing economic, regulatory, taxation and competitive factors that affect our insurer partners. These factors, which are not within our control, include the capacity of insurer partners to place new business, profits of insurer partners, consumer demand for insurance products, the availability of comparable products from other insurance companies at lower costs, and the availability of alternative insurance products, such as government benefits and self-insurance plans, to consumers. In addition, premium rates for certain insurance products are tightly regulated by the CBIRC. Because we do not determine, and cannot predict, the timing or extent of premium or commission fee rate changes, we cannot predict the effect any of these changes may have on our operations. Any decrease in premiums or commission fee rates may significantly affect our profitability.

We rely on the multi-dimensional data we collect to enhance our business performance and results, and we cannot assure you that we will be able to accumulate or access sufficient data in the future or to analyze the data effectively, the lack of which may materially and adversely affect our business and results of operations.

We highly rely on our data in every step of the entire insurance value chain, including research and development of our insurance products, risk management, claim settlement, and client services. We develop our proprietary technologies on top of cloud computing infrastructures of third-party providers to automate and streamline the various processes in our operations, support our day-to-day business analytics and provide periodic or real-time applications in supporting our large amount of transactions and executing our strategies. We have made substantial investments in ensuring the effectiveness of our data analytics that supports our rapid growth and enables us to provide efficient services to insurance clients. We cannot assure you that we will be able to continually collect and retain sufficient data, or improve our data technologies to satisfy our operating needs. Failure to do so will materially and adversely affect our business and results of operations.

Failure to maintain accuracy in actuarial statistics, assisting in underwriting, and proposing pricing of insurance products to insurer partners could have a material adverse effect on our business, results of operations and financial condition.

We operate an intelligent underwriting system where we code underwriting criteria set by insurers in our system and the system automatically generates eligibility for purchasing insurance products. For customized insurance products we designed and developed together with our insurer partners, we conduct actuarial and propose pricing range to our insurer partners. Therefore, we rely heavily on the accuracy in actuarial statistics and capabilities in accurate underwriting and proposing pricing of products we offer to conduct our business, including recording and processing our operational and financial data and effectively executing our business plans through accurate actuarial analysis and pricing modeling. The proper functioning of our actuarial analysis, statistical analysis, products pricing suggestion, risk management, financial control, accounting, client database, client service and other data processing systems is highly critical to our business and our ability to compete effectively. We rely on our dedicated talents with actuarial expertise to conduct actuarial analysis, and we rely on our research and development team to enhance our data capabilities to perform pricing modeling. We cannot guarantee you that we will be able to continue to upgrade our technology and maintain our capacity and accuracy, or to successfully retain our employees with actuarial expertise or to hire new ones. Failure of maintaining such capacity and accuracy could have a material adverse effect on our business, results of operations and financial condition.

A significant portion of the total GWP we facilitate is contributed by a limited number of insurance products. If we cannot continue to offer these insurance products on our platform for any reason or the popularity of these products declines, the GWP we facilitate and consequently our brokerage income, may decrease and our financial condition and results of operations may be materially and adversely affected.

A significant portion of the total GWP we facilitate is from a limited number of popular insurance products, primarily our tailor-made long-term life and health insurance products. In 2021, the top five insurance products in terms of GWP contribution aggregately accounted for 44.8% of the total GWP we facilitated, as compared to 29.4% in 2020. We believe the concentration was partially due to the comprehensive protection coverage with reasonable policy terms making these tailor-made insurance products more attractive than others. Although we plan to continue to diversify our product offerings, launch more tailor-made insurance products, expand our client base and generate brokerage income from a wider variety of insurance products, we cannot guarantee you that we will be able to succeed, and that such concentration will decrease. If we cannot continue to offer these popular insurance products for any reason or the popularity of these products decline, our brokerage income may decrease and our financial condition and results of operations may be materially and adversely affected.

We have in the past sold insurance products on our platform through institutional promoters lacking operating license, and individual promoters who were registered with other insurance institutions or who were not registered with any insurance institutions, which may subject us to potential regulatory risks and may cause breaches of our agreements with insurer partners.

Through www.jumi18.com, www.qixin18.com and www.xiebao18.com, we have in the past engaged institutional promoters lacking insurance operating licenses, and individual promoters whose practice registrations were registered with insurance institutions other than us or who were not registered with any insurance institutions, to promote insurance products we offer on our platform. In return, we paid those promoters service fees. Our cooperation with institutional promoters lacking insurance operating licenses may subject us to regulatory risks. Under relevant PRC laws and regulations, professional insurance intermediaries like us must complete practice registrations for individual promoters as our representatives or agents. Historically, for those individual promoters who had a relatively short history of cooperation with us, or who contributed a less significant portion of GWP facilitated on our platform, we did not complete all their practice registrations with us. As of the date of this annual report, we have terminated the cooperation with individual promoters that have not been registered with us. However, we may be subject to administrative orders to rectify these historical non-compliance incidents or further, administrative penalties imposed by the regulatory authorities retrospectively, and if so, our business and results of operations might be materially and adversely affected.

In addition, under relevant PRC laws and regulations, an individual insurance agent or insurance broker can only act within the scope of authority granted by the insurance institution that he/she is registered with. Furthermore, an individual insurance agent who sells life insurance products is only eligible to register with and act as the agent of just one licensed insurance company. Consequently, there are potential regulatory risks with regard to individuals whose activities went beyond the above restrictions in transactions completed for us in the past, and if the regulatory authorities take retrospective actions against us on those transactions, we may be subject to administrative orders for rectifications, administrative penalties or other actions imposed by the regulatory authorities, which will negatively affect our business and results of operations. Moreover, other insurance institutions with which these individuals are registered may take legal actions against us on the ground of unfair competition or breach of contract, where applicable, for transactions these individuals completed for us in the past. As of the date of this annual report, there has been no such action taken or threatened against us. However, we cannot assure you that we will not face such legal actions in the future. Any such legal actions, regardless of merit, could be expensive and time-consuming to deal with, and could divert resources and the management's attention from the operation of our business. If we are found liable in any such legal actions, we might be required to pay substantial amounts of damages to these insurance institutions and our business and reputation will suffer.

Furthermore, under our agreements with certain insurer partners, we should not delegate any of our rights or obligations as their insurance service provider to any third party. These insurer partners may consider our cooperation with third-party insurance agents as a breach of their agreements with us, which may subject us to liabilities under the agreements and damage our cooperative relationships with these insurer partners, and in turn adversely affect our business and results of operations.

Our business operation in Hong Kong had been noncompliant with applicable laws and regulations, and is subject to the complexity and uncertainties in Hong Kong laws and regulations with respect to insurance brokerage businesses and corporate governance.

In the past, the operations of our Hong Kong subsidiary, Hong Kong Smart Choice Ventures Limited, or Hong Kong Smart Choice, had certain non-compliance incidents under applicable Hong Kong laws and regulations. Hong Kong Smart Choice, a company that is not a licensed insurance broker in Hong Kong, had engaged certain third parties to provide insurance advisory services to clients, which may be deemed as an offense under the Insurance Ordinance of Hong Kong and may subject Hong Kong Smart Choice to fines or even criminal liabilities. If Hong Kong Smart Choice is punished by Hong Kong regulatory authorities, we may bear economic losses, our Hong Kong operations may be partially or wholly suspended, and our reputation, business, results of operations and our financial conditions will suffer. In addition, in May 2021, Hong Kong Smart Choice acquired 100% equity interest in Huize Hong Kong Insurance Broker Limited, or Huize HK, through its wholly-owned subsidiary, Huize Global (HK) Limited. Huize HK was previously known as Full Run Insurance Broker Limited. Huize HK was a wholly owned subsidiary of Hong Kong Smart Choice before July 2019, and had in the past been non-compliant with applicable Hong Kong laws and regulations, including carrying out solicitation activities without being authorized and failing to comply with certain corporate governance requirements under the Hong Kong law. We cannot assure you that Hong Kong Smart Choice will not bear economic loss related to historical noncompliance of Huize HK, or that our Hong Kong subsidiaries will be able to comply with all applicable Hong Kong laws and regulations with respect to insurance brokerage businesses and corporate governance, which could in turn negatively affect our reputation, business, results of operations and our financial conditions will suffer.

We have in the past made claim payments to insurance clients at our own discretion under our agreements with insurer partners.

Prior to early 2019, pursuant to our agreements with certain property & casualty insurer partners, we provided claim payment services to insurance clients for small amount claim applications to expedite the claim settlement and thus enhance user experience. For insurance clients who submitted claim applications on Xiao Ma Claim, previously known as Ding Dong Claim under certain pre-determined amounts, we made advance payments directly to insurance clients, and subsequently claim these payments from our insurer partners. For claim applications that either exceed these amounts, or that we disagreed to pay, we defer the applications to our respective insurance partners to process. According to the PRC law, only licensed insurance companies are eligible to determine the final amounts for claim settlement. Therefore, the claim settlement process we applied through Xiao Ma Claim prior to early 2019 may be considered as activities exceeding our business scope, and may subject us to fines and warnings by PRC regulatory authorities. We are in the process of amending our agreements with most of the relevant insurer partners with regard to our claim settlement procedures to ensure that our insurer partners have the sole discretion in determining whether to approve claim applications and the final amounts for claim settlement. However, we cannot guarantee you that our past practice will not expose us to penalties or other regulatory actions, the occurrence of which may negatively affect our reputation, business and results of operations.

In addition, for claim applications that we have made advance payments, our insurer partners may reject reimbursement to us, which will adversely affect our financial condition. If it takes longer time for these insurance partners to reimburse us than we expect, we will be subject to greater pressure on our cash flow, which will adversely affect our results of operations and financial conditions.

If we cannot manage the growth of our business or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We continue to experience rapid growth in our business, which will continue to place significant demands on our management, operational and financial resources. We may encounter difficulties as we expand our operations, data and technology, sales and marketing, and general and administrative functions. We expect our expenses to continue to increase in the future as we acquire more users, launch new technology development projects and build additional technology infrastructure. Continued growth could also strain our ability to maintain the quality and reliability of our platform and services, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. Our expenses may grow faster than our revenues, and our expenses may be greater than we anticipate. We may expand into geographic areas where we do not have experience with local regulations or regulators or where local market conditions are unfavorable for our business model. Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition could be harmed.

Acquisitions, strategic alliances and investments could be difficult to integrate, disrupt our business and lower our results of operations and the value of your investment.

We may enter into strategic acquisitions and selected strategic alliances that are complementary to our business and operations, including opportunities that can help us further improve our technology system. For example, in December 2021, we, through a wholly-owned subsidiary of the VIE, entered into a definitive agreement to acquire 100% equity interest in Shanghai Senhao Insurance Agency Co., Ltd., a nationwide professional insurance agency company with business networks in 11 provincial areas in China. Strategic acquisitions and subsequent integrations of newly acquired businesses would require significant managerial and financial resources and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our growth and business operations. Acquired businesses or assets may not generate expected financial results immediately, or at all, and may incur losses to our business. We may, from time to time, terminate our planned acquisitions, strategic alliances and investments due to adjustments to our business plans or as a result of factors beyond our control, such as failure by us or our business partners to fulfil closing conditions. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations, which could negatively affect our results of operation. In addition, acquisitions of and strategic alliances with third parties could also subject us to risks associated with sharing proprietary information, non-performance or default by counterparties, and increased expenses in establishing these new alliances, any of which may materially and adversely affect our business. We may have limited ability to control or monitor the actions of our strategic partners. To the extent an enterprise acquired us or a strategic partner suffers any negative publicity as a result of its business operations, our reputation may be negatively affected by virtue of our association with such party.

In addition, certain shareholders operate similar insurance product and service platforms like we do and there remain potential conflicts of interest. If any of such conflicts of interest are not resolved in our favor, we could lose opportunities in strategic acquisitions and alliances, and our business, financial condition and results of operations will be materially and adversely affected.

Our success depends on the continued efforts of our senior management. If one or more of our key executives were unable or unwilling to continue in their present positions, our business may be severely disrupted.

Our business operations depend on the continued services of our senior management, particularly our co-founders and the executive officers named in this annual report. While we have provided different incentives to our management, we cannot assure you that we can continue to retain their services. If one or more of our key executives were unable or unwilling to continue in their present positions, we may not be able to find suitable replacements, our future growth may be constrained, our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, although we have entered into confidentiality and non-competition agreements with our management, there is no assurance that any member of our management team will not join our competitors or form a competing business. If any dispute arises between our current or former officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may not be able to enforce them at all. If we are not able to agree on satisfactory severance arrangements with any departing officer or resolve any resulting disputes, we would incur additional time and expenses in handling such matters and our management team's attention may be diverted.

If we are unable to recruit, train and retain qualified personnel, our business may be materially and adversely affected.

We believe our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for personnel with expertise in insurance, sales and marketing, technology and risk management is extremely intense in China. We may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. Some of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In addition, we invest significant time and resources in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training new employees, and our ability to serve insurance clients and insurer partners could diminish, resulting in a material adverse effect to our business.

If our user traffic channels, other business partners or employees engage in any misconduct or cause errors to occur in our system, our business, financial condition and results of operations could be materially and adversely affected.

We are exposed to many types of operational risks, including the risk of misconduct and errors by our user traffic channels, other parties we collaborate with and by our employees. Our business depends on our employees and/or business partners to interact with clients and provide various services in relation to the purchase of insurance products. Misconduct could include making misrepresentations when marketing or selling insurance products to clients, hiding or falsifying material information in relation to insurance contracts, colluding with applicants, insureds, or beneficiaries to obtain insurance benefits, failing to disclose legally required information to clients, engaging in false claims or otherwise not complying with laws and regulations or our internal policies or procedures. Any of the aforementioned misconduct by parties we cooperate with may cause potential liabilities of us, and further subject us to regulatory actions and penalties. If any third parties that are important to our operations are sanctioned by regulatory actions, our business operations will be disrupted or otherwise negatively affected.

We could also be negatively impacted if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human errors, purposeful sabotage or fraudulent manipulation of our operations or systems. It is not always possible to identify and deter misconduct or errors by employees or business partners, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. If any of our employees or business partners fail to follow our rules and procedures when interacting with clients, we could be liable for damages and subject to regulatory actions and penalties. Any of these occurrences could result in our diminished ability to operate our business, inability to attract users, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

Any failure to protect our intellectual property could harm our business and competitive position.

We regard our software registrations, trademarks, patents, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality and non-compete agreements with our employees and others to protect our proprietary rights. See “Item 4. Information on the Company—B. Business Overview—Intellectual Property.” Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms, or at all.

Implementation and enforcement of PRC laws relating to intellectual property have historically been deficient and ineffective. Accordingly, protection of intellectual property rights in China may not be as effective as that in the United States or other developed jurisdictions. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. We may be from time to time in the future subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products, services or other aspects of our business without our awareness. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any third-party infringement claims are brought against us, we may be forced to divert management’s time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the application and interpretation of China’s intellectual property right laws and the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business and financial performance may be materially and adversely affected.

Our operations depend on the performance of the internet infrastructure and telecommunications networks in China.

Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology. We primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China’s internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our financial performance may be adversely affected. Furthermore, if internet access fees or other charges to internet users increase, our user traffic may decline and our business may be harmed.

Our future growth depends on the further acceptance of the internet as an effective platform for disseminating insurance products and content.

The internet, and particularly the mobile internet, has gained increasing popularity in China as a platform for insurance products and content in recent years. However, certain participants in the industry, especially traditional insurance companies, and many insurance clients have limited experience in handling insurance products and content online, and some insurance clients may have reservations about using online platforms. For example, clients may not find online content to be reliable sources of insurance product information. Some insurance companies and reinsurance companies may not believe online platforms are secure for risk assessment and risk management. Others may not find online platforms effective when promoting and providing their products and services, especially to targeted clients in lower-tier cities or rural areas. If we fail to educate clients, insurance companies and reinsurance companies about the value of our platform and our products and services, our growth will be limited and our business, financial performance and prospects may be materially and adversely affected. The further acceptance of the internet and particularly the mobile internet as an effective and efficient platform for insurance products and content is also affected by factors beyond our control, including negative publicity and restrictive regulatory measures. If online and mobile networks do not achieve adequate acceptance in the market, our growth prospects, results of operations and financial condition could be harmed.

We may not be able to obtain additional capital when desired, on favorable terms or at all.

We need to make continued investments in facilities, hardware, software, technological systems and to retain talents to remain competitive. Due to the unpredictable nature of the capital markets and our industry, there can be no assurance that we will be able to raise additional capital on terms favorable to us, or at all, if and when required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited. If we do raise additional funds through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing shareholders.

Our current risk management system may not be able to exhaustively assess or mitigate all risks to which we are exposed, which could negatively affect our business and results of operations.

We have established risk management, quality control and internal control systems, consisting of policies and procedures that we believe are appropriate for our business. However, the implementation of such policies and procedures may involve human error and mistakes. Moreover, we may be exposed to fraud or other misconduct committed by our employees, or other third parties, including but not limited to our clients and partners, or other events that are out of our control, that could adversely affect our product quality and reputation and subject us to financial losses and sanctions imposed by government authorities. As a result, despite our efforts to improve the aforementioned systems, we cannot assure you that our risk management, quality control and internal control systems are able to completely eliminate non-compliance matters or product defects.

Failure to deal effectively with any fraud perpetrated on our platform could harm our business.

We face risks with respect to fraudulent activities on our platform. We cannot guarantee that all of the transactions conducted on our platform with insurance clients are commercially fair. We cannot fully eliminate insurance fraud and reverse selection insurance behaviors. Although we have implemented various measures to detect and reduce the occurrence of fraudulent activities on our platform, there can be no assurance that these measures will be effective in combating fraudulent transactions or improving overall satisfaction among our insurance clients and insurer partners. In addition, illegal, fraudulent or collusive activities by our employees or third party agents could also subject us to liability and negative publicity. Any illegal, fraudulent or collusive activity could severely damage our brand and reputation as an operator of a trusted online platform, which could adversely affect our business, financial condition and results of operations.

Our insurance coverage may not be adequate, which could expose us to significant costs and business disruptions.

We maintain certain insurance policies to safeguard us against risks and unexpected events, including insurance broker/agent practice liability insurance. We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees in compliance with applicable PRC laws. We do not maintain business interruption insurance. We consider our insurance coverage to be sufficient for our business operations in China. However, we cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

We may be subject to legal proceedings in the ordinary course of our business. If the outcomes of these proceedings are adverse to us, it could have a material adverse effect on our business, results of operations and financial condition.

We may from time to time be involved in disputes with various parties involved in the development and sale of our products. These disputes may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs to our operations, and diversion of our management's attention. In addition, we may disagree with regulatory bodies in certain aspects in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our properly developments. We have been involved in legal proceedings or disputes in the ordinary course of business. In addition, as we change our cooperation model or terminate cooperation with some of our user traffic channels and individual agents to meet regulatory requirements, we cannot assure you that dispute will not arise therefrom or any of these counterparties will not take legal actions against us. We cannot assure you that we will not be involved in any other major legal proceedings in the future. Any involvement on these disputes may materially and adversely affect our business, financial condition and results of operations.

Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.

Certain of our lease agreements have not been registered with the relevant PRC government authorities as required by PRC law, which will not affect the validity of these lease agreements but may expose us to potential fines if we fail to remediate after receiving any notice from the relevant PRC government authorities. In case of failure to register or file a lease, the parties to the unregistered lease may be ordered to make rectifications (which would involve registering such leases with the relevant authority) before being subject to penalties. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, the specific amount of which is at the discretion of the relevant authority. Out of the 21 lease agreements we had as of February 28, 2022, we had not completed lease agreement registration for 19 properties, and our maximum exposure to penalties by relevant PRC authorities for failure of registration was approximately RMB190,000.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. We were subject to such requirement starting from fiscal year 2019. In addition, once we cease to be an "emerging growth company," as such term is defined in the Jumpstart Our Business Startups Act of 2012 (as amended by the Fixing America's Surface Transportation Act of 2015), or the JOBS Act, an independent registered public accounting firm for a public company must issue an attestation report on the effectiveness of our internal control over financial reporting.

In the course of preparing our consolidated financial statements for the fiscal year ended December 31, 2021, we identified one material weakness in our internal control over financial reporting as of December 31, 2021. In accordance with reporting requirements set forth by the SEC, a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our company’s annual consolidated financial statements will not be prevented or detected on a timely basis. The material weakness identified relates to lack of sufficient and competent financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to formalize key controls over financial reporting and to prepare consolidated financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements. As a result of the identification of this material weakness, we have been taking measures to remedy this control deficiency. However, we can give no assurance that the implementation of these measures will be sufficient to eliminate this material weakness or any other material weakness or significant deficiency in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal controls over financial reporting could result in errors in our financial statements that could result in a restatement of our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, which may result in volatility in and a decline in the market price of the ADSs.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

We have granted and may continue to grant options, restricted share units and other types of awards under our share option plan, which may result in increased share-based compensation expenses.

We adopted a global share incentive plan in June 2019, which we refer to as the Global Plan, for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. We recognize expenses in our consolidated financial statements in accordance with U.S. GAAP. Under our Global Plan, we are authorized to grant options, restricted share units and other types of share incentive awards. The maximum aggregate number of common shares which may be issued pursuant to all awards under the Global Plan is 57,501,813 common shares. As of February 28, 2022, 34,268,970 restricted shares and options to purchase a total of 16,339,219 common shares were outstanding under the Global Plan. We adopted a 2019 share incentive plan in June 2019, which we refer to as the 2019 Plan. In September 2021, our board of directors approved the amendment to the 2019 Plan, which we refer to as the Amended and Restated 2019 Plan, to increase the maximum aggregate number of shares that may be issued under the plan from 20,351,945 Class A common shares to 51,703,365 Class A common shares, increased by 31,351,420 Class A common shares. As of February 28, 2022, options to purchase a total of 20,054,445 common shares were outstanding under the Amended and Restated 2019 Plan. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations. We may re-evaluate the vesting schedules, lockup period, exercise price or other key terms applicable to the grants under our currently effective share incentive plans from time to time. If we choose to do so, we may experience substantial change in our share-based compensation charges.

Our business, financial condition and results of operations have been, and may continue to be, adversely affected by the COVID-19 pandemic.

The COVID-19 pandemic has created unique global and industry-wide challenges, including challenges to many aspects of our business. In early 2020, the COVID-19 outbreak caused temporary closures of our offices and implementation of short-term measures for employees to work remotely from home in our headquarter and other offices in early 2020. Since the second half of 2020, many of the quarantine measure within China have been relaxed. We and our insurer partners and user traffic channels have been gradually recovering from the general shutdown and delay in commencement of operations in China since then. Even though our business is currently operational, our service capacity and operational efficiency has been and are still adversely affected by the COVID-19 pandemic due to decreased productivity of our workforce as a result of work from home measures and the necessity to comply with various disease control protocols in our business facilities, particularly in Shenzhen, where our headquarter is located.

The extent to which COVID-19 impacts our financial position, results of operations and cash flows in future periods will depend on the future developments of the pandemic, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. We cannot assure you that the COVID-19 pandemic can be eliminated or contained in the near future, or at all, or a similar outbreak will not occur again. In China, business activities have largely resumed, government emergency measures have been significantly relaxed, and the general economy is gradually recovering. However, our financial position, results of operations and cash flows may still be adversely affected to the extent that the COVID-19 pandemic continues to affect the Chinese economy in general. In addition, the longer-term trajectory of COVID-19, both in terms of scope and intensity of the pandemic, in China, together with its impact on the industry and the broader economy, are still difficult to assess or predict and face significant uncertainties that will be difficult to quantify. Relaxation of restrictions on economic and social activities may also lead to new cases which may lead to re-imposed restrictions. If there is not a material recovery in the COVID-19 situation, or the situation further deteriorates in China, our business, results of operations and financial condition could be materially and adversely affected.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

In addition to the impact of COVID-19, our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns affecting the PRC, and particularly Shenzhen. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to operate our platform and provide services and solutions. In recent years, there have been outbreaks of epidemics in China and globally, such as COVID-19, H1N1 flu, avian flu or another epidemic. Our business operations could be disrupted by any of these epidemics. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general. A prolonged outbreak of any of these illnesses or other adverse public health developments in China or elsewhere in the world could have a material adverse effect on our business operations. Such outbreaks could significantly impact the insurance industry, which could severely disrupt our operations and adversely affect our business, financial condition and results of operations. Our headquarters are located in Shenzhen, where most of our management and employees currently reside. Most of our system hardware and back-up systems are hosted in facilities located in Shenzhen. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Shenzhen, our operation may experience material disruptions, which may materially and adversely affect our business, financial condition and results of operations.

Our business is subject to fluctuations, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.

Our quarterly revenues and other operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are beyond our control. Each of our business lines may have different seasonality factors and the mix of our revenue source may shift from time to time. For life and health insurance products, we generally have more purchase orders in the first quarter of each year. On the other hand, for property & casualty insurance products we offer on our platform, mostly consisted of travel insurance products, we experience more purchase orders in the third quarter, and the first and fourth quarters of each year are the low season for travel insurance products. If the insurance product mix we offer on our platform changes, the fluctuation trend of our results of operations will change accordingly. We may also introduce promotional activities or enhance our marketing and branding efforts in ways that further cause our quarterly results to fluctuate and differ from historical patterns. In addition, our quarterly and annual revenues and costs and expenses as a percentage of our revenues may be significantly different from our historical or projected figures. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our historical results as an indication of our future performance because our fast growth in the past may have masked the seasonality that might otherwise be apparent in our results of operations. Our results of operations in future quarters may fall below expectations, which could cause the price of our ADSs to fall.

A severe or prolonged downturn in Chinese or global economy could materially and adversely affect our business and financial condition.

COVID-19 had a severe and negative impact on the Chinese and the global economy in the first quarter of 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges, including the US-China trade war, the end of quantitative easing and start of interest rate hike by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014 and uncertainties over the impact of Brexit. Over the past few years, the United States and China have been involved in controversy over trade barriers in China that threatened a trade war between the countries and have implemented or proposed to implement tariffs on certain imported products. Sustained tension between the United States and China over trade policies could significantly undermine the stability of the global and Chinese economy. The conflict in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in market volatility in oil and other markets, and over the expansion of terrorist activities into Europe and other regions. There have also been concerns on the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects.

Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Our business and operations are primarily based in China and substantially all of our revenues are derived from our operations in China. Accordingly, our financial results have been, and are expected to continue to be, affected by the economy and insurance industry in China. The growth rate of the Chinese economy had gradually slowed down since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is likely to be severe. China had a negative gross domestic product, or GDP growth in the first quarter of 2020, which broke the record of the continued GDP growth in China for the past decades. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

Risks Relating to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating certain of our operations in China do not comply with PRC regulations relating to insurance brokerage and the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Due to the PRC legal restrictions on foreign ownership of internet-based business and qualification requirements on foreign investors in the insurance intermediary business, we rely on certain contractual arrangements with the VIE and its shareholders to conduct substantially all of our operations in China. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunications service provider (except for e-commerce, domestic multi-party communication, storage and forwarding classes and call centers) under the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition), which was promulgated on December 27, 2021 and implemented on January 1, 2022.

We are a Cayman Islands exempted company and our WFOE is considered a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct operations in China through an affiliated PRC entity, Shenzhen Huiye Tianze Investment Holding Co., Ltd., or Huiye Tianze. We have entered into a series of contractual arrangements with Huiye Tianze and its shareholders, which enable us to (i) exercise effective control over Huiye Tianze, (ii) receive substantially all of the economic benefits and bear the obligation to absorb substantially all of the losses of Huiye Tianze, and (iii) have an exclusive option to purchase all or part of the equity interests in or assets of Huiye Tianze when and to the extent permitted by PRC laws. Because of these contractual arrangements, we are deemed the primary beneficiary of Huiye Tianze and hence consolidate its financial results as a variable interest entity, or VIE, under U.S. GAAP. For a detailed description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiaries, the VIE and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, significantly affect the financial performance of the VIE and our company as a whole. In addition, shareholders of the VIE are PRC holding entities of certain pre-IPO shareholders of our company, including entities beneficially owned by Mr. Cunjun Ma, the chairman of our board of directors and our chief executive officer, who owns more than 50% of our total voting power. Therefore, the enforceability of the contractual agreements between us, the VIE and its shareholders depends on whether our shareholders or their PRC holding entities will fulfill these contractual agreements. Their interest in enforcing these contractual agreements may not align with the interests of our other shareholders. If our shareholders who hold equity interests in the VIE through their PRC holding entities were to reduce their interests in our company, their interest may further diverge from that of our company and other shareholders, which may potentially increase the risk that they would seek to act contrary to these contractual arrangements.

It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.”

If the ownership structure, contractual arrangements and businesses of our PRC subsidiary, the VIE and its subsidiaries are found to be in violation of any existing or future PRC laws or regulations, or our PRC subsidiary, the VIE or its subsidiaries fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of such entities;
- shutting down our servers or blocking our website, or discontinuing or placing restrictions or onerous conditions on our operation through any transactions between our WFOE, the VIE and its subsidiaries;
- imposing fines, confiscating the income from our WFOE, the VIE or its subsidiaries, or imposing other requirements with which we or the VIE may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with the VIE and deregistering the equity pledge of the VIE, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over the VIE; or
- restricting or prohibiting our use of the proceeds from our initial public offering to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. Although we believe we, our WFOE and the VIE comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The PRC government has broad discretion in determining rectifiable or punitive measures for non-compliance with or violations of PRC laws and regulations. If the PRC government determines that we or the VIE do not comply with applicable law, it could revoke the VIE and its subsidiaries' business and operating licenses, require the VIE to discontinue or restrict the VIE's operations, restrict the VIE's right to collect revenues, require the VIE to restructure our operations, impose additional conditions or requirements with which the VIE may not be able to comply, impose restrictions on the VIE's business operations or on its customers, or take other regulatory or enforcement actions against the VIE that could be harmful to its business. Any of these or similar occurrences could significantly disrupt our or the VIE's business operations or restrict the VIE from conducting a substantial portion of its business operations, which could materially and adversely affect the VIE's business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of the VIE that most significantly impact its economic performance, and/or our failure to receive the economic benefits from the VIE, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

We rely on contractual arrangements with the VIE, and its shareholders for our operations in China, which may not be as effective as equity ownership in providing operational control.

We have relied and expect to continue to rely on variable interest entity arrangements to conduct a significant part of our operations in China. We rely on contractual arrangements with the VIE and its shareholders to conduct a significant part of our operations in China. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure." The shareholders of the VIE may not act in the best interests of our company or may not perform their obligations under these contracts. If we had equity ownership of the VIE, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of the VIE, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the contractual arrangements, we would rely on legal remedies under PRC law for breach of contract in the event that the VIE and its shareholders did not perform their obligations under the contracts. These legal remedies may not be as effective as equity ownership in providing us with control over the VIE.

If the VIE or its shareholders fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, based on officially published and publicly available judgements, the legality and validity of VIE contractual arrangements have not been tested in a court of law in the PRC. There are very few precedents as to whether contractual arrangements would be judged to form effective control over the relevant VIE through the contractual arrangements, or how contractual arrangements in the context of a variable interest entity should be interpreted or enforced by the PRC courts. Should legal actions become necessary, we cannot guarantee that the court will rule in favor of the enforceability of the variable interest entity contractual arrangements. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the VIE, and our ability to conduct our business may be materially adversely affected. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

The shareholders and directors of the VIE may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected.

The shareholders of the VIE may have potential conflicts of interest with us. These shareholders may breach, or cause the VIE to breach, or refuse to renew, the existing contractual arrangements we have with them and the VIE, which would have a material and adverse effect on our ability to effectively control the VIE and receive economic benefits from it. For example, the shareholders may be able to cause our agreements with the VIE to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. In particular, one of the shareholders of the VIE is the PRC holding entity of SAIF IV Healthcare (BVI) Limited, a former shareholder of our Cayman Islands holding company. Given that as of December 31, 2021, SAIF IV Healthcare (BVI) Limited no longer held any equity interest in our Cayman Islands holding company, we cannot assure you that the interests of SAIF IV Healthcare (BVI) Limited and its PRC holding entity will be aligned with ours. In addition, PRC laws and regulations provide that a director owes a fiduciary duty to the company to which he or she acts as a director. The directors of the VIE, including Mr. Cunjun Ma, our Chief Executive Officer, must act in good faith and in the best interests of the VIE and must not use his position for personal gains. On the other hand, as a director of our company, Mr. Cunjun Ma has a duty of care and loyalty to our company and to our shareholders as a whole under the Cayman Islands law. We control the VIE through contractual arrangements, and the business and operations of the VIE are closely integrated with our subsidiaries' business and operations. Nevertheless, conflicts of interests for these individuals may arise due to their dual roles both as directors of the VIE and as directors of our company.

We cannot assure you that should any conflicts of interest arise, any or all of the shareholders and directors will act in the best interests of our company or such conflicts will be resolved in our favor. Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and directors and our company. If we cannot resolve any conflicts of interest or disputes between us and them, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Substantial uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and its Implementation Regulations and how they may impact the viability of our current corporate structure, corporate governance, business operations and financial results.

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China but it does not explicitly stipulate the contractual arrangements as a form of foreign investment. On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, which came into effect on January 1, 2020. However, the Implementation Regulations on the Foreign Investment Law still remains silent on whether contractual arrangements should be deemed as a form of foreign investment. Though these regulations do not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangements would not be interpreted as a type of foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, the Foreign Investment Law still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

Cayman Islands economic substance requirements may have an effect on our business and operations.

Pursuant to the International Tax Co-operation (Economic Substance) Act (2021 Revision) (as amended) of the Cayman Islands (the “ES Act”), a “relevant entity” is required to satisfy the economic substance test set out in the ES Act. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is our company. Based on the current interpretation of the ES Act, we believe that our company, Huize Holding Limited, is a pure equity holding company since it only holds equity participation in other entities and only earns dividends and capital gains. Accordingly, for so long as our company, Huize Holding Limited, is a “pure equity holding company,” it is only subject to the minimum substance requirements, which require us to (i) comply with all applicable filing requirements under the Companies Act (2022 Revision) of the Cayman Islands (the “Companies Act”); and (ii) has adequate human resources and adequate premises in the Cayman Islands for holding and managing equity participations in other entities. However, there can be no assurance that we will not be subject to more requirements under the ES Act. Uncertainties over the interpretation and implementation of the ES Act may have an adverse impact on our business and operations.

Our ability to enforce the equity pledge agreements between us and the shareholders of the VIE may be subject to limitations based on PRC laws and regulations.

Pursuant to the equity pledge agreements relating to the VIE, shareholders of the VIE pledged their equity interests in the VIE to our WFOE to secure the VIE's and its shareholders' performance of the obligations and indebtedness under the Exclusive Business Cooperation Agreement, Exclusive Option and Equity Custody Agreement. As of the date of this annual report, we have registered such equity pledges with the relevant local branch of the State Administration for Market Regulation, or the SAMR. Under the Civil Code of the PRC, when an obligor fails to pay its debt when due, the pledgee may choose to either conclude an agreement with the pledger to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity. If the VIE fails to perform its obligations secured by the pledges under the equity pledge agreements, one remedy in the event of default under the agreements is to require the pledger to sell the equity interests in the VIE, as applicable, in an auction or private sale and remit the proceeds to our subsidiary in China, net of related taxes and expenses. Such an auction or private sale may not result in our receipt of the full value of the equity interests in the VIE. We consider it very unlikely that the public auction process would be undertaken since, in an event of default, our preferred approach would be to ask our WFOE that is a party to the Exclusive Option and Equity Custody Agreement to designate another PRC person or entity to acquire the equity interests in such VIE and replace the existing shareholders pursuant to the Exclusive Option and Equity Custody Agreement.

In addition, in the registration forms of the local branch of the SAMR for the pledges over the equity interests under the equity pledge agreements, the amount of registered equity interests pledged to our WFOE shall be designated as a fixed figure. The equity pledge agreements with the shareholders of the VIE provide that the pledged equity interest constitutes continuing security for any and all of the indebtedness, obligations and liabilities of the VIE under the relevant contractual arrangements, and therefore it is possible that the amount of registered equity interests cannot cover the secured obligation as a whole. However, there is no guarantee that a PRC court will not take the position that the amount listed on the equity pledge registration forms represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the equity pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court to be unsecured debt, which takes last priority among creditors and often does not have to be paid back at all. We do not have agreements that pledge the assets of the VIE and its subsidiaries for the benefit of us or our WFOE, although the VIE grants our WFOE options to purchase the assets of the VIE and its equity interests in its subsidiaries under the Exclusive Option and Equity Custody Agreement.

If the VIE and its subsidiaries becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy their assets, which could reduce the size of our operations and materially and adversely affect our business.

We do not have priority pledges and liens against the assets of the VIE. If the VIE undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on the assets of the VIE. If the VIE liquidates, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by the VIE to our WFOE under the applicable service agreement.

If the shareholders of the VIE were to attempt to voluntarily liquidate the VIE without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request the shareholders of the VIE to transfer all of their respective equity ownership interests to a PRC entity or an individual designated by us in accordance with the option agreement with the shareholders of the VIE. In addition, under the operation agreement signed by our WFOE, the VIE and its shareholders and according to the Civil Code of the PRC, the shareholders of the VIE do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of the VIE without our consent. In the event that the shareholders of the VIE initiate a voluntary liquidation proceeding without our authorization or attempts to distribute the retained earnings or assets of the VIE without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual arrangements. Any such litigation may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such litigation will be uncertain.

Our contractual arrangements with the VIE may result in adverse tax consequences to us.

As a result of our corporate structure and the contractual arrangements among our WFOE, the VIE, its shareholders and us, we are effectively subject to the PRC value-added tax at rates from 3% to 6% and related surcharges on revenues generated by our subsidiary from our contractual arrangements with the VIE. The PRC Enterprise Income Tax Law and its Implementing Regulations require every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its affiliates or related parties to the relevant tax authorities. According to the Implementing Regulations of the Enterprise Income Tax Law, these transactions may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year during which the transactions are conducted. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and the VIE were not on an arm's length basis and therefore constitute a favorable transfer pricing arrangement. If this occurs, the PRC tax authorities could request that the VIE and any of its subsidiaries adjust their taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by reducing expense deductions recorded by such VIE and thereby increasing the VIE's tax liabilities, which could subject the VIE to late fees and other penalties for the underpayment of taxes. Our results of operations may be materially and adversely affected if the VIE's tax liabilities increase or if either of them becomes subject to late payment fees or other penalties.

Contractual arrangements we have entered into among our WFOE, the VIE and its shareholders may be subject to scrutiny by the PRC tax authorities and they may determine that we or the VIE and its subsidiaries owe additional taxes, which could substantially reduce our consolidated net profit and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We are not able to determine whether the contractual arrangements we have entered into among our WFOE, the VIE and its shareholders will be regarded by the PRC tax authorities as arm's length transactions. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our wholly-owned subsidiary in China, Zhixuan International Management Consulting (Shenzhen) Co., Ltd., or our WFOE, the VIE, and the VIE's shareholders were not entered into on an arm's length basis or resulted in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the VIE's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by the VIE, which could in turn increase their respective tax liabilities. In addition, the PRC tax authorities may impose late fees and other penalties on the VIE for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the VIE's tax liabilities increase or if they are required to pay late fees and other penalties.

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

We are a holding company, and we may rely principally on dividends and other distributions on equity paid by our WFOE, which in turn relies on consulting and other fees paid to us by the VIE, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our WFOE incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements our WFOE currently has in place with the VIE in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us.

Under PRC laws and regulations, our WFOE, as a wholly foreign-owned enterprise in the PRC, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise such as our WFOE is required to set aside at least 10% of its accumulated after-tax profits after making up the previous year's accumulated losses each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. At its discretion, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Furthermore, if our WFOE and consolidated entities incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

In addition, the EIT Law and its implementation rules provide that withholding tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

Any limitation on the ability of our WFOE to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. In addition, there is no assurance that the PRC government will not intervene or impose restrictions on our ability to transfer cash in the future. See also “—Risks Relating to Doing Business in China—The dividends we receive from our WFOE may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our financial condition and results of operations.”

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of conversion of foreign currencies into Renminbi may delay or prevent us from using the proceeds of our initial public offering to make loans to our WFOE and VIE or to make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our WFOE, the VIE and its subsidiaries. We may make loans to our WFOE, the VIE and its subsidiaries, or we may make additional capital contributions to our WFOE.

Any loans to our WFOE, which are treated as Foreign Investment Enterprises, or FIEs, under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our WFOE, the VIE and its subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system. We may also provide loans to the VIE and its subsidiaries or other domestic PRC entities, according to the Circular of the People’s Bank of China on Matters relating to the Comprehensive Macro-prudential Management of Cross-border Financing issued by the People’s Bank of China in January 2017, the Circular of the People’s Bank of China and the State Administration of Foreign Exchange on Adjusting the Macro-prudential Regulation Parameter for Full-covered Cross-border Financing in March 2020 and the Circular of the People’s Bank of China and the State Administration of Foreign Exchange on Adjusting Macro-prudential Regulation Parameter for Cross-border Financing of Enterprises in January 2021. The limit for the total amount of foreign debt is two times of their respective net assets. Moreover, any medium or long-term loan to be provided by us to the VIE and its subsidiaries or other domestic PRC entities must also be filed and registered with the National Development and Reform Commission, or the NDRC. We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be recorded with the Ministry of Commerce, or MOFCOM, or its local counterpart.

On March 30, 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19, which took effect and replaced previous regulations effective on June 1, 2015. Pursuant to SAFE Circular 19, up to 100% of foreign currency capital of a foreign-invested enterprise may be converted into RMB capital according to the actual operation, and within the business scope, of the enterprise at its will. Although SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, the restrictions continue to apply as to FIEs’ use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans. On June 9, 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, effective on June 9, 2016, which reiterates some rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-affiliated enterprises. On October 23, 2019, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment, which, among other things, expanded the use of foreign exchange capital to domestic equity investment area. Non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments by using their capital on the premise without violation to prevailing special administrative measures for access of foreign investments (negative list) and the authenticity and compliance with the regulations of domestic investment projects. If the VIE requires financial support from us or our wholly owned subsidiary in the future and we find it necessary to use foreign currency-denominated capital to provide such financial support, our ability to fund the VIE’s operations will be subject to statutory limits and restrictions, including those described above.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE Circular 19, SAFE Circular 16 and other relevant rules and regulations, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our WFOE, the VIE or its subsidiaries or with respect to future capital contributions by us to our WFOE. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Risks Relating to Doing Business in China

The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB. As a result, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

The Holding Foreign Companies Accountable Act, or the HFCAA, was signed into law on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA, pursuant to which the SEC will identify an issuer as a "Commission Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. The PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. Therefore, we expect to be identified as a "Commission Identified Issuer" shortly after the filing of this annual report on Form 20-F.

Whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on Form 20-F for the year ending December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our, and our auditor's, control. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. Such a prohibition would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. If this provision is enacted into law and the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA is reduced from three years to two, then our shares and ADSs could be prohibited from trading in the United States in 2023.

The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As a follow-up, on December 24, 2021, the CSRC issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons. The Draft Administration Measures also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises. For more details of the Draft Provisions and the Draft Administration Measures, please refer to "Regulation – Regulations Relating to Overseas Listing and M&A." Further to the Draft Provisions and the Draft Administration Measures, on April 2, 2022, the CSRC released the revised Provision on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or the Draft Archives Rules. The Draft Archives Rules were open for public consultations until April 17, 2022. The Draft Archives Rules regulate both overseas direct offerings and overseas indirect offerings. The Draft Archives Rules provide that, among other things, (i) in relation to the overseas listing activities of domestic enterprises, the domestic enterprises are required to strictly comply with the relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities; (ii) during the course of an overseas offering and listing, if a domestic enterprise needs to publicly disclose or provide to securities companies, accounting firms or other securities service providers and overseas regulators, any materials that contain relevant state secrets, government work secrets or that have a sensitive impact (i.e. be detrimental to national security or the public interest if divulged), the domestic enterprise should complete the relevant approval/filing and other regulatory procedures; and (iii) working papers produced in the PRC by securities companies and securities service providers, which provide domestic enterprises with securities services during their overseas issuance and listing, should be stored in the PRC, and the transmission of all such working papers to recipients outside of the PRC is required to be approved by competent authorities of the PRC.

As of the date of this annual report, the Draft Provisions, the Draft Administration Measures and the Draft Archives Rules were released for public comment only. There are uncertainties as to whether the Draft Provisions, the Draft Administration Measures and the Draft Archives Rules would be further amended, revised or updated. Substantial uncertainties exist with respect to the enactment timetable and final content of the Draft Provisions, the Draft Administration Measures and the Draft Archives Rules. As the CSRC may formulate and publish guidelines for filings in the future, the Draft Administration Measures does not provide for detailed requirements of the substance and form of the filing documents. In a Q&A released on its official website, the respondent CSRC official indicated that the proposed new filing requirement will start with new companies and the existing companies seeking to carry out activities like follow-on financing. As for the filings for the existing companies, the regulator will grant adequate transition period and apply separate arrangements. The Q&A also addressed the contractual arrangements and pointed out that if relevant domestic laws and regulations have been observed, companies with compliant VIE structure may seek overseas listing after completion of the CSRC filings. Nevertheless, it does not specify what qualify as compliant VIE structures and what relevant domestic laws and regulations are required to be complied with. Given the substantial uncertainties surrounding the latest CSRC filing requirements at this stage, we cannot assure you that we will be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all. As for confidentiality and archives management, the Draft Archives Rules remain silent on clarifications about "government work secrets" and "detrimental to national security or the public interest if divulged."

Relatedly, on December 27, 2021, the NDRC and the Ministry of Commerce, or the MOFCOM, jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), or the 2021 Negative List, which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. As the 2021 Negative List is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Measures for Cybersecurity Review and the draft of Regulations on the Network Data Security, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.

We conduct our business primarily through the VIE and its subsidiaries in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and it may influence our operations, which could result in a material adverse change in our operation and/or the value of our ADSs. Also, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. For example, on July 6, 2021, the relevant PRC government authorities made public the Opinions on Strictly Scrutinizing Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. On December 28, 2021, the CAC and 12 other governmental authorities jointly issued the Measures, which required that, among others, internet platform operators holding over one million users' personal information shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange. On November 14, 2021, the CAC released the Regulations on the Network Data Security, or the Draft Regulations, for public comments, which stipulates, among others, that a prior cybersecurity review is required for listing abroad of data processors which process over one million users' personal information, and the listing of data processors in Hong Kong which affects or may affect national security. Since the Measures are relatively new and Draft Regulations are in the process of being formulated and the Opinions remain unclear on how it will be interpreted, amended and implemented by the relevant PRC governmental authorities, it remains uncertain how PRC governmental authorities will regulate overseas listing in general and whether we are required to obtain any specific regulatory approvals from the CAC or any other PRC governmental authorities for our offshore offerings. If the CAC or other regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for our future offshore offerings, we may be unable to obtain such approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or become worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

Adverse changes in China's economic, political and social conditions, as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

We conduct businesses in the PRC, and therefore our financial conditions and results of operations are subject to influences from PRC's economic, political and social conditions to a great extent. The PRC economy differs from the economies of most developed countries in many aspects, including, but not limited to, the degree of government involvement, control level of corruption, control of capital investment, reinvestment control of foreign exchange, allocation of resources, growth rate and development level.

For decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. We cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and improving process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the real property industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on codified statutes and court decisions have limited precedential value. The PRC legal system is evolving rapidly, and the interpretation of many laws, regulations and rules may contain inconsistencies and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than that in more developed jurisdictions. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effects. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations.

PRC government has significant oversight over the conduct of our business and it has recently indicated an intent to exert more oversight over offerings that are conducted overseas and/or foreign investment in China-based issuers. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or become worthless.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulations of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We only have contractual control over our website and mobile app platform. We do not directly own the website and mobile app platform due to the restriction of foreign investment in businesses providing value-added telecommunications services in China, including internet information provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in March 2018, the State Council announced the establishment of a new department, the Office of the Central Cyberspace Affairs Commission, (with the involvement of the State Council Information Office, the Ministry of Industry and Information Technology, or the MIIT, and the Ministry of Public Security). The primary role of this new agency is to facilitate the policy-making and legislative development in this field, to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry, and the National Computer Network and Information Security Management Center was adjusted to be managed by the Office of the Central Cyberspace Affairs Commission Office instead of the MIIT.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our reputation, business and results of operations.

We face uncertainties with respect to the enactment, interpretation and implementation of the Anti-Monopoly Guidelines for the Internet Platform Economy Sector.

On February 7, 2021, Anti-monopoly Commission of the State Council published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector that aims at specifying some of the circumstances under which an activity of Internet platform may be identified as monopolistic act as well as setting out merger controlling filing procedures involving variable interest entity, which became effective on the same day. Due to the uncertainties associated with the evolving legislative activities and varied local implementation practices of anti-monopoly and competition laws and regulations in the PRC, it may be costly to adjust some of our business practice in order to comply with these laws, regulations, rules, guidelines and implementations, and any noncompliance or associated inquiries, investigations and other governmental actions may divert significant management time and attention and our financial resources, bring negative publicity, subject us to liabilities or administrative penalties, and/or materially and adversely affect our financial conditions, operations and business prospects.

Government control of currency conversion and future fluctuation of Renminbi exchange rates could have a material adverse effect on our results of operations and financial condition, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.

Substantially all our income, costs and expenses are denominated in Renminbi, which is not currently a completely freely convertible currency. A portion of these income must be converted into other currencies to meet our foreign currency obligations, including our payments of declared dividends, if any, for our Shares.

Under the PRC's existing foreign exchange regulations, by complying with certain procedural requirements, we will be able to undertake current account foreign exchange transactions, including payment of dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. We may not be able to pay dividends in foreign currencies to our Shareholders if the PRC government restricts access to foreign currencies for current account transactions. Under existing PRC foreign exchange regulations, conversion of Renminbi is permitted, without prior approval from the SAFE, for current account transactions, including profit distributions, interest payments and expenditures from trade-related transactions, as long as certain procedural requirements are complied with. However, approval from and registration with the SAFE and other PRC regulatory authorities are required where Renminbi is to be converted into foreign currency and remitted out of China for capital account transactions, which includes foreign direct investment and repayment of loans denominated in foreign currencies. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

The value of Renminbi against the HK dollar, the U.S. dollar and other currencies fluctuate, subject to change resulting from the PRC government's policies, and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the HK dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals.

Furthermore, the net proceeds from our initial public offering are deposited overseas in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected, as we will not be able to invest these proceeds on RMB-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may adversely affect our business, results of operations and financial condition.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our directors and management named in the annual report based on foreign laws.

We are an exempted company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and most of them are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors as none of them currently resides in the United States or has substantial assets located in the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. Due to jurisdictional limitations, matters of comity and various other factors, the SEC, U.S. Department of Justice and other U.S. authorities may also experience difficulties in bringing and enforcing actions against us or our directors and officers, including in instances of fraud or other wrongdoing.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of written arrangement with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

In addition, shareholder claims that are common in the United States, including class action securities law and fraud claims, may be difficult to pursue as a matter of law or practicality in China. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law against a company in China for disputes if they can establish sufficient nexus to the PRC for a PRC court to have jurisdiction, and meet other procedural requirements, including, among others, the plaintiff must have a direct interest in the case, and there must be a concrete claim, a factual basis and a cause for the suit. It will be, however, difficult for U.S. shareholders to originate actions against us in the PRC in accordance with PRC laws because we are incorporated under the laws of the Cayman Islands and it will be difficult for U.S. shareholders, by virtue only of holding the ADSs or our ordinary shares, to establish a connection to the PRC for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.

On July 14, 2006, the Supreme People's Court of China and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters, or the 2006 Arrangement. Under such arrangement, where any designated People's Court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court or Hong Kong court for recognition and enforcement of the judgment. On January 18, 2019, the Supreme Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region, or the 2019 Arrangement. The 2019 Arrangement, for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in mainland China and those in the Hong Kong Special Administrative Region, stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. After a judicial interpretation has been promulgated by the Supreme People's Court and the relevant procedures have been completed by the Hong Kong Special Administrative Region, both sides shall announce a date on which the 2019 Arrangement shall come into effect. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. Since June 2010, Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policies may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for capital expenditures and working capital and other business purposes, appreciation of Renminbi against the U.S. dollar would have an adverse effect on Renminbi amount we would receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against Renminbi would have a negative effect on the U.S. dollar amount available to us.

The reporting currency of our company is the Renminbi. However, the functional currency of our consolidated operating subsidiaries and variable interest entity is the Renminbi and substantially all of their revenues and expenses are denominated in Renminbi. Fluctuations in exchange rates, primarily those involving the U.S. dollar, may affect the relative purchasing power of these proceeds. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of earnings from, and the value of any U.S. dollar-denominated investments we make in the future.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our WFOE to liability or penalties, limit our ability to inject capital into our WFOE or limit our WFOE's ability to increase their registered capital or distribute profits.

PRC residents are required to file or obtain the certificates of outbound investment from, or register with, regulatory authorities when investing in offshore companies. According to administrative measures for the outbound investment by PRC entities promulgated by the NDRC and MOFCOM, PRC entities shall obtain the approval or file with the NDRC and MOFCOM when investing in offshore companies, and shall update or apply for amendment in respect to the certificates, filings or registrations in the event of any significant changes with respect to the offshore investment. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents (including individuals and entities) to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC resident holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

As of the date of this annual report, all of our beneficial owners who are PRC individuals have completed their initial registration or amendment of such registration under SAFE Circular 37, and our shareholders who are PRC entities have completed SAFE registration under relevant foreign exchange regulations. We have notified and requested all of our shareholders to comply with, or notify their beneficial owners who are PRC residents to comply with applicable PRC regulations, including the requirements of NDRC and MOFCOM and their filing obligation under SAFE Circular 37 and other implementation rules. Nevertheless, we do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will at all times comply with such requirements and obligations. In addition, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents will in the future update or apply for amendment with respect to the certificates, filings or registrations in the event of any significant changes with respect to the offshore investment. The failure of our beneficial owners who are PRC residents to register or amend certificates, filings or registrations in a timely manner pursuant to applicable PRC regulations, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in applicable PRC laws and regulations, may subject such beneficial owners or our WFOE to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our WFOE and limit our WFOE's ability to distribute dividends to our company or conduct other foreign exchange transactions. These risks may have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiaries of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options will be subject to these regulations if those employees exercise such restricted shares, restricted share units or options. Separately, SAFE Circular 37 also requires certain registration procedures to be completed if those employees exercise restricted shares, restricted share units or options before listing. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors and employees under PRC law.

In addition, the State Administration of Taxation, or the SAT has issued certain circulars concerning employee share options or restricted shares. Under these circulars, the employees working in the PRC who exercise share options or are granted restricted share units will be subject to PRC individual income tax. Our WFOE have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government-mandated employee benefit contribution plans, including certain social insurance, housing funds and other welfare plans, open and register accounts for social insurance accounts and housing funds, and contribute in their own names to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of employees up to a maximum amount specified by the local government from time to time at locations where companies operate our businesses. The requirements of employee benefit contribution plans have not been implemented consistently by the local governments in China given the different levels of economic development in different geographical areas.

Certain PRC subsidiaries of the VIE had historically failed to make adequate social insurances and housing fund contributions for their employees, failed to open and register the accounts for social insurance and housing funds or engage third-party agencies to make contributions in such agencies' names to such employee benefit plans. We cannot assure you that we will not be required to make up the contributions for these welfare plans as well as late fees and fines, or that we will, in the future, be able to make adequate contributions to employee benefit plans for all employees or open and register the accounts for social insurance and housing funds in a timely manner, or at all. If we are subject to investigations or penalties related to non-compliance with labor laws, our business, financial condition and results of operations could be adversely affected.

Inflation and increases in labor costs in China could negatively affect our profitability and growth.

The economy in China has experienced increases in inflation and labor costs in recent years. As a result, average wages in the PRC are expected to continue to increase. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pension, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments to the statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to control our labor costs or pass on these increased labor costs to our users by increasing the fees for our services, our financial condition and results of operations may be adversely affected.

Any failure by us or our third-party service providers to comply with applicable anti-money laundering laws and regulations could damage our reputation.

In collaboration with our third-party service providers, we have adopted various policies and procedures, such as internal controls and “know-your-client” procedures, for anti-money laundering purposes. The Guidelines on Promoting the Healthy Development of Internet Finance Industry, or the Fintech Guidelines purports, among other things, to require internet financial service providers, including us, to comply with certain anti-money laundering requirements, including:

- the establishment of a borrower identification program;
- the monitoring and reporting of the suspicious transaction;
- the preservation of borrower information and transaction records; and
- the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters.

There is no assurance that our anti-money laundering policies and procedures will protect us from being exploited for money laundering purposes or that we will be deemed to be in compliance with applicable anti-money laundering implementing rules, if and when adopted, given that our anti-money laundering obligations in the Fintech Guidelines. Any new requirement under money laundering laws could increase our costs and may expose us to potential sanctions if we fail to comply.

We have not been subject to fines or other penalties, or suffered business or other reputational harm, as a result of actual or alleged money laundering activities in the past. However, our policies and procedures may not be completely effective in preventing other parties from using us, any of third-party service providers as a conduit for money laundering (including illegal cash operations) without our knowledge. If we were to be associated with money laundering (including illegal cash operations), our reputation could suffer and we could become subject to regulatory fines, sanctions or legal enforcement, including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, all of which could have a material adverse effect on our financial condition and results of operations. Even if we and our third-party service providers comply with the applicable anti-money laundering laws and regulations, we and our third-party service providers may not be able to fully eliminate money laundering and other illegal or improper activities in light of the complexity and the secrecy of these activities. Any negative perception of the industry, such as that arises from any failure of other insurance service providers to detect or prevent money laundering activities, even if factually incorrect or based on isolated incidents, could compromise our image, undermine the trust and credibility we have established and negatively impact our financial condition and results of operations.

China's M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations have established procedures and requirements that could make merger and acquisition activities in China by foreign investors more time consuming and complex. In addition to the Anti-monopoly Law itself, these include the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and the Rules of the Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the Security Review Rules, promulgated in 2011. These laws and regulations impose requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, the Anti-Monopoly Law requires that the Ministry of Commerce be notified in advance of any concentration of undertaking if certain thresholds are triggered. Moreover, the Security Review Rules specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the Ministry of Commerce, and prohibit any attempt to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

We face uncertainties regarding the reporting on and consequences of previous private equity financing transactions involving the transfer and exchange of shares in our company by non-resident investors.

In February 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or SAT Bulletin 7, as amended in 2017. Pursuant to this bulletin, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to SAT Bulletin 7, "PRC taxable assets" include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a "reasonable commercial purpose" of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiary directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of shareholders, the business model and organizational structure; the information about the payment of due income tax outside China on indirect transfer of Chinese taxable property; the substitutability between indirect investment by equity transferor, indirect transfer of Chinese taxable property and direct investment, direct transfer of Chinese taxable property; Chinese tax conventions or arrangements applicable to the proceeds from indirect transfer of Chinese taxable property; and other relevant factors. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. SAT Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There are uncertainties as to the application of SAT Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions under SAT Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our WFOE may be requested to assist in the filing under SAT Bulletin 7. As a result, we may be required to expend valuable resources to comply with SAT Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The dividends we receive from our WFOE may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our financial condition and results of operations.

Under the applicable PRC tax laws in effect before January 1, 2008, dividend payments to foreign investors made by foreign-invested enterprises in China were exempt from PRC withholding tax. Pursuant to the PRC Enterprise Income Tax Law, however, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. We are a Cayman Islands holding company and substantially all of our income may come from dividends we receive from our WFOE. Since there is currently no such tax treaty between China and the Cayman Islands, dividends we receive from our WFOE will generally be subject to a 10% withholding tax, which would have a material adverse effect on our financial condition and results of operations.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

Prior to January 1, 2008, dividends payable to non-PRC investors were exempted from withholding tax. The PRC Enterprise Income Tax Law and its implementation rules provide that PRC enterprise income tax at the rate of 10% will generally be applicable to dividends derived from sources within the PRC and received by non-PRC enterprise shareholders. Similarly, gains derived from the transfer of shares by such shareholders are also subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Since there remain uncertainties regarding the interpretation and implementation of the PRC Enterprise Income Tax Law and its implementation rules, it is uncertain whether, if we are regarded as a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders and ADS holders which are enterprises would be subject to any PRC withholding tax. If we are required under the PRC Enterprise Income Tax Law to withhold PRC income tax on our dividends payable to our non-PRC enterprise shareholders and ADS holders, or if gains on the disposition of our shares by such holders are subject to the EIT Law, your investment in our common shares or ADSs may be materially and adversely affected.

If the custodians or authorized users of controlling non-tangible assets of our company, including our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including contracts such as consulting service agreements we enter into with wealth management product providers, which are important to our business, are executed using the chops (a Chinese stamp or seal) or seals of the signing entity, or with the signature of a legal representative whose designation is registered and filed with the relevant branch of the SAMR.

Although we usually utilize chops to enter into contracts, the designated legal representatives of each of our WFOE and consolidated entities have the power to enter into contracts on behalf of such entities without chops and bind such entities. All designated legal representatives of our WFOE and consolidated entities have signed employment undertaking letters with us or our WFOE and consolidated entities under which they agree to abide by various duties they owe to us. In order to maintain the physical security of our chops and the chops of our PRC entities, we generally store these items in secured locations accessible only by the authorized personnel of each of our WFOE and consolidated entities. Although we monitor such authorized personnel, there is no assurance such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our WFOE or consolidated entities, we, our WFOE or consolidated entities would need to pass a new shareholder or board resolution to designate a new legal representative and we would need to take legal actions to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

Risks Relating to Our ADSs

The trading price of our ADSs has been and may continue to be volatile, which could result in substantial losses to investors.

Since our ADSs became listed on the Nasdaq Global Market on February 11, 2020, the trading price of our ADSs been subject to side fluctuations. In 2021, the trading prices of our ADS on the Nasdaq Global Market have ranged from US\$1.17 to US\$13.85 per ADS. The trading price of other Chinese companies' securities, including internet-based companies, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of the Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of our conduct. The trading price of our ADSs may fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for our ADSs may be volatile for factors specific to our own operations, including the following:

- variations in our net revenues, earnings and cash flow;
- our or our competitors' announcements of new investments, acquisitions, strategic partnerships, or joint ventures;
- our or our competitors' announcements of new products and services and expansions;
- changes in financial estimates by securities analysts;
- failure on our part to realize monetization opportunities as expected;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- detrimental negative publicity about us, our management, our competitors or our industry;
- regulatory developments affecting us or our industry; and
- actual or potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the trading volume and price of the ADSs.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

If securities or industry analysts do not publish or publish inaccurate or unfavorable research about our business, or if they adversely change their recommendations regarding our ADSs, the market price for our ADSs and trading volume could decline.

The trading market for the ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

Techniques employed by short sellers may drive down the market price of our ADSs.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies listed in the United States that have a substantial majority of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

We may be the subject of unfavorable allegations made by short sellers in the future. Any such allegations may be followed by periods of instability in the market price of our common shares and ADSs and negative publicity. If and when we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable federal or state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and shareholders' equity, and the value of any investment in our ADSs could be greatly reduced or rendered worthless.

Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A common shares and the ADSs may view as beneficial.

We have a dual-class common share structure. Our common shares are divided into Class A common shares and Class B common shares. Holders of Class A common shares are entitled to one vote per share, while holders of Class B common shares are entitled to 15 votes per share. Each Class B common share is convertible into one Class A common share at any time by the holder thereof, while Class A common shares are not convertible into Class B common shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B common shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B common shares shall be automatically and immediately converted into an equal number of Class A common shares.

As of February 28, 2022, Mr. Cunjun Ma, the chairman of our board of directors and our chief executive officer, beneficially owned an aggregate of 150,591,207 Class B common shares and 7,105,740 Class A common shares in the form of ADSs. Together with 139,381,086 Class A common shares, the voting power of which has been delegated to Mr. Cunjun Ma, Mr. Cunjun Ma is able to exercise in aggregate 76.5% of our total voting power. Therefore, Mr. Cunjun Ma has decisive influence over matters requiring shareholders' approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of our Class A common shares and the ADSs may view as beneficial.

The dual-class structure of our common shares may adversely affect the trading market for the ADSs.

S&P Dow Jones and FTSE Russell have previously announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our common shares may prevent the inclusion of the ADSs representing our Class A common shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for the ADSs representing our Class A common shares. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of the ADSs.

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Pursuant to our articles of association, our board of directors has absolute discretion as to whether to declare dividends subject to the requirements of the Companies Act. Our articles of association provides that dividends may be declared and paid out of the profits of our company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act. Under the Companies Act, no distribution or dividend may be paid out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company shall be able to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, we receive from our WFOE, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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

Holders of our ADSs do not have the same rights as our registered shareholders. As a holder of ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights that are carried by the underlying Class A common shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask for your instructions, then upon receipt of your voting instructions, the depositary will try, as far as practicable, to vote the underlying Class A common shares represented by your ADSs in accordance with your instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A common shares represented by your ADSs unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders for convening a general meeting is ten clear days.

When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the Class A common shares underlying your ADSs and become the registered holder of such shares to allow you to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A common shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary at least 30 days' prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A common shares represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the Class A common shares underlying your ADSs are voted and you may have no legal remedy if the Class A common shares underlying your ADSs are not voted as you requested.

The depositary will give us a discretionary proxy to vote the Class A common shares underlying your ADSs if you do not give voting instructions to the depositary to direct how the Class A common shares underlying your ADSs are voted, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not give voting instructions to the depositary to direct how the Class A common shares underlying your ADSs are voted, the depositary will give us a discretionary proxy to vote the Class A common shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that if you do not give voting instructions to the depository to direct how the Class A common shares underlying your ADSs are voted, you cannot prevent the Class A common shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our Class A common shares are not subject to this discretionary proxy.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

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

You may not receive cash dividends if the depository decides it is impractical to make them available to you.

The depository will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our Class A common shares or other deposited securities, and we do not have any present plan to pay any cash dividends on our Class A common shares in the foreseeable future. To the extent that there is a distribution, the depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A common shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A common shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to you.

We and the depository are entitled to amend the deposit agreement and to change the rights of ADS holders under the terms of such agreement, and we may terminate the deposit agreement, without the prior consent of the ADS holders.

We and the depository are entitled to amend the deposit agreement and to change the rights of the ADS holders under the terms of such agreement, without the prior consent of the ADS holders. We and the depository may agree to amend the deposit agreement in any way we decide is necessary or advantageous to us. Amendments may reflect, among other things, operational changes in the ADS program, legal developments affecting ADSs or changes in the terms of our business relationship with the depository. In the event that the terms of an amendment are disadvantageous to ADS holders, ADS holders will only receive 30 days' advance notice of the amendment, and no prior consent of the ADS holders is required under the deposit agreement. Furthermore, we may decide to terminate the ADS facility at any time for any reason. For example, terminations may occur when we decide to list our shares on a non-U.S. securities exchange and determine not to continue to sponsor an ADS facility or when we become the subject of a takeover or a going-private transaction. If the ADS facility will terminate, ADS holders will receive at least 90 days' prior notice, but no prior consent is required from them. Under the circumstances that we decide to make an amendment to the deposit agreement that is disadvantageous to ADS holders or terminate the deposit agreement, the ADS holders may choose to sell their ADSs or surrender their ADSs and become direct holders of the underlying Class A common shares, but will have no right to any compensation whatsoever.

ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement or relating to our shares or the ADSs, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A common shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim that they may have against us or the depository arising out of or relating to our Class A common shares, our ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and our ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or our ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us or the depositary. If a lawsuit is brought against us or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

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

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems it expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of the ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, substantially all of our directors and executive officers and the experts named in this annual report reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Legal claims, including federal securities law claims, against China-based Issuers, or their directors and officers based in China, may be difficult or impossible for investors to pursue in U.S. courts. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, the PRC or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers. Especially given the related assets or persons are located in China, a jurisdiction that may not recognize or enforce U.S. judgments. In that case, you may have to rely on legal claims and remedies available in China, where we and our directors and officers maintain substantially all of our assets. The claims and remedies available in these jurisdictions are significantly different from those available in the United States and are difficult to pursue. For risks relating to enforcing foreign judgments or bringing actions in China against us or our directors and officers, see Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our directors and management named in the annual report based on foreign laws.”

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by, among other things, our memorandum and articles of association, the Companies Act and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Under Cayman Islands law, the notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies in the Cayman Islands for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members. Shareholders of Cayman Islands companies like us have no general rights under the Cayman Islands law to inspect corporate records, or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. We may in the future rely on home country practice with respect to our corporate governance. If we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States.

You must rely on the judgment of our management as to the use of the net proceeds from our initial public offering, and such use may not produce income or increase our ADS price.

Our management will have considerable discretion in the application of the net proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not improve our efforts to achieve or maintain profitability or increase our ADS price. The net proceeds from our initial public offering may be placed in investments that do not produce income or that lose value.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigations initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the PRC territory. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase the difficulties you face in protecting your interests. See also “—Risks Relating to Our ADSs— You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

Our memorandum and articles of association contains anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our Class A common shares and ADSs.

Our currently effective memorandum and articles of association contains certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board of directors to issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders and ADS holders of the opportunity to sell their shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

We are an emerging growth company and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. Further, as an emerging growth company, we elect to use the extended transition period for complying with new or revised financial accounting standards.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material non-public information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq listing standards.

As a Cayman Islands exempted company listed on the Nasdaq Global Market, we are subject to the Nasdaq Stock Market corporate governance listing standards. However, the Nasdaq Stock Market Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq Stock Market corporate governance listing standards. We have relied on the exemption available to foreign private issuers for the requirement under Nasdaq Rule 5635(c) that shareholders' approval must be obtained prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or when other equity compensation arrangement is to be made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants. We have elected to follow our home country practice and did not obtain shareholders' approval for the material amendment to our 2019 Plan. If we continue to rely on this and other exemptions available to foreign private issuers in the future, our shareholders may be afforded less protection than they otherwise would under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers.

We are and may continue to be a "controlled company" within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a "controlled company" as defined under the Nasdaq Stock Market Rules because Mr. Cunjun Ma, the chairman of our board of directors and our chief executive officer, owns more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and may rely, on certain exemptions from corporate governance rules. As a result, you may not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

There can be no assurance that we will not be a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in our ADSs or Class A common shares to significant adverse United States federal income tax consequences.

We will be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if either (a) 75% or more of our gross income for such year consists of certain types of "passive" income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the "asset test"). Although the law in this regard is unclear, we intend to treat the VIE (including its subsidiaries) as being owned by us for United States federal income tax purposes because we exercise effective control over the operation of such entities and because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Assuming that we are the owner of the VIE (including its subsidiaries) for United States federal income tax purposes, and based upon our current and expected income and assets, including goodwill and other unbooked intangibles not reflected on our balance sheet, and the value of our ADSs, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future.

Assuming that we are the owner of the VIE (including its subsidiaries) for United States federal income tax purposes, we do not believe we were a PFIC for the taxable year ended December 31, 2021, and based upon our current income and assets, including goodwill and other unbooked intangibles not reflected on our balance sheet, and the value of our ADSs, we do not anticipate becoming a PFIC in the current taxable year or in the foreseeable future. While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs, fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years. In particular, recent fluctuations in the market price of our ADSs increased our risk of becoming a PFIC. The market price of our ADSs may continue to fluctuate considerably and, consequently, we cannot assure you of our PFIC status for any taxable year. The determination of whether we will be or become a PFIC for any taxable year will also depend, in part, on the composition of our income and assets, which will be affected by how, and how quickly, we use our liquid assets. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of the VIE for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and a non-United States corporation's PFIC status for any taxable year is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC in any taxable year, a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or Class A common shares and on the receipt of distributions on the ADSs or Class A common shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules, and such U.S. Holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A common shares, we will generally continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or Class A common shares. For more information see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

We incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”

As a public company, we incur significant legal, accounting and other expenses that we would not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Global Market, impose various requirements on the corporate governance practices of public companies. As a company with less than US\$1.07 billion in revenues for our last fiscal year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to “opt out” of the provision that allow us to delay adopting new or revised accounting standards and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Under these rules and regulations, as a public company, we may increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a public company, we need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. Operating as a public company also makes it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we may incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our founding team began operating an online insurance business under the “Huize” brand in 2006. Huize Insurance Brokerage Co., Ltd., or Huize Brokerage, formerly known as Shenzhen Huize Insurance Brokerage Co., Ltd., was established in 2011 in preparation for the launch of our platform. Mr. Cunjun Ma, the chairman of our board of directors and our chief executive officer, was our founder.

In 2014, Mr. Cunjun Ma established Shenzhen Huiye Tianze Investment Holding Co., Ltd., or Huiye Tianze, together with Focus Technology Co., Ltd. as a holding company in the PRC. Huiye Tianze acquired 100% shares of Huize Brokerage in 2014. Huiye Tianze subsequently established or acquired a series of wholly owned subsidiaries in the PRC, including Huize (Chengdu) Internet Technology Co., Ltd., Shenzhen Huize Shidai Co., Ltd., or Huize Shidai, and Shenzhen Zhixuan Wealth Investment Management Co., Ltd. We have been operating our business primarily through Huiye Tianze and its subsidiaries, including Huize Brokerage and Huize Shidai, since 2014.

When established, Huiye Tianze was initially owned by Mr. Cunjun Ma through his holding vehicle, and Focus Technology Co., Ltd. Huiye Tianze has completed four rounds of equity financing since its inception. In December 2014, Xiamen Sijuan Investment Management Co., Ltd. invested in Huiye Tianze. In January 2016, Mr. Cunjun Ma's holding vehicle increased its shareholding in Huiye Tianze. In April 2016, several strategic investors, including, among others, Beijing La Ka La Internet Industrial Investment Fund LLP, Shenzhen Chuang Dong Fang Internet Financing Investment LLP and Jiaxing Weirong Investment Management Limited Partnership, invested in Huiye Tianze. In July 2016, Shenzhen Dachen Chuangkun Investment Limited Partnership invested in Huiye Tianze. In July 2018, Xinyu Dong Guang Yuan Investment Management Center LLP and Beijing La Ka La Investment Management Co., Ltd. invested in Huiye Tianze through purchasing a convertible bond issued by Huiye Tianze, a portion of which was converted to preferred shares in October 2018.

Our company, Huize Holding Limited, formerly known as Smart Choice Holding Limited, was established in 2014 by three shareholders: (i) Huidz Holding Limited, Mr. Cunjun Ma's holding company incorporated in the British Virgin Islands; (ii) Crov Global Holding Limited, incorporated in the British Virgin Islands, the investment vehicle of Focus Technology Co., Ltd., an A-share listed company; and (iii) SAIF IV Hong Kong (China Investments) Limited incorporated in Hong Kong. Huize Holding Limited established Smart Choice Ventures Limited in the British Virgin Islands and Hong Kong Smart Choice Ventures Limited, or Hong Kong Smart Choice, in Hong Kong. Hong Kong Smart Choice subsequently established a wholly owned subsidiary in China, Zhixuan International Management Consulting (Shenzhen) Co., Ltd., or our WFOE, in 2015.

In June 2019, in preparation of our initial public offering, we undertook a restructuring in order for shareholders of the VIE to own shares of our company, and we obtained control and became the primary beneficiary of Huiye Tianze by entering into a series of contractual arrangements with it and its shareholders through our WFOE. Due to the PRC legal restrictions on foreign ownership of internet-based businesses and qualifications requirements on foreign investors in the insurance brokerage business, we rely on these contractual arrangements to conduct a significant part of our operations in China. As a result of our equity ownership in our WFOE and the contractual arrangements with Huiye Tianze, or the VIE, and its shareholders, we are regarded as the primary beneficiary of the VIE, and we treat the VIE and its subsidiaries as a variable interest entity under U.S. GAAP. We have consolidated the financial results of the VIE and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. In June 2019, the VIE's shareholders became shareholders of our company through their respective holding vehicles, and the shareholders' rights and shareholding structure are substantially identical as the previous ones of the VIE.

On February 11, 2020, our ADSs commenced trading on the Nasdaq Global Market under the symbol "HUIZ." We raised approximately US\$47.7 million in net proceeds from our initial public offering after deducting underwriting commissions and the offering expenses payable by us.

On April 15, 2020, our board of directors authorized a share repurchase program under which we may repurchase up to US\$10 million of our outstanding American depository shares over the next 12 months, subject to relevant rules under the Securities Exchange Act of 1934, as amended, and our insider trading policy. The share repurchases may be made from time to time in the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations.

On August 17, 2021, our board of directors approved a management share purchase plan, pursuant to which Mr. Cunjun Ma, our chairman of the board of directors and chief executive officer, and certain other members of our management team intend to allocate their personal funds to purchase up to an aggregate of US\$5 million worth of our ADSs during a six-month period, pursuant and subject to applicable laws and our securities trading policy. The management share purchase may be made from time to time in the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. The management team has agreed to be subject to lock-up restrictions for a period of six months with respect to the proposed purchased shares.

In December 2021, we, through a wholly-owned subsidiary of the VIE, entered into a definitive agreement to acquire 100% equity interest in Shanghai Senhao Insurance Agency Co., Ltd., a nationwide professional insurance agency company founded in 2015 with business networks in 11 provincial areas in China and holds a nationwide Insurance Agency License issued by the CBIRC.

On December 31, 2021, our board of directors approved the establishment of an Environmental, Social and Governance Committee, or the ESG Committee, aimed at enhancing our ESG performance and disclosure, and sustainable development. The ESG Committee consists of the Secretary of the Board and senior management members from core operational and administrative departments. Under the supervision of the Board, the ESG Committee will be responsible for formulating ESG strategies and goals, identifying and evaluating ESG risks and impacts, and overseeing the ESG initiatives and practices of our company.

On March 16, 2022, our board of directors authorized a share repurchase program under which we may repurchase up to US\$5 million of our outstanding American depository shares over the next 12 months, subject to relevant rules under the Securities Exchange Act of 1934, as amended, and our insider trading policy. The share repurchases may be made from time to time in the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. Our board of directors will review the share repurchase program periodically and may authorize adjustment of its terms and size. We expect to fund repurchases made under this program from our existing funds.

The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC using its EDGAR system.

See “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Capital Expenditures” for a discussion of our capital expenditures.

B. Business Overview

We are an independent online insurance product and service platform in China. As a licensed insurance intermediary operating online platforms, we do not bear underwriting risks. We distribute on our platform insurance products underwritten by the insurance companies who cooperate with us, who we refer to as our insurer partners, and help them reach a large number of insurance clients. Our online platform offers digitalized insurance purchase experience and services through various internet and mobile internet channels. We primarily generate revenues from the insurance brokerage fees paid by our insurer partners.

We have accumulated a large insurance client base. As of December 31, 2021, we had cumulatively served 7.5 million insurance clients. A substantial portion of our insurance client base are the younger generation, particularly life and health insurance clients. In 2021, the average age of insurance clients who purchased life and health insurance products through our platform was 34.0.

In order to serve our clients’ protection needs, we offer a wide variety of insurance products with easy-to-understand terms and focusing on protection. Our products cover two major categories—life and health insurance products, and property & casualty insurance products. In 2021, we offered approximately 424 life and health insurance products and approximately 653 property & casualty insurance products. Our life and health insurance products contributed to 97.2% of our brokerage income in 2021. Our long-term life and health insurance products primarily consist of critical illness insurance products, typically offering a lump-sum payment to the insured if the insured is diagnosed with a major life-threatening illness as defined in the insurance policy. Starting from late 2019, we have been diversifying our insurance product offerings, such as starting to offer annuity and endowment life insurance products, in order to attract a wider client demographics and serve our clients’ lifetime insurance needs. Our annuity and endowment life insurance products contributed to 46.8% of our brokerage income in 2021.

We have established business cooperation with a large group of insurer partners. As of December 31, 2021, we cooperated with 109 insurer partners, representing a substantial portion of all licensed insurance companies in China. We empower our insurer partners to reach a massive and fragmented client base quickly, and enhance their insurance sales through our online platform. We have also integrated critical steps in the insurance policy distribution process, such as intelligent underwriting and in-force policy administration, in our system. In addition, we design and develop tailor-made insurance products together with our insurer partners. In 2021, approximately 60.2% of the GWP facilitated through our platform were contributed by tailor-made insurance products that we developed together with our insurer partners.

The cumulative number of insurance clients we served increased from approximately 6.3 million as of December 31, 2019 to approximately 6.8 million as of December 31, 2020, and further to 7.5 million as of December 31, 2021. The GWP we facilitated increased from RMB2,014.3 million in 2019 to RMB3,019.9 million in 2020, and further to RMB5,018.2 million in 2021. We primarily generate revenues from the commission fees that we charge our insurer partners for facilitating insurance policies and generating premiums for them. Our total operating revenue increased from RMB993.3 million in 2019 to RMB1,220.2 million in 2020, and further to RMB2,245.0 million (US\$352.3 million) in 2021. We generated net profit of RMB14.9 million in 2019, and have net loss of RMB18.3 million and RMB107.7 million (US\$16.9 million) in 2020 and 2021, respectively.

Our Online Platform

We hold a nation-wide insurance intermediary license and operate an independent online insurance product and service platform in China. On our platform, we provide insurance clients with a one-stop insurance experience. We distribute through our platform various insurance products underwritten by our insurer partners, some of which are products we designed and developed together with our insurer partners, and we do not assume underwriting risks ourselves. We offer easy interpretation and presentation of insurance policy terms to help insurance clients make informed decisions when purchasing insurance products. We provide services to insurance clients at various stages of the insurance transaction and in-force period to improve client experience and increase client stickiness. On our platform, we connect insurer partners efficiently with a massive base of insurance clients and enhance their insurance sales. The total number of the insured we served increased from approximately 53.2 million as of December 31, 2019 to approximately 57.6 million as of December 31, 2020, and further to approximately 62.5 million as of December 31, 2021.

Access to Our Online Platform for Insurance Clients

Insurance clients can access our online platform on internet and mobile internet, including our websites, our mobile app, our WeChat official account and our WeChat mini program.

Our Websites

We primarily operate three websites: www.huize.com, www.qixin18.com and www.xiebao18.com. Our main website is www.huize.com, through which we offer substantially all of our insurance products, manage our insurance clients and insurance policies, and provide client services. Our main website covers every stage of insurance transactions, including product search, policy interpretation, online live consultation, intelligent underwriting, product purchase, policy management and claim settlement.

www.qixin18.com is a platform we developed to connect to and cooperate with our user traffic channels, where we provide them with order placement SaaS system, user account management system, and various mobile-end tools to enhance our user traffic channels' efficiency in directing client traffic. www.xiebao18.com primarily focuses on corporate insurance products and travel insurance products.

Mobile Platforms

In response to the prevalence of smartphone usage and smartphone users' growing preference of acquiring information and conducting transactions on mobile devices, we have developed our "Huize Insurance" (慧择保险网) mobile app, and have established our official account and mini program on the WeChat platform.

"Huize Insurance" App

We launched our "Huize Insurance" app in November 2015 and December 2015 compatible to Android and iOS systems, respectively. Our "Huize Insurance" app offers similar functions and features as our main website catering to app users' needs. For example, clients can seek advice from our insurance consultants on various questions such as adequacy of their insurance coverage, terms of specific insurance products, and their eligibility for specific insurance products.

WeChat Official Account and Mini-program

We launched our WeChat official account in March 2014. While our WeChat official account also offers insurance transaction service, it mainly focuses on providing insurance education to potential insurance clients. It provides users with convenient access to our main website and mobile app download page, and posts various surveys and other education content aimed at enhancing user awareness of insurance needs and deepening user understanding of insurance products.

We publish articles and reports through our WeChat official account regularly. The articles and reports cover a wide range of insurance-related topics, including, among others, discovery of suitable insurance products for users and their families, comparisons of insurance products within certain product categories, and recommendations of insurance products offered on our platform.

As WeChat has become a daily communication and information acquisition tool for a massive base of smart phone users in China, we also launched a WeChat mini program in February 2017 to better reach and serve users on our WeChat platform. Our WeChat mini program covers most functions of our mobile app.

While we primarily serve our insurance clients through our online platform, we also provide insurance services to a small portion of insurance clients offline as a supplement to our online business.

Our Insurance Clients

We have a large and growing base of insurance clients. We define our insurance clients as purchasers of the insurance policies we distribute, including individual clients, who contribute to most of our revenues, and corporate clients. As of December 31, 2019, 2020 and 2021, the cumulative number of our insurance clients was approximately 6.3 million, 6.8 million and 7.5 million, respectively. As we continue to expand our product offerings, enhance our brand recognition and reputation, and deepen our cooperation with insurer partners and user traffic channels, we expect our client base to continue to grow.

We focus on serving the younger generation who are relatively well-educated, tech-savvy, more willing to learn insurance related knowledge, and tend to enjoy online consumption and investment. In 2021, the average age of those who purchased life and health insurance products through our platform was 34.0.

We aim at serving lifetime insurance needs of our clients and their families. We believe that most insurance clients are attracted by our high-quality product and service offerings after purchasing a first insurance policy on our platform. More importantly, the diversity of insurance products on our platform allows us to serve a variety of insurance clients at different stages of their lives.

Insurance experience offered by traditional industry participants is believed to be time-consuming. We are dedicated to providing best-in-class client experience, which helps transform the industry norm. Our platform provides insurance clients with easy discovery and convenient access to a wide spectrum of insurance products and seamless transaction process. We provide recommendations of products that we believe are suitable for our potential and existing insurance clients based on the information they provide and the data that our platform collects and analyzes. We offer insurance clients a secure environment under a trusted brand, where they can acquire useful insurance knowledge and information on personal and family insurance package planning. The comprehensive suite of client services we provide make the whole insurance experience simple and smooth. The superior client experience we offer enhances client loyalty and encourages repeat purchase.

Services to Insurance Clients

(1) Assistance in Finding the Right Product

- *Product information*

We provide product information that is reader-friendly and easy to interpret, including illustrative graphics and case studies for each insurance product offered to facilitate clients' understanding of policy terms. Moreover, if insurance clients still have questions after reading these materials, they can seek advice from our insurance consultation team or reach out to our client service representatives.

- *A broad selection of product offering*

We offer various categories of insurance products on our platform. For each insurance product category, we offer a broad selection of insurance products, giving insurance clients adequate options to choose from. Therefore, we are able to serve insurance clients' protection needs in different scenarios and at different life stages. Our broad product offering also allows us to recommend to clients insurance product portfolios, which are typically more cost-efficient compared with a simple combination of multiple insurance policies.

- *Insurance product recommendation*

For each client, our platform will generate a set of recommendations based on the client's profile, information provided by the client and his/her browsing footprint on our platform, focusing on the client's personal protection needs. Clients have the flexibility to browse through as many products as they wish, but with the significant number of insurance products available, our recommendation service plays a critical role in matching clients with the most suitable insurance products.

- *Consulting service*

We employ insurance consultants with expertise in insurance industry and substantial experience to facilitate clients to make informed decisions when selecting insurance products. Each insurance consultant is required to complete mandatory trainings by experienced managers on subjects, such as insurance products knowledge and communication skills. Our insurance consultants are young professionals who empathically understand and click with our clients. Before selecting a product, clients can make an appointment for consultation on our platform, and our insurance consultants are expected to contact them by phone within one business day. Our insurance consultants are capable of not only answering basic questions on insurance products, but also analyzing clients' risk profile and insurance needs, providing recommendations with respect to insurance products, and assisting clients and their families with insurance planning. After conducting a thorough assessment on the risks insurance clients and their families are exposed to, our insurance consultants recommend insurance products, and in some cases, insurance portfolio that provide comprehensive protection at competitive price, to insurance clients.

We empower our insurance consultants with our self-built digital tools, mainly including a vertical insurance database and client behavior tracking system. The database covers comprehensive information of insurance products available on the market, both online and offline. Insurance consultants can quickly retrieve product information from the database and present to clients comparison among insurance products. Our client behavior tracking system analyzes the clients' browsing records and transaction records from various dimensions, and evaluates clients' insurance needs and purchase preference. This allows our insurance consultants to predict clients' concerns and queries before starting consultation sessions with clients, which substantially improves consulting efficiency. In 2020, we launched the AI Proposal application and a new version of consultant workstation, both of which are client service tools designed and applied in order to improve our service capabilities and the client experience we provide.

(2) Providing Superior Transaction Experience

- *Intelligent underwriting*

We have built a proprietary intelligent underwriting system that automates the whole underwriting process with data analytical technology. For each insurance product, we code the underwriting criteria set by the insurer into our intelligent underwriting system, which allows the system to automatically evaluate whether a client is eligible for the product and whether the special terms in the insurance policy are triggered based on a series of set questions. As an insurance intermediary, we do not make underwriting decisions or bear underwriting risks by ourselves. We incur research and development expenses for the development of our intelligent underwriting system, and selling expenses for the labor costs related to our client service team.

The intelligent underwriting system greatly optimizes the insurance experience for the insurance clients, as it reduces the amount of paperwork needed, saves the efforts of talking to a human insurance adviser about the client's medical history, and offers much faster digitalized policy processing. In addition, the codified criteria enables the assessment of a wide variety of pre-existing conditions, resulting in more accurate evaluation of a client's eligibility and reducing the rate of rejection by insurance companies.

- *Claim application and settlement service*

We act as the insurance clients' trusted point of contact when risks covered by insurance policies realize. We assist insurance clients in the claim settlement process, but do not make claim decisions as an insurance intermediary. After receiving a claim settlement application from an insurance client, we review relevant materials provided by the client, assist with preparing necessary documents and information required to support the client's claim, submit the claim with the insurer on the client's behalf, and handle all communications with the insurer. We incur research and development expenses for the development of our claim settlement system, and selling expenses for the labor costs related to our client service team.

Our expertise in the insurance industry equips us with a clear understanding in the claim requirements set by our insurer partners, thus allowing us to effectively help clients prepare all necessary documents. The long-term cooperative relationships we have established with our insurer partners and our rich experience in representing clients' interests allow us to settle claims thoroughly and effectively for as fast as two days. Our insurance clients can track the claim settlement progress through our online platform.

- *Client service*

In addition to the insurance consultants team, we also have a dedicated client service team in charge of addressing basic client queries and providing all-round client services. Our client service team help insurance clients navigate smoothly through the insurance transaction process, assist in claim application and settlement, and respond to client complaints to ensure client satisfaction. We choose our client services representatives from candidates who have good communication skills and high client service ethics, and we provide rigorous training to our new recruits. We conduct ongoing evaluations of our client service representatives and provide periodic training to develop their skills.

Upon receiving a piece of client complaint, our service representative will extract and go through chat records and transaction records of the client, reach out to the client by phone, and resolve the issue. As of December 31, 2021, we had not experienced any material client complaints or claims.

Our Insurer Partners

As of December 31, 2021, we cooperated with 109 insurer partners, including 66 life and health insurance companies, and 43 property & casualty insurance companies. Some of our insurer partners also cooperate with reinsurance companies to underwrite insurance products offered on our platform. Our five largest insurer partners in terms of operating revenue contribution aggregately accounted for 60.7%, 63.0% and 78.4% of our total operating revenue in 2019, 2020 and 2021, respectively.

We typically enter into cooperative agreements for an initial term of one to three years with our insurer partners, some of which can be automatically renewed for certain period of time unless prior notice is provided by either party to terminate the agreement. Pursuant to the terms of such cooperative agreements, we market and present the insurance products underwritten by our insurer partners through online channels to potential insurance clients and facilitate the sales of such insurance products. We ensure the smooth operation of our platform. We collect premiums of the insurance products we facilitate and remit the premiums in full to the insurer partners on a monthly basis according to the cooperative agreements. Our insurer partners issue policies and provide settlement, and pay us commission fees based on a percentage of the premiums we facilitate. Both parties should keep all client information and data confidential and conduct their respective business in compliance with applicable laws, regulations and rules. Most insurer partners demand a threshold for the percentage of clients that renew their insurance policies in the 13th month of the insurance term. If we do not meet such threshold, the renewal brokerage commission will be adjusted to zero, or the insurer partners have the right to terminate their authorization for us to sell the relevant insurance products. Generally, in the event either party breaches the terms and provisions under the cooperative agreements, the non-breaching party is entitled to unilaterally terminate the agreement and receive damages for the loss incurred. We are not contractually required to provide additional services, such as intelligent underwriting, in-force policy administration and claim settlement services to the insurance clients we serve. We offer these services in order to enhance clients' transaction experience that facilitates the maintenance and growth of our client base, which in turn strengthens our relationships with insurer partners.

We empower our insurer partners to improve their operational efficiency and acquire massive clients online. In addition, we offer superior, cost-effective client service solutions, enabling insurer partners to receive feedbacks to the insurance products they underwrite and complete digitalized claim settlement in a timely manner. Leveraging our data capabilities, our client segmentation and selection process helps insurer partners effectively grow their client base and manage risks.

We provide a series of services to our insurer partners, including system integration and product design and development services. For each insurer partner, we offer technology support to adapt their system to our platform to ensure a smooth transaction process. An increasing number of insurer partners have integrated with our system, making our system more robust. We also proactively collaborate with those insurer partners that we have established a long and stable relationship with to design and develop insurance products together. For our cooperation in designing and developing insurance products, we present our product design ideas and pricing range suggestions to them after we have built a model and conducted actuarial, while the insurer partner files the product with the China Banking and Insurance Regulatory Commission to ensure regulatory compliance before we launch such product on our platform.

Our Product Offerings

We offer two broad categories of insurance products: life and health insurance products and property & casualty insurance products, both of which contain products we designed and developed together with insurer partners. The insurance products we offer on our online platform are underwritten by our insurer partners. Our platform offered approximately 1,077 insurance products in 2021, including approximately 424 life and health insurance products, and approximately 653 property & casualty insurance products.

Below table sets forth the categories of insurance products we offered and GWP of each category in 2019, 2020 and 2021:

Type of Insurance Products	Sub-Category	GWP in 2019 (in RMB million)	GWP in 2020 (in RMB million)	GWP in 2021 (in RMB million)
Life and Health				
Insurance Products	Long-term health insurance products	1,423.4	2,142.9	2,617.1
	Short-term health insurance products	51.2	68.1	38.6
	Life insurance products and annuity insurance products	336.5	676.9	2,186.4
Property & casualty insurance products		203.2	132.0	176.1

Life and Health Insurance Products

The life and health insurance products listed on our platform include long-term health insurance products, short-term health insurance products, life insurance products and annuity insurance products. Our dedicated product design team with strong actuarial background design and develop tailor-made life and health insurance products to cater to client's personal protection needs. In 2019, 2020 and 2021, we offered approximately 279, 475 and 424 life and health insurance products respectively. In 2021, the GWP we facilitated from our tailor-made life and health insurance products account for 61.5% of total GWP of our life and health insurance products we facilitated.

(1) Long-term Health Insurance Products

The long-term health insurance products on our platform, primarily consisting of critical illness insurance products, typically offer a lump-sum payment to the insured if the insured is diagnosed with one of the conditions or a major life-threatening illness as defined in the insurance policy. The amounts of claims for long-term health insurance products in China are typically specified in the insurance policies, rather than determined based on the actual medical expenses. The long-term health insurance products typically address insurance clients' needs for both medical treatment and after-care services.

Taking advantage of our actuarial capabilities and our expertise in long-term health insurance products, we analyze clients' potential insurance needs and design tailor-made insurance products accordingly. For a given new product idea, we build a model, conduct actuarial analysis, draw a preliminary price range, and proactively reach out to our insurer partners to discuss such product. After the cooperating insurer partner determines the final terms of the product, it files the product with the China Banking and Insurance Regulatory Commission and then launch the product on our platform. The product design and development process typically takes approximately three months. Popular long-term health insurance products we designed and developed in 2021 included Darwin Critical Care 2021 (达尔文易核版2021), a critical illness insurance product designed for sub-optimal health group, and Hui Xin An No.5 (慧馨安5号), a critical illness insurance product customized for meeting children's protection needs .

(2) Short-term Health Insurance Products

Short-term health insurance products we offer provide illness and disease insurance protections and medical benefits during a period that is usually shorter than one year from the effective date of the policy. Popular health insurance products on our platform in 2021 include Children Outpatient Nuanbaobao Super (少儿门诊暖宝保超能版)

(3) Life Insurance Products

We offer term life insurance products, whole life insurance products and annuity insurance products on our platform. The term life insurance products we offer provide life insurance for the insured for a specified time period or until the attainment of a certain age, in return for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years. In 2021, popular term life insurance products on our online platform include Da Mai Ding Hai Zhu (大麦定海柱), a customized term life insurance product designed to meet the protection needs of the younger generation.

The whole life insurance products we offer provide life insurance for the insured's entire life in exchange for the periodic payment of fixed premiums over a pre-determined period, generally ranging from five to 20 years, or until the insured reaches a certain age. The face amount of the policy is paid upon the death of the insured. In 2021, Whole life insurance products offered on our online platform include Jin Man Yi Zu Premium (金满意足臻享版), an increasingly popular whole life insurance product offering protection and saving functions with a single policy.

(4) Annuity Insurance Products

The annuity insurance products we offer pay annuity to the insured according to the time period as specified in the insurance policy and the amount received during the policy term. In 2021, we launched Everbright Smart Choice (光明慧选), a customized retirement annuity insurance product dedicated to meet customers' multi-dimensional needs for both wealth accumulation and lifetime pension benefits.

Property & Casualty Insurance Products

The property & casualty insurance products we distribute include travel insurance products, individual casualty insurance products and corporate liability insurance. In 2019, 2020 and 2021, we offered approximately 1,073, 1,277 and 653 property & casualty insurance products respectively.

(1) Travel Insurance Products

We aim to offer innovative and simple solutions for travelers covering every aspect of their travel plans. The travel insurance products we offer cover risks relating to international travel, domestic travel, and outdoor sports.

Most of our travel insurance products are customized scenario-based products. For example, for a tour group with members participating in various types of risky activities, we design different insurance policies depending on the specific activities each group member participates in. Through making the risks covered under each insurance policy specific, we make travel insurance products more cost-effective for insurance clients. In addition, we have the expertise to analyze the risks under each insurance policy, which effectively helps our insurer partners manage claims.

(2) Individual Casualty Insurance Products

The individual casualty insurance products we offer on our platform generally provide a guaranteed benefit in the event of death or disability of the insured as a result of an accident during the coverage period, which is typically less than one year. These products typically require only a single premium payment during the coverage period.

(3) Corporate Insurance Products

In addition to the insurance products for individuals, we also offer commercial property insurance and cargo insurance for corporate insurance clients. We offer various types of corporate liability insurance, including but not limited to public liability insurance, employer liability insurance, and product liability insurance. The cargo insurance products we offer on our platform include, among others, logistics liability insurance, international freight forwarder liability insurance, and international cargo bill of lading liability insurance.

Branding, Marketing and Sales

We have been able to build a large client base through both our direct and indirect branding and marketing initiatives. Our marketing team primarily work on direct branding and marketing initiatives, while our business development team focus on indirect marketing channels, primarily working with existing user traffic channels and explore new ones. Our website, www.qixin18.com, also attracts user traffic channels to cooperate with us, and provide them with technology supports. We co-brand the tailor-made insurance products that we designed and developed together with our insurer partners. For other insurance products, we are not in charge of their branding.

For direct marketing, in recent years, we have continued to enhance our brand and marketing capabilities in conducting product marketing, user education and brand advertising. For product marketing, we prepare accurate, refined product presentation, and promote the products through professional financial media and social media channels as part of our cooperation with our insurer partners. For user education, we publish or provide educational content, such as popularization of insurance products, basic terms of insurance policies, comparisons of insurance products, analysis of common diseases, insurance purchase strategies for different groups of people and guide to after-purchase services, through various entries of our platform. We develop such content in view of the complexity of insurance products, aiming to help clients make purchase decisions. User education strengthens our brand awareness, builds client trust and enhances conversion of user traffic. For brand advertising, we place advertisements both offline and online. We analyze the main characteristics of our target client group, based on which we select the locations of offline advertisements. We also place advertisements on widely-used search engines to reach massive viewers. Therefore, we set up voice courses through WeChat community to answer common questions from potential clients, which allows clients to interact with each other and reinforce the insurance educational contents they acquire. For direct marketing, we pay fees based on user traffic attracted to our platform.

For indirect marketing, we work with user traffic channels, mainly including social media influencers who are key opinion leaders that are active on various emerging media channels. The key opinion leaders we work with typically have full time jobs in professional capacities, such as insurance actuaries, doctors and financial advisors, and have their respective followers on popular social media channels. These user traffic channels have influences over their followers, users or customers, who can potentially become our insurance clients. We provide our user traffic channels with informative articles and reports on insurance in general as well as on specific insurance products that they can tailor to better suit the interests and needs of their followers and users, and then post and share through social media channels. If the followers or users become interested in certain insurance products after reading such articles or reports, they can get access to our platform through the links included in the articles or reports. In this way, we raise the insurance awareness of potential insurance clients and attract them to our platform through our user traffic channels. For certain user traffic channels who have access to high-quality user traffic but lack capabilities of client management and insurance knowledge, we equip them with client service team and resources to guarantee superior insurance experience for the clients they draw to our platform. We provide these user traffic channels with insurance related contents for them to post on their platforms. We assign our client service team to help the clients they guide to our platform complete the insurance transactions and enjoy superior insurance experience. Our cooperation with user traffic channels broadens our reach to potential insurance clients, and help the user traffic channels monetize their user traffic.

We typically enter into cooperative agreements for an initial term of three years with our user traffic channels, some of which can be renewed for another year with the consent of both parties. Pursuant to the terms of such cooperative agreements, we integrate our user traffic channels' platforms with our online platform to allow users guided from our user traffic channels to purchase insurance policies, make insurance payments and enjoy other client services we provide on our platform. User traffic channels post insurance related contents that have been approved by us, and promote the insurance products we offer on our platform in accordance with applicable laws. We pay our user traffic channels service fees, typically as a certain percentage of the GWP of the transactions completed with clients they attract to our platform. Such service fee rate is set case-by-case based on our negotiation with each user traffic channel, taking into account our relationship with the respective user traffic channel, and its historical and expected contribution to our insurance sales. As we negotiate with each user traffic channel on a case-by-case basis, we are unable to provide a specific range for service fee percentages.

Data and Technology

Technology is the key to our success in improving insurance client experience, enabling active transactions and cooperation and eventually achieving efficiency for our business. Our proprietary technology platform supports our rapidly growing processing capacity requirements, provides us with detailed and accurate information collected through our operation, and enables harnessing of insightful data analytics with big data capabilities. From our client interface to management support systems, our technology platform facilitates smooth execution and seamless data flow.

The seamless collaboration among our technology and operational teams, together with our big data analytics capability, give us a significant edge in operational efficiency. Our proprietary algorithms are embedded in all critical operational areas, including but not limited to insurance product recommendation, intelligent underwriting, pricing range suggestion and claim settlement services. Our engineers have thorough understanding of the computational needs from different business segments, and are therefore capable of providing technological support to address diversified needs in operating our business.

Data Analytics

Users of our online platform provide us with information when they register on our platform, browse information, place orders for insurance products and use various services and functions of our platform. Our data storage and distribution system stores and processes a massive amount of multi-dimensional user data, including two categories of data—risk-based pricing information and client intelligence data. Risk-based pricing information includes underwriting requirements from insurer partners, rejection data and claim data. Client intelligence data includes client health data, risk exposure information of individual clients and their families and clients' product preferences.

Our data platform can extract multi-dimensional features from multi-source data in a highly efficient and secure way to support data mining. Our data technology supports our analysis of client behavior, personal and family insurance needs, and their feedbacks to the products and services we provide, which is the basis of our client value exploring initiatives and various client service tools. Based on our analysis, we label complex insurance policy terms and restrictive factors to establish an insurance product atlas, which helps us efficiently analyze insurance products, improve internal training and enhance operational efficiency. Meanwhile, the insurance product atlas we establish enhanced our product design and pricing capabilities, which in turn reinforce our products and services offerings and proper recommendations to clients.

We have accumulated a large amount of data, and established two data pools: client demand data pool and insurance product data pool. Our client demand data pool helps us understand clients' protection demand in every step of their life cycles, and our insurance product data pool consisting of various detailed product features helps us better understand the competitive landscape and business trend of the supply side of China's online insurance market. The two data pools have equipped us with significant strength in product design. For example, in 2016, we captured the market needs of protection for high-risk outdoor activities through analyzing our data pools, and launched a popular high risk outdoor activities accident insurance product in China. Moreover, we collaborated with outdoor ecosystem participants such as rescue services providers to meet the specific demands of insurance clients. This product soon proved to be a huge success.

Technology Infrastructure

We have built a reliable and smart infrastructure with sufficient redundant topologies to ensure high availability and a low risk of downtime. We have also built a scalable cloud infrastructure to minimize cost and sustain performance in periods of high network traffic. We have strategically selected our data center locations in China.

Our technology infrastructure provides 24-7 service that supports second-level horizontal expansion and vertical cross-physical scalability, and holds considerable advantages in compression capacity and traffic distribution solutions. Our technology infrastructure delivers the stability needed to support the high volume of insurance transactions conducted on our platform and data volume, the scalability to support increased volumes over time and the flexibility to quickly launch new insurance product. Empowered by our extensive and carefully designed technology infrastructure, we are capable of serving a growing number of insurance clients efficiently and effectively. We keep updating our technology infrastructure to achieve more cost-efficiency and higher stabilization.

Our Technology Development Team

Our technology development personnel have extensive experience with leading internet and mobile commerce technology companies, and focus on the following that support our long-term business growth:

- maintaining and strengthening all of our platform and application system;
- ensuring our technology system is well established, reviewed, tested and continuously strengthened; and actively participating in the industry seminars, exploring relevant cutting-edge technologies.

Intellectual Property

We regard our trademarks, domain names, copyrights, know-how, proprietary technologies and similar intellectual property as critical to our success, and we rely on a combination of trademark and trade secret law as well as confidentiality, invention assignment and non-compete agreements with our employees and other business partners to protect our proprietary rights.

As of December 31, 2021, we held one patent and 22 on-going patent registrations in China. We had registered 462 trademarks with the Trademark Office of the State Administration for Market Regulation in China, including our company's Chinese name "Huize (慧择)," 13 trademarks in Hong Kong and three trademarks in the United States. We had registered 77 computer software copyrights registered with the PRC National Copyright Administration. We had 68 registered domain names, including our main website. In addition to the foregoing protections, we generally limit access to and use of our proprietary and other confidential information through the use of internal and external controls.

Risk Management and Internal Control

We have adopted various policies and procedures to ensure rigorous risk management and internal control, and we are dedicated to continually improving these policies and procedures. We have invested significant resources in our technology system and personnel to support risk management and regulatory compliance, and we have built a robust technology system for the integration with our insurance partners' systems and the daily functioning of our internal risk management processes. In addition, we have hired professional personnel for accurate underwriting, especially in complicated cases where our intelligent underwriting system cannot derive a conclusion. Our risk management and internal control policies and procedures cover various aspects of our business operations such as fraud prevention, intelligent underwriting, and claim management.

Company-wide Internal Control

Internal Control

We have a dedicated compliance working group consisting of compliance personnel from various business departments. Our legal and compliance department is responsible for formulating our overall internal control and compliance policies, ensuring their implementation and promoting a corporate culture of staying compliant with regulatory requirements. The compliance working group works with our legal department in conducting self-inspection and internal control over various business departments.

In terms of policy development, we have developed and adopted various internal control policies covering almost all aspects of our business, complaint handling, anti-money laundering, anti-bribery and intellectual property protection. We regularly conduct self-inspection on our business in response to newly promulgated regulatory requirements, and proactively adjust our business operations as needed. We also actively participate in forums or other forms of activities organized by regulatory authorities to closely follow regulatory changes.

Regulatory Compliance

We have designed and adopted strict internal procedures to ensure compliance to our business operations with all relevant laws and regulations and have established a code of conduct to regulate employees' behavior and activities. In addition, we continually review the implementation of our risk-management policies and measures to ensure our policies and implementation are effective and sufficient.

We work closely with relevant government agencies that have jurisdiction over our business. We maintain frequent communications with government agencies before implementing new business initiatives or when regulatory uncertainties arise as new laws or regulations are promulgated. We actively provide our inputs on proposed regulations that are subject to public comments. We are often invited to comment on proposed regulations by relevant government authorities during the comment solicitation process.

Data Privacy and Safety

We have implemented comprehensive procedures and guidelines to regulate our employees' actions in relation to user data in order to protect user privacy and data security. We also have adopted a strict access control mechanism to ensure implementation of least privilege and need-to-know principles and to protect user privacy while meeting business requirements. All client information we provide to our insurer partners are on a need-to-know basis, and are strictly redacted and encrypted. In addition, we employ a variety of technical solutions to prevent and detect risks and vulnerabilities in user privacy and data security, such as encryption, firewall, vulnerability scanning and log audit. We store and transmit all user data in encrypted format on separate servers. We do not share any input data from our users or any user insight data with third parties or allow third parties to access user data stored on our servers without proper authorization from users, and we also utilize firewalls to protect against potential cyber-attacks or unauthorized access. We periodically audit our systems and procedures to detect information security risks and privacy risks.

Insurance Product-oriented Risk Management

Fraud Prevention

Our fraud prevention system uses a multi-faceted detection process to identify both individual and collusive frauds. We use our existing fraud databases, including credit blacklists we maintain, as well as continuously update our fraud database with new information from similar insurance clients to improve the effectiveness of our fraud detection.

We have established an internal risk alert system and constantly monitor the insurance status of our insurance clients, including their transaction frequency and distribution, insurance amount and premium. The various dimension real-time monitoring ensures that we can take appropriate and timely steps when risks arise. Our client database is updated from time to time based on our continuing evaluation.

Through analyzing clients' behavioral data and transaction data, we developed our anti-fraud blacklist database to enhance our risk management capabilities. We also work with third-party data providers to identify high-risk users during the client consultation phase and conduct pre-transaction interception. We believe our robust fraud prevention system gives us an edge over our competitors, which encourages our insurer partners to maintain their long-term cooperative relationship with us and offer insurance products on our platform at competitive prices.

Intelligent Underwriting

We continually improve the algorithm we use for our intelligent underwriting system, and provide regular training to our client service representatives who are in charge of answering underwriting related queries from our insurance clients to ensure that our intelligent underwriting system, while saving the time and trouble of human underwriting, effectively screens eligibility of insurance clients for each insurance product. Our intelligent underwriting system improves efficiency and offers rigorous risk management to our insurer partners. Our system coded the underwriting criteria set by each insurer partners we cooperate with, which makes it comprehensive in making assessment. It is reinforced by cumulative underwriting and claim data and could also be customized for newly designed insurance products.

Claim Management

Through providing services to facilitate claim settlement for our insurance clients, we have collected a large volume of relevant data. By utilizing this data, we continually optimize our risk management models and further enhance our claim management capabilities.

Competition

The online insurance product and service industry in China is intensely competitive. Our current or potential competitors include (i) other online independent insurance product and service platforms, (ii) traditional insurance intermediaries, (iii) online direct sales channels of large insurance companies, (iv) major internet companies that have commenced insurance distribution businesses, and (v) other online insurance technology players. We compete primarily on the basis of:

- our unparalleled operating history and large insurance client base;
- our expertise in understanding young generation's demand for long-term life and health insurance products and our capability of selecting and mobilizing suitable products to meet their fast-changing demands;
- our capability of designing and developing tailor-made insurance products;
- our robust client acquisition channels and efficient client conversion capabilities;
- our ability to provide best-in-class insurance client service and experience online; and our well-established business relationship with insurer partners continuously reinforced by our exceptional risk management capabilities.

Insurance

We maintain certain insurance policies to safeguard us against risks and unexpected events, including insurance broker/agent practice liability insurance. We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees in compliance with applicable PRC laws. We do not maintain business interruption insurance. We consider our insurance coverage to be sufficient for our business operations in China.

Legal Proceedings

We are currently not involved in any material legal or administrative proceedings. From time to time, we may be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Such legal or administrative claims and proceedings, even if without merit, could result in the expenditure of financial and management resources and potentially result in civil liability for damages.

Regulation

Regulations on Foreign Investment

The Foreign Investment Law of the PRC, or the Foreign Investment Law, was formally adopted by the 2nd session of the thirteenth National People's Congress on March 15, 2019, and became effective on January 1, 2020. The Foreign Investment Law is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the Foreign Investment Law, foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the state implements special administrative procedures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields.

Foreign investors' investment, earnings and other legitimate rights and interests within the territory of China shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises. The state guarantees that foreign-invested enterprises participate in the formulation of standards in an equal manner. The state guarantees that foreign-invested enterprises participate in government procurement activities through fair competition in accordance with the law. The State shall not expropriate any foreign investment except under special circumstances. In special circumstances, the state may levy or expropriate the investment of foreign investors in accordance with the law for the needs of the public interest. The expropriation and requisition shall be conducted in accordance with legal procedures and timely and reasonable compensation shall be given. In carrying out business activities, foreign-invested enterprises shall comply with relevant provisions on labor protection, social insurance, tax, accounting, foreign exchange and other matters stipulated in laws and regulations.

From January 1, 2020, the Wholly Foreign-Owned Enterprises Law of the PRC, together with the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures and the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures shall be abolished. The organization form, organization and activities of foreign-invested enterprises shall be governed by the laws of the Company Law of the People's Republic of China and the Partnership Enterprise Law of the People's Republic of China. Foreign-invested enterprises established before the implementation of the Foreign Investment Law may retain the original business organization and so on within five years after the implementation of the Foreign Investment Law.

On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law, which came into effect on January 1, 2020, and it further requires that foreign-invested enterprises and domestic enterprises shall be treated equally with respect to policy making and implementation. Pursuant to the Implementation Regulations on the Foreign Investment Law, if the existing foreign-invested enterprises fail to change their original forms as of January 1, 2025, the relevant market regulation departments will not process other registration matters for the enterprises, and may disclose their relevant information to the public.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly issued the Measures for Reporting of Foreign Investment Information, or the Foreign Investment Information Measures, which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in the PRC, foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation. Foreign investors or foreign-invested enterprises shall disclose their investment information by submitting reports for their establishments, modifications and cancellations and their annual reports in accordance with the Foreign Investment Information Measures. If a foreign-invested enterprise investing in the PRC has finished submitting its reports for its establishment, modifications and cancellation and its annual reports, the relevant information will be shared by the competent market regulation department to the competent commercial department, and does not require such foreign-invested enterprise to submit the reports separately.

On December 19, 2020, the NDRC and the MOFCOM promulgated the Measures for Security Review of Foreign Investment, with an effective date of January 18, 2021. The Foreign Investment Security Review Mechanism (the "Security Review Mechanism") in charge of organization, coordination and guidance of foreign investment security review is thereunder established. A working mechanism office shall be established under NDRC, and be jointly led by NDRC and MOFCOM to undertake routine work on the security review of foreign investment. According to the Security Review Mechanism, foreign investment activities that fall within the ambit of the new Measures or obtain actual control over the target enterprises covered by the new Measures shall take the initiative to make a declaration to the working mechanism office prior to making any investments. Such activities include important cultural products and services, important information technologies and internet products and services, important financial services, key technologies and other important fields that concern national security.

Foreign Investment Industrial Policy

Investments in the PRC by foreign investors are regulated by the Catalog for the Guidance of Foreign Investment Industries, or the Catalogue. On February 11, 2002, the State Council promulgated the Provisions for Guiding the Foreign Investments Direction. Pursuant to the Provisions for Guiding the Foreign Investments Direction, foreign investment projects are categorized as encouraged, permitted, restricted and prohibited. Foreign Investment Projects that are categorized as encouraged, restricted, and prohibited are listed under the Catalogue, the Foreign Investment Projects that are not categorized as encouraged, restricted, or prohibited are permitted Foreign Investment Projects. Permitted Foreign Investment Projects are not listed under the Industry Catalog for Guiding Foreign Investment.

On December 27, 2021, the NDRC and the MOFCOM jointly promulgated the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition), or the 2021 Negative List, which took effective on January 1, 2022. According to the 2021 Negative List, internet information services fall within the scope of value-added telecommunications services (except for e-commerce, domestic multi-party communication, storage and forwarding classes and call centers), which are under the “restricted” category.

According to the Announcement of the China Insurance Regulatory Commission on Permitting the Establishment of Wholly Foreign-invested Insurance Brokerage Companies by Foreign Insurance Brokerage Companies, which was promulgated by China Insurance Regulatory Commission (currently known as the China Banking and Insurance Regulatory Commission), or the CIRC, on December 11, 2006 and became effective on the same day, in five years following China’s accession into the WTO, the establishment of WFOE to engage in insurance brokerage services shall be permitted. There shall be no other restrictions except those on the establishment conditions and business scopes. In addition, Circular of the China Banking and Insurance Regulatory Commission on Lifting Limits on the Business Scope of Foreign-invested Insurance Brokerage Companies, which was promulgated by China Banking and Insurance Regulatory Commission, or the CBIRC, on April 27, 2018 and became effective on the same day, stipulates that foreign-invested insurance brokerage companies that have obtained a License for Operating Insurance Brokerage Services, or an Insurance Brokerage License, upon approval by the relevant insurance regulatory authority may conduct the following insurance brokerage business within the territory of the PRC: (i) design insurance policy plans, select insurers and handle insurance formalities for policy holders; (ii) assist the insured or beneficiaries with insurance claims; (iii) reinsurance brokerage business; (iv) provide principals with services on disaster prevention, loss prevention, risk assessment and risk management consulting; and (v) other business approved by the CBIRC.

In addition, on December 3, 2021, the CBIRC promulgated the Notice of the Relevant Measures for Clarifying the Opening up of the Insurance Intermediary Market, or the Notice, for the purposes of opening up the insurance industry and promoting a sound and orderly development of the insurance industry. The Notice provides that (i) foreign insurance brokerage companies with solid business operations overseas, if complying with relevant regulations of the CBIRC, are allowed to establish insurance brokerage companies in China to engage in insurance brokerage business; (ii) specialized insurance intermediaries, including insurance agencies, insurance brokerage companies, and insurance adjustment assessment institutions established in China by foreign insurance corporate groups and foreign-funded insurance corporate groups, are allowed to engage in relevant insurance intermediary business; and (iii) before engaging in relevant insurance intermediary business, foreign-invested specialized insurance intermediaries shall, as applicable, fulfill their obligations to file with or obtain approvals, licenses or permits from relevant authorities, and the relevant provisions of CBIRC on specialized insurance intermediaries shall apply to the business scope and market access standards.

Regulations on Insurance Intermediary Business

Regulatory Authority—CBIRC

The CBIRC has extensive authority to supervise and regulate the insurance industry in China. In line with the Reform Program of the State Council, released by National People’s Congress in March 2018, the CBIRC was established by a merger of China Banking Regulatory Commission, or the CBRC and the CIRC. The CBIRC is directly subordinate to the State Council, and with the State Council’s authorization, the CBIRC functions as a centralized institution with administrative oversight and competence over China’s banking and insurance industries in line with PRC laws and regulations. The CBIRC and its detached offices constitute the regulatory system for insurance industry. Before that, the CIRC had functioned as the regulatory body for insurance industry, and its major regulatory duties on the insurance industry include and are not limited to:

- drafting laws and regulations for the supervision and regulation of the insurance industry and formulating industry rules and regulations of the insurance industry;
- approving the establishment of representative offices by overseas insurance institutions; approving the establishment of insurance intermediaries such as insurance agencies, insurance brokerage companies, insurance loss adjusting companies and their respective branches; approving the establishment of overseas insurance institutions by domestic insurance and non-insurance institutions; approving mergers, splits, changes of corporate forms and dissolutions of insurance institutions and making decisions on the receivership and the appointment of receivers;
- examining and confirming the senior managers' qualifications of various insurance institutions; setting the basic qualification standards for insurance practitioners;
- approving the terms and premium rates of insurance products related to public interests, statutory mandatory insurance and newly developed life and health insurance products; implementing record-filing management on the insurance terms and premium rates of such insurance products;
- conducting business supervision on public-policy-oriented insurance and statutory insurance; supervising their organizational forms and operations such as captive insurance and mutual insurance;
- investigating into and imposing penalties on illegal acts and misconducts of insurance institutions and practitioners;
- supervising overseas insurance institutions established by domestic insurance and non-insurance institutions; and establishing the standards for information systems of the insurance industry; establishing insurance risk-assessment, risk-warning and risk-monitoring systems; tracking, analyzing, monitoring and forecasting the operating conditions of the insurance market.

Regulatory and Legal Framework

The legal framework for monitoring and administering insuring activities within the territory of the PRC is underpinned by laws and regulations including the Insurance Law of the PRC, or the PRC Insurance Law, and administrative regulations, departmental provisions and other regulatory documents stipulated in accordance with the PRC Insurance Law.

The PRC Insurance Law, effective in 1995 and last amended in 2015, is the most important law in the regulatory and legal framework for the PRC insurance industry. The PRC Insurance Law provides that an insurance broker is an entity that, in the interest of the applicant, provides intermediary services between the applicant and the insurer for the conclusion of an insurance contract and receives a commission in accordance with relevant laws. An insurance agent shall be an institution or an individual which charge commissions from insurers and operate insurance business on behalf of insurers to the extent authorized by insurers. Insurance agencies include specialized insurance agencies which only operate the insurance agency business and concurrent-business insurance agency insurance agencies which concurrently operate the insurance agency business and other businesses. An insurance broker or insurance agency shall obtain an Insurance Brokerage License and an Insurance Agency License before it engages in insurance brokerage business or insurance agency business, respectively.

Since the promulgation and implementation of the PRC Insurance Law in 1995, the insurance supervision and regulatory authority has promulgated a series of departmental rules and regulations and other regulatory documents pursuant to the PRC Insurance Law, covering almost all aspects of insurance operations. Regarding the establishment of insurance brokers, there are other important laws and regulations besides the PRC Insurance Law, including the Regulatory Provisions on Insurance Brokerages, or the Insurance Brokerages Provisions, which became effective on May 1, 2018. Insurance Brokerages Provisions specify provisions regarding market access, operation rules, exit from market, industry self-discipline, monitoring and inspection and legal obligations for insurance brokers. Regarding the insurance agency business, besides the PRC Insurance Law, insurance agents shall comply with the Regulatory Provisions on Insurance Agents, or the Insurance Agents Provisions, promulgated on November 12, 2020 and became effective on January 1, 2021, which specify provisions regarding market access, office qualifications, practitioners, operation rules, exit from market, market exit, and legal liabilities for insurance agents. Regarding the insurance adjustment assessment business, the Regulatory Provisions on Insurance Adjusters, or the Insurance Adjusters Provisions, which was promulgated on February 1, 2018 and became effective on May 1, 2018, provides provisions on operating conditions, operation rules, market exit, industrial self-regulation and legal liabilities for insurance adjusters.

The Administrative Measures for the Licenses of Banking and Insurance Institutions, which was issued by the CBIRC on April 28, 2021 and took effect from July 1, 2021, stipulate that banking and insurance institutions, including insurance brokerage companies, concurrent-business insurance agencies and other insurance intermediaries, shall, when conducting financial business, legally obtain a business license issued by the administration for market regulation.

On October 28, 2021, the CBIRC promulgated the Measures for the Implementation of Administrative License and Recordation for Insurance Intermediaries which became effective on February 1, 2022. The CBIRC and its local offices shall, in accordance with the provisions of these Measures, implement administrative license and recordation of insurance intermediary business and senior executives.

Establishment and Revocation

Establishment of Insurance Brokers and Acquisition of Qualification for Operating Insurance Brokerage Business

Pursuant to the PRC Insurance Law and the Insurance Brokerages Provisions, to operate insurance brokerage business within the territory of the PRC, an insurance brokerage company shall satisfy the requirements stipulated by the CIRC (the predecessor of the CBIRC) and obtain a license to operate insurance brokerage business. The minimum registered capital of an insurance brokerage company that conducts business in regions not limited to the provincial level is RMB50 million. The minimum registered capital of an insurance brokerage company that conducts business within the provincial level is RMB10 million. The registered capital of an insurance brokerage company must be fully paid in cash.

An insurance broker applying for operating insurance brokerage business shall, after obtaining the business license, submit without delay the application materials as required by the CBIRC and disclose the relevant information. The CBIRC and its local branches shall grant administrative licenses in accordance with their statutory responsibilities and procedures. If the CBIRC and its local branches permit an applicant to operate the insurance brokerage business in accordance with the law, they shall issue licenses to the applicant. An applicant may not carry out the insurance brokerage business until it obtains the license, and it shall register the relevant information in a regulatory information system as prescribed by the CBIRC in time. In addition, an insurance broker shall have its own business premise and set up a designated account book to record the income and expenditure of the insurance brokerage business. An insurance broker shall open an independent designated account for client funds. The following funds shall only be deposited in the designated account for client funds: (i) insurance premiums paid by policyholders to an insurance company; and (ii) surrender value and pay-outs collected on behalf of policyholders, insured parties and beneficiaries. An insurance broker shall open an independent account for commissions it collects.

To operate insurance brokerage business, an insurance brokerage company shall satisfy the following conditions: (i) its shareholders meet the requirements stipulated in the Insurance Brokerages Provisions, and make capital contribution with their self-owned, true and lawful funds instead of bank loans or non-self-owned funds in various forms; (ii) its registered capital meets the requirements of Article 10 of the Insurance Brokerages Provisions and the registered capital shall be entrusted in accordance with the relevant provisions of the CIRC; (iii) its business scope recorded in the business license is in compliance with the relevant provisions of the CIRC; (iv) its articles of association are in conformity with the relevant provisions; (v) its company name is in conformity with the Insurance Brokerages Provisions; (vi) its senior managers meet the qualification requirements stipulated in the Insurance Brokerages Provisions; (vii) it has established a governance structure and internal control system as stipulated by the CIRC, and a scientifically and reasonably feasible business mode; (viii) it has a fixed premise in line with its business scale; (ix) it has a business and financial information management system as stipulated by the CIRC; and (x) other conditions specified by laws and administrative regulations or prescribed the CIRC.

According to Measures for the Implementation of Administrative License and Recordation for Insurance Intermediaries, the CBIRC or its local office shall issue a license to an applicant if the CBIRC or its local office makes a decision to grant approval. If a decision of disapproval is made, the reasons shall be explained. A company that survives shall modify its registration of the name, business scope, bylaws and other items according to the law, to ensure that there is no “insurance brokerage” in its name.

Establishment of Insurance Agents and Acquisition of Qualification for Operating Insurance Agency Business

Pursuant to the PRC Insurance Law and the Insurance Agents Provisions, to operate insurance agency business within the territory of the PRC, a specialized insurance agency company shall satisfy the requirements stipulated by the CBIRC and obtain an Insurance Agency License. The minimum registered capital of a specialized insurance agency company that conducts business in regions not limited to the provincial level is RMB50 million. The minimum registered capital of a specialized insurance agency that conducts business within the provincial level is RMB20 million. The registered capital of full-time insurance agency must be paid in cash.

A specialized insurance agency company applying for operating insurance agency business shall, after obtaining the business license, submit without delay the application materials as required by the CBIRC and disclose the relevant information. The CBIRC and its local branches shall grant the Insurance Agency License in accordance with their statutory responsibilities and procedures. If the CBIRC and its local branches permit such applicant to operate the insurance agency business in accordance with the law, they shall issue licenses to the applicant. An applicant may not carry out the insurance agency business until it obtains the Insurance Agency License, and it shall register the relevant information in a regulatory information system as prescribed by the CBIRC in time. In addition, an insurance agency company shall have its own business premise and set up a designated account book to record the income and expenditure of the insurance agency business. An insurance agency company shall open an independent designated account for client funds.

To operate insurance full-time agency business, a specialized insurance agency company shall satisfy the following conditions: (i) its shareholders meet the requirements stipulated in the Insurance Agents Provisions, and make capital contribution with their self-owned, true and lawful funds instead of bank loans or non-self-owned funds in various forms; (ii) its registered capital meets the requirements of Article 10 of the Insurance Agents Provisions and the registered capital shall be entrusted in accordance with the relevant provisions of the CBIRC; (iii) its business scope recorded in the business license is in compliance with the relevant provisions of the CBIRC; (iv) its articles of association are in conformity with the relevant provisions; (v) its company name is in conformity with the Insurance Agents Provisions; (vi) its senior managers meet the qualification requirements stipulated in the Insurance Agents Provisions; (vii) it has established a governance structure and internal control system as stipulated by the CBIRC, and a scientifically and reasonably feasible business mode; (viii) it has a fixed premise in line with its business scale; (ix) it has a business and financial information management system as stipulated by the CBIRC; and (x) other conditions specified by laws and administrative regulations or prescribed the CBIRC.

According to Measures for the Implementation of Administrative License and Recordation for Insurance Intermediaries, the CBIRC or its local office shall issue a license to an applicant if the CBIRC or its local office makes a decision to grant approval. If a decision of disapproval is made, the reasons shall be explained. A company that survives shall modify its registration of the name, business scope, bylaws and other items according to the law, to ensure that there is no “insurance agency” in its name.

Establishment of Insurance Adjusters and Acquisition of Qualification for Operating Insurance Adjustment Assessment Business

Pursuant to the Insurance Adjusters Provisions, to operate insurance adjustment assessment business within the territory of the PRC, insurance adjusters shall satisfy the requirements as prescribed in the Asset Appraisal Law, meet the conditions as prescribed by the CBIRC, and undergo the business recordation formalities with the CBIRC and its local offices.

An insurance adjustment assessment institution to engage in insurance adjustment assessment business, shall, within 30 days from the date of obtaining the business license, undergo the recordation formalities with the CBIRC and its local office through the regulatory information system prescribed by the CBIRC and concurrently submit paper materials as required. To operate insurance adjustment assessment business, an insurance adjustment assessment company shall satisfy the following conditions: (i) its shareholders meet the requirements stipulated in the Insurance Adjusters Provisions and make capital contribution with their self-owned, true and lawful funds instead of bank loans or non-self-owned funds in various forms; (ii) according to the business development plan, it has the working capital required for routine business operation and assumption of risks. A national institution shall have working capital of RMB 2 million and a regional institution shall have working capital of RMB 1 million; (iii) the custody of its working capital complies with the relevant provisions issued by the CBIRC; (iv) the business scope recorded in the business license does not exceed the scope as prescribed in Article 43 of the Insurance Adjusters Provisions; (v) its company name is in conformity with the Insurance Adjusters Provisions; (vi) its senior managers meet the qualification requirements stipulated in the Insurance Adjusters Provisions; (vii) it has established a governance structure and internal control system as stipulated by the CBIRC, and a scientifically and reasonably feasible business mode; (viii) it has a fixed premise in line with its business scale; (ix) it has a business and financial information management system as stipulated by the CBIRC; and (x) other conditions specified by laws and administrative regulations or prescribed the CBIRC.

Revocation of Insurance Brokerage Companies

Pursuant to the Insurance Brokerages Provisions, an insurance brokerage company shall exit the insurance brokerage market according to the laws, administrative regulations and other relevant provisions. Where any insurance brokerage company falls under any of the following circumstances, the local branches of the CBIRC shall cancel its license according to the law and announce the cancellation: (i) its license fails to be extended upon expiration; (ii) its license is annulled, revoked or canceled in accordance with the law; (iii) it is terminated in accordance with the law due to dissolution, declaration of bankruptcy or other reasons; or (iv) other circumstances stipulated by laws and administrative regulations. An insurance brokerage company, the license of which has been canceled, shall return the original license in time; if the license cannot be returned, the local branches of the CBIRC shall state as such in the announcement. An insurance brokerage company, the license of which has been canceled, shall terminate its insurance brokerage business, and, within fifteen days from the date of license cancellation, make a written report to the industrial and commercial administrative department where its industrial and commercial registration was made. Where the company continues to exist, it shall not engage in insurance brokerage business and shall go through the formalities of business registration for changes in matters such as name, business scope and articles of association in accordance with the law, and ensure that its name does not include the term “insurance brokerage.”

If any branch of an insurance brokerage company is in a disorderly operation and management and is engaged in major unlawful or illegal activities, the insurance brokerage company shall, in accordance with the regulatory requirements of the CBIRC and its local branches, take such measures against the branch as rectification within a specified period, business suspension and cancellation.

Where a licensee obtains an Insurance Brokerage License or other administrative licenses through improper means such as deception or bribery, such license shall be revoked by the CBIRC and its local branches, and the licensee shall be given administrative punishments according to the law; the applicant may not apply for the administrative license again within three years.

Revocation of Insurance Agency Companies

Pursuant to the Insurance Agents Provisions, an insurance agency company shall exit the insurance agency market according to the laws, administrative regulations and other relevant regulatory rules. Where an insurance agency company falls under any of the following circumstances, the local branches of the CBIRC shall revoke its license according to the law and announce such decision: (i) its license is annulled, revoked or canceled in accordance with the law; (ii) it is terminated in accordance with the law due to dissolution, declaration of bankruptcy or other reasons; or (iii) other circumstances stipulated by laws and administrative regulations. An insurance agency company, the license of which has been canceled, shall return the original license in time; if the license cannot be returned, the local branches of the CBIRC shall state as such in the announcement. An insurance agency company, the license of which has been canceled, shall terminate its insurance agency business. Where the specialized insurance agency company continues to exist, it shall not engage in insurance agency business and shall go through the formalities of business registration for changes in matters such as name, business scope and articles of association in accordance with the law, and ensure that its name does not include the term “insurance agency.” Where the permit of a concurrent-business insurance agency is revoked by the insurance regulatory authorities pursuant to the law, it shall not reapply for permit within three years; where the permit is canceled pursuant to the law due to any other reason, it shall not reapply for permit within one year. Where a licensee obtains an Insurance Agency License or other administrative licenses through improper means such as deception or bribery, such license shall be revoked by the CBIRC and its local branches, and the licensee shall be given administrative punishments according to the law; the applicant may not apply for the administrative license again within three years.

Revocation of Insurance Adjustment Assessment Companies

Pursuant to the Insurance Adjusters Provisions, under any of the following circumstances, an insurance adjuster shall, within five days, cancel the practicing registration of an insurance adjuster: (i) an insurance adjuster is subject to administrative punishment of suspension of practice; (ii) an insurance adjuster terminates practice for other reasons; (iii) an insurance adjuster stops engaging in the insurance adjustment assessment business for close-down, dissolution or other reasons; (iv) other circumstances as prescribed by laws, administrative regulations, and the provisions issued by the CBIRC.

Where a branch of an insurance adjustment assessment institution has chaos in business operation and management and has any major violation of laws and regulations, the insurance adjuster shall, in accordance with the regulatory requirements of the CBIRC and its local office, take measures such as making rectification within a prescribed time limit, suspending business and cancellation against the branch.

Internal Governance

Corporate Governance in Insurance Intermediary Companies

Pursuant to the Insurance Brokerages Provisions, the Insurance Agents Provisions, the Insurance Adjusters Provisions, an insurance broker shall, an insurance agency or an insurance adjuster, in accordance with the laws, administrative regulations and the relevant CBIRC provisions, establish sound corporate governance structure and systems under the principles of clear responsibilities, strengthened checks and balances and risk management. Moreover, it shall make clear the management and control responsibilities, build a compliance system, focus on self-discipline and strengthen internal accountability to ensure sound operation.

Informatization

The CBIRC released the Measures for the Regulation of Informatization of Insurance Intermediaries on January 5, 2021, which came into effect on February 1, 2021, to regulate informatization work by strengthening the regulation of insurance intermediaries, improving operating and management level of insurance intermediaries, and promoting the high-quality development of the insurance intermediary industry.

Insurance intermediary institutions shall, in accordance with regulatory requirements, report regulatory matters and submit regulatory data to the CBIRC and its local counterparts in a timely manner through the relevant information system of insurance intermediary supervision. In addition, Insurance intermediaries shall, including without limitation, (i) reasonably determine the security level of information systems in accordance with the relevant national cyber security level protection regulations, perform protections in accordance with the national cyber security level protection related standards, and obtain the corresponding national cyber security level protection certification; (ii) take protective measures for important data to ensure the safety of data in the process of collection, storage, transmission, use, provision, backup, restoration, and destruction, use data legally while strictly preventing data leakage, tampering and damage, and ensure data integrity, confidentiality and availability; (iii) follow the principles of lawfulness, fairness and necessity, comply with relevant national laws and administrative regulations, and comply with national standards related to personal information security when collecting, processing and applying data containing personal information; and (iv) carry out informatization training, information security training and confidentiality education regularly, sign information security and confidentiality agreements with employees, and urge employees to perform information security and confidentiality duties corresponding to their jobs.

Deposit and Vocational Liability Insurance

Pursuant to relevant provisions of the PRC Insurance Law, an insurance broker and an insurance agency shall, in accordance with the provisions stipulated by the insurance supervision and control authority under the State Council, make contributions to security deposit or apply for professional liability insurance.

Once the professional liability insurance is procured, an insurance broker and a specialized insurance agency shall ensure that the insurance remains valid. The maximum compensation for each accident under the professional liability insurance procured by an insurance broker or a specialized insurance agency shall be no less than RMB1 million. One-year accumulated maximum compensation shall be no less than RMB10 million and no less than the insurance broker's or the specialized insurance agency's income from primary business in the previous year. A concurrent-business insurance agency shall purchase professional liability insurance or make contributions to security deposit in accordance with the rules of the CBIRC.

If an insurance brokerage company and a specialized insurance agency company intends to pay deposit, the deposit shall be paid at 5% of its registered capital; if the insurance brokerage company and the specialized insurance agency company increase the registered capital, the amount of the deposit shall be increased proportionately. An insurance brokerage company and a specialized insurance agency company shall pay the deposit in full. The deposit shall be stored in a designated account in the form of bank deposit to a commercial bank or in any other form approved by the CBIRC.

Under any of the following circumstances, an insurance brokerage company and a specialized insurance agency company may use the deposit: (i) decrease of the registered capital; (ii) cancellation of the license; (iii) taking out of professional liability insurance in conformity with the conditions; or (iv) other circumstances provided for by the CBIRC.

According to the Insurance Adjusters Provisions, an insurance adjuster shall, within twenty days from the date when the recordation is announced and based on business needs, establish an occupational risk fund, or purchase the professional liability insurance, and improve the risk prevention procedures.

An insurance adjuster that establishes an occupational risk fund shall pay 5% of its main business income in the last year into the fund, and accordingly increase the amount of the occupational risk fund, if the annual main business income is increased; and it is not required to increase the occupational risk fund, if the deposit amount of the occupational risk fund reaches RMB1 million. An insurance adjuster that purchases professional liability insurance shall ensure the continuous validity of the insurance. The limit of liability for each accident under the professional liability insurance purchased by an insurance adjuster shall not be less than RMB1 million, and the cumulative one-year limit of liability shall not be less than RMB10 million and not be less than main business income of the insurance adjuster in the last year.

Anti-money Laundering

Pursuant to the Notice of Strengthening Anti-money Laundering in Insurance Industry promulgated by the CIRC on August 10, 2010 and Administrative Measures for Anti-money Laundering Agenda in Insurance Industry promulgated on September 13, 2011 by the CIRC and became effective on October 1, 2011, the CBIRC shall organize, coordinate and direct anti-money laundering effort in insurance industry.

According to the provisions of the Administrative Measures for Anti-money Laundering Agenda in Insurance Industry, insurance brokerage companies shall, in the light of the real-name system for policies and according to the work principles that client materials are complete, transaction records are available for inspection and circulation of funds is regulated, effectively enhance the internal control level of anti-money laundering. Insurance brokerage companies shall establish an internal control system for anti-money laundering and prohibit funds which have an illegal source from investing into their equity. The senior management officers of insurance brokerage companies shall understand laws and regulations on anti-money laundering.

Pursuant to the Notice of Strengthening Anti-money Laundering in Insurance Industry, equity investments in insurance intermediaries and equity structure changes therein should be in line with relevant requirements on fund sources in anti-money laundering laws and regulations of the PRC.

Newly established insurance intermediaries and branch institutions and those restructured or reformed should meet anti-money laundering criteria specified by the CIRC, including (i) establishment of system for client identity recognition, client identity and transaction record keeping, training and education, auditing, confidentiality, internal control system and operation protocols including those facilitating monitoring and inspection and administrative investigation; (ii) dedicated anti-money laundering posts and job descriptions, manning and training for such posts; (iii) other requirements according to regulatory provisions.

Business Scope of Insurance Intermediaries

According to the Insurance Brokerages Provisions, an insurance broker when engaging in insurance brokerage business, may not exceed the business scope and business area of the underwriter. An insurance broker may operate all or part of the following businesses: (i) draft insurance plans for policyholders, select insurance companies and process insurance application formalities; (ii) assist insured parties or beneficiaries in making claims; (iii) carry out reinsurance brokerage businesses; (iv) provide disaster prevention or loss prevention or risk evaluation and risk management advisory services to entrusting parties; and/or (v) any other insurance brokerage-related businesses stipulated by the CBIRC. Where the CBIRC otherwise provides for any insurance brokerage business involving coinsurance or underwriting insurance at another locality and master policy, such provisions shall prevail.

An insurance broker and its practitioners may not sell non-insurance financial products, except for non-insurance financial products approved by the relevant financial regulatory authorities. Before selling non-insurance financial products, an insurance broker and its practitioners shall have the necessary qualifications.

According to the Insurance Agents Provisions, a specialized insurance agency when engaging in insurance agency business, may not exceed the business scope and business area of the underwriter. A specialized insurance agency may operate all or part of the following businesses: (i) sell insurance products as an agent; (ii) collect insurance fees as an agent; (iii) conduct loss investigation and claims settlement concerning insurance business; (iv) any other insurance agency-related businesses stipulated by the CBIRC. An insurance agency shall not engage in insurance agency business beyond the business scope and operating regions of the insurance company on behalf of which it provides agency services, except insurance agency business involving co-insurance outside its business territory, insurance underwritten outside its business territory, or master policies as otherwise prescribed by the CBIRC.

According to the Insurance Adjusters Provision, an insurance adjuster when engaging in insurance adjustment assessment business, may not exceed the business scope and business area of the underwriter. An insurance adjuster may operate all or part of the following businesses: (i) the pre-underwriting and post-underwriting inspection, valuation, and risk assessment of the subject matters of insurance; (ii) the post-claim survey, inspection, loss assessment, and claim settlement in respect of the subject matters of insurance as well as the disposition of their residual value; (iii) risk management consulting; (iv) other business as prescribed by the CBIRC.

Services and Products Provided by Insurance Intermediaries and Their Practitioners

Pursuant to the Basic Service Standards for Insurance Brokers promulgated by the CIRC on January 16, 2013, the service steps and content of insurance brokers for insurance clients (consumers) include but not limited to the establishment of insurance brokerage relationship, risk assessment, preparation of insurance purchase plan, selection of insurance companies for the clients, procedures for taking out insurance policies, services during the insurance period, assistance in claims and complaint settlement.

Aiming to maximize benefits for clients in providing services, insurance brokers shall comply with laws, administrative regulations and the relevant provisions of the CIRC, act in good faith with professional competency and due diligence, fully perform the notification obligations, disclose all the relevant information and protect the privacy and business secrets of clients. Employees in such industry shall fulfill the legitimate qualification conditions with good occupational ethics and strong practice capability. An insurance broker shall: (i) notify and disclose all the necessary details in establishing insurance brokerage service relationship with clients; (ii) be professional in risk assessment for clients with due care; (iii) prepare complete and proper insurance purchase plan for clients; (iv) put client interests first in choosing insurance companies; (v) be meticulous and proper in going through insurance purchase formalities for clients; (vi) provide considerate and complete services during insurance period; (vii) be fast and dutiful in assisting clients' claims (while only licensed insurance companies should have the right to decide on claim settlement); and (viii) deal with complaints in an effective and timely manner.

Pursuant to the Basic Service Standards for Insurance Agencies promulgated by the CIRC on January 16, 2013, the service steps and content of insurance agencies for insurance clients (consumers) include but not limited to sufficient communications with customers to understand their insurance needs, recommendation of insurance products, assistance to customers in their handling of insurance application formalities, offering of preservation service, assistance to customers in their claims, handling of complaints and so forth. An insurance agency shall: (i) make full notification and disclosure when contacting a customer for the first time; provide pre-sale service in a thoughtful and responsible manner; (ii) provide in-sale service in a comprehensive and meticulous manner; (iii) provide after-sale service in a diligent and efficient manner; (iv) assist a customer in claiming for indemnity in an appropriate and timely manner. handle complaints in a timely and effective manner.

Pursuant to the Basic Service Standards for Insurance Adjusters promulgated by the CIRC on January 16, 2013, the service steps and content of insurance adjusters for insurance clients (consumers) include but not limited to acceptance of entrustment to establish insurance assessment service relationship, risk assessment for the entrusting parties, survey on the subject matter after the accident, determination of responsibilities and losses, handling of insurance consumers' complaints and so forth. An insurance adjuster shall: (i) make full notification and disclosure conduct risk assessment in a professional and prudent manner; (ii) conduct survey in a detailed and timely manner; (iii) determine liabilities and assess losses in a conscientious and impartial manner, and conduct complete communication; (iv) handle complaints in a timely and effective manner.

According to the Insurance Brokerages Provisions and the Insurance Agents Provisions, an insurance broker, an insurance agent, and their practitioners may not have the following acts in handling insurance business: (i) cheating the insurer, the applicant, the insured or the beneficiary; (ii) concealing any important circumstances relating to the insurance contract; (iii) obstructing the applicant to fulfill the obligation of telling the truth, or inducing the applicant not to fulfill the same; (iv) granting or promising to grant to the applicant, the insured or the beneficiary any interest other than that stipulated in the insurance contract; (v) compelling, inducing the applicant to enter or restricting from entry into an insurance contract by using its administrative power, position or the advantage of their profession and other improper means; (vi) forging or altering the insurance contract without authorization or providing false evidence for parties to the insurance contract; (vii) misappropriating, retaining or embezzling the premiums or insurance benefits; (viii) making use of the advantages of the business to obtain improper benefits for other institutions or individuals; (ix) defrauding insurance benefits in collusion with the applicant, the insured or the beneficiary; or (x) disclosing trade secrets of the insurer, the applicant and the insured known during the business activities. An insurance broker, an insurance agent and their practitioners shall not solicit or accept any remuneration or other property other than those as agreed in contract and granted by any insurance company or its staff or take advantage of executing the insurance brokerage business to obtain other illegal benefits in the course of carrying out the insurance brokerage/agency business.

In addition, an insurance broker shall prepare standardized information booklets for customers in the course of conducting businesses. The information booklet for customers shall include the following matters: (i) name, business premises, scope of business and contact details of the insurance broker; (ii) the method for obtaining of remuneration by the insurance broker, including information on whether the insurance broker collects commission from the insurance company etc.; (iii) whether the insurance broker and its senior management personnel are a related party of an insurance company or any other insurance intermediary which relate to its brokerage businesses; and (iv) complaint channel and dispute resolution method. Unless as otherwise prescribed by the CBIRC, an insurance agency shall, during the process of engaging in business, develop and produce the client notification. A client notification shall, at a minimum, include the following: (i) name, business premise, scope of business and contact methods of the insurance agency and the insurance company; (ii) whether there is any affiliation relationship between the senior executives of a full-time insurance agency and the insurance company for which agency services are provided or another insurance intermediary institution; (iii) complaint channel and dispute resolution method.

According to the Insurance Adjusters Provisions, an insurance adjuster may not have the following acts in handling insurance adjustment assessment business: (i) seeking illicit benefits by taking advantage of its business. Permitting another institution to carry out business in its name, or carrying out business by illegally using the name of another institution; (ii) soliciting business by illicit means such as maliciously beating down prices, offering kickbacks, conducting false publicity or disparaging or defaming any other adjustment institution; (iii) accepting any business to which it is an interested party; (iv) accepting the authorization of both parties to the conflict of interest respectively and conducting appraisal of the same appraisal object. Issuing any false adjustment report or any adjustment report with material omission; (v) retaining or designating a person who does not comply with the provisions to carry out adjustment business; and (vi) committing any other violation of law or administrative regulation. In addition, an insurance adjuster shall develop a standard client notification letter and present it to clients when carrying out business. A client notification letter shall, at a minimum, include the name, recordation information, business premises, scope of business, contact information, complaint channels, dispute settlement methods and other basic matters of the insurance adjuster.

According to the Administrative Measures on Insurance Clauses and Premium Rates of Life Insurers, last amended on October 19, 2015 by the CBIRC, the insurance clauses and premium rates of the following insurance types of an insurer shall be submitted to CBIRC for examination and approval prior to their launch: (i) insurance concerning public interests; (ii) insurance compulsorily enforced according to law; (iii) life insurance newly developed as required by CBIRC; and (iv) other insurance specified by the CBIRC. Types of insurance other than those listed above shall be submitted to CBIRC for record.

According to the Administrative Measures on the Insurance Clauses and Premium Rates of Property Insurance Companies, which was promulgated on February 5, 2010 by the CIRC, and became effective from April 1, 2010 and was amended on August 16, 2021 with an effective date of October 1, 2021, the insurance clauses and premium rates for types of property insurances that concern public interests or that are of a compulsory nature shall be reported by the insurance company to the CBIRC for approval in accordance with the provisions of such Measures. The insurance clauses and premium rates for other types of property insurances shall be reported by insurance companies to CBIRC or its local offices at the provincial level for record-filing.

Pursuant to the Circular on Matters Concerning Improving the Valuation Interest Rates Formation Mechanism for Liability Reserves for the Life Insurance Sector and Adjusting the Valuation Interest Rates for Liability Reserves, promulgated by the CBIRC on August 30, 2019 and took effect on the same day, the upper limit of valuation interest rates for ordinary life insurance policies issued on and after August 5, 2013 shall be the less of: (i) the annual compound interest rate of 3.5%, and (ii) the assumed interest rate, and the valuation interest rates for ordinary life insurance policies issued before August 5, 2013 will continue to follow what is specified in the original provisions.

On October 31, 2019, the CBIRC promulgated the Health Insurance Management Measures, pursuant to which “health insurance” refers to insurance whereby an insurance company pays insurance in the event of any insurance events due to health or medical treatment of the insured, mainly including medical insurance, sickness insurance, disability income insurance, care insurance, medical accident insurance, etc. Health insurance companies, life insurance companies and pension insurance companies established according to the relevant laws may, upon approval by the CBIRC, engage in the business of health insurance. Insurance companies other than the aforementioned may, upon approval by the CBIRC, engage in the business of short-term health insurance. In addition, an insurance company is entitled to stipulate rate adjustment for long-term medical insurance products in the insurance policies, and is required to clearly indicate the trigger conditions for the rate adjustment.

In November 2020, the Circular on Matters concerning the Use of the Illness Definitions for Critical Illness Insurance and the Definition of Illness under Critical Illness Insurance was promulgated, reclassifying the definition of illness under critical illness insurance and expanding the scope of certain diseases.

On January 19, 2021, the CBIRC issued the Circular regarding Life Insurance Supervision Department of the CBIRC’s Issuance of the Negative List of Personal Insurance Products (2021 Edition), in which the CBIRC set forth criteria that personal insurance products provided by life insurance companies.

On October 12, 2021, the CBIRC issued the Notice on Further Regulating Matters Concerning Internet Personal Insurance Business, pursuant to which internet personal insurance products include accident insurance, health insurance (except nursing insurance), term life insurance, ordinary life insurance with a policy period of more than ten years (except term life insurance) and ordinary annuity insurance with a policy period of more than ten years, and other personal insurance products stipulated by the CBIRC. Pursuant to the notice, internet personal insurance products that do not meet the requirements thereof are prohibited from being offered online, and public display of, or direction to, hyperlinks to the webpages of placing orders on the internet of such internet personal insurance products are prohibited as well. Insurance intermediaries that conduct internet personal insurance business shall strengthen the system development and have operations and service capabilities that meet the requirements set forth in this Notice. The notice also provides that customer service personnel of insurance intermediaries are not allowed to actively conduct marketing activities with regard to internet personal insurance products, and their compensation shall not be linked to the sales results of internet personal insurance products.

Qualification Management for Directors, Supervisors and Senior Management Personnel

According to the Insurance Brokerages Provisions and the Insurance Agents Provisions, senior officers of an insurance broker and a specialized insurance agency refer to the following persons: (i) the general manager and deputy general manager of an insurance brokerage company and a specialized insurance agency; (ii) the principals of provincial branch offices; and (iii) other personnel who exercises important authority over the operation and management of the company. Senior officers of an insurance broker and a specialized insurance agency shall obtain the employment qualification approved by the local branches of CBIRC prior to assumption of duty.

The senior officers of an insurance broker and a specialized insurance agency shall meet the following conditions: (i) having college degree or above; (ii) having been engaged in finance-related work for more than three years or having been engaged in economics-related work for more than five years; (iii) having the operation and management ability necessary for performing duties, and being familiar with insurance laws, administrative regulations and the relevant CBIRC provisions; and (iv) being honest and trustworthy and of good character. Persons who have been engaged in finance-related work for more than ten years are not subject to clause (i) above. Principals of branches other than the provincial branch offices to be employed by an insurance broker or a specialized insurance agency shall satisfy the conditions listed above.

Pursuant to the Insurance Brokerages Provisions, any person who falls under any of the following circumstances may not serve as senior officers of an insurance broker and principals of branches other than provincial branch offices: (i) serving as a director, supervisor or senior officer of an insurance company or insurance intermediary whose license has been revoked for not more than three years from the revocation date due to violations of law, and being individually liable or being responsible for leadership for the license revocation; (ii) being a director, supervisor or senior officer of a financial institution whose qualification has been canceled for not more than five years from the date of disqualification due to illegal activities or discipline misconduct; (iii) being prohibited from entering the financial industry for a certain period of time by any financial regulator and the said period is not yet ended; (iv) having been warned or fined by any financial regulator for not more than two years from the date of such warning or fine; (v) being investigated by any judiciary, discipline inspection and supervision departments or financial regulators; (vi) being subject to joint punishments by the relevant state entities and shall be punished in the field of insurance due to serious dishonesty, or being involved in other serious dishonesty records within the recent five years; or (vii) other circumstances specified by laws and administrative regulations and by the CBIRC.

Without the approval of the shareholders' meeting or the general meeting of shareholders, no senior officers of an insurance broker or principals of branches other than provincial branch offices may work at the same time at any institution with conflict of interest.

Pursuant to the Insurance Agents Provisions, any person who falls under any of the following circumstances shall not be appointed as a senior officer of a specialized insurance agency or the principal of a branch other than the provincial branch company: (i) having no capacity for civil conduct or limited capacity for civil conduct; (ii) having been sentenced to any criminal penalty due to corruption, bribery, encroachment of property, misappropriation of property or disrupting the socialist market order and it is less than five years since the completion of the execution of the penalty; or having been deprived of political rights due to any crime and it is less than five years since the completion of the execution of the penalty; (iii) serving as a director, factory director or manager of a bankrupt and liquidated company or enterprise and being personally responsible for the bankruptcy of such company or enterprise, where not more than three years have elapsed since the completion of the bankruptcy and liquidation; (iv) having served as the legal representative of a company or enterprise whose business license has been revoked or which has been ordered to close down due to a violation of law and being personally liable, and it is less than three years since the date of revocation of the business license; (v) having served as the director, supervisor or senior officer of an insurance company or insurance intermediary whose permit is revoked as a result of violation of laws and being personally liable or having direct leadership liability for the revocation of the permit, and it is less than three years since the date of revocation of the permit; (vi) having served as a director, supervisor or senior officer of a financial institution whose appointment qualifications have been revoked by the financial regulatory authorities due to illegal or disciplinary offence and it is less than five years since the date of revocation of appointment qualifications; (vii) having been barred from the financial industry by the financial regulatory authorities for a certain period of time and such period has not expired yet; (viii) having been warned or fined less than two years by the financial regulatory authorities; (ix) having been investigated by the judicial authorities, disciplinary inspection authorities or financial regulatory authorities; (x) having failed to repay a relatively large amount of personal debt due; (xi) having been identified by the relevant State agencies as a subject of joint punishment for dishonesty and shall be punished in the insurance sector due to a serious dishonest conduct, or having other bad records of serious dishonest conduct within the past five years; or (xii) any other circumstances stipulated by laws, administrative regulations and the provisions of the CBIRC.

According to the Insurance Adjusters Provisions, senior officers of an insurance adjuster refer to the following persons: (i) the general manager and deputy general manager of an insurance adjustment assessment company; (ii) the executive partner of an insurance adjustment assessment partnership; and (iii) the primary person in charge of a branch; (iv) executives who have the same function and power as the aforesaid personnel.

The board chairman or executive director or senior executive of an insurance adjuster shall meet the following conditions: (i) he or she has an educational background of junior college or above; (ii) having been engaged in financial work or asset appraisal work for more than three years or having been engaged in economic work for more than five years; (iii) having the management capability required for performing the duties and familiar with insurance laws and administrative regulations and the relevant provisions issued by the CBIRC; (iv) being honest and trustworthy and of good character. Persons who have been engaged in financial or asset appraisal work for more than ten years are not subject to clause (i) above.

Qualification Management for Insurance Brokerage Practitioners

Certain provisions of the PRC Insurance Law were revised at the 14th session of the 12th SCNPC on April 24, 2015. The examination and approval of the qualification of insurance brokerage practitioners have been canceled.

Pursuant to the CIRC Notice on Relevant Issues Pertaining to Administration of Practitioners with Insurance Intermediaries, which was promulgated and became effective on August 3, 2015, before an insurance intermediary practitioner begins to practice, his/her company shall handle the practicing registration in the insurance intermediary regulatory information system of the CBIRC for him/her, and the qualification certificate shall not be served as necessary condition for administration of practicing registration.

In 2019, the CBIRC has deployed and carried out the practice registration and audit work for the practitioners of insurance professional intermediaries. In order to improve the management of employees of insurance professional intermediaries. On May 15, 2020, the CBIRC enacted Notice of the General Office of the CBIRC on Strengthening the Management of Employees of Insurance Professional Intermediaries, which requires the insurance professional intermediaries to meet the following conditions: (i) fully assuming the responsibility of the management; (ii) strengthening the overall management of employees; (iii) strictly controlling the recruitment, training and integrity management of employees; and (iv) establishing a grading system of sales ability of employees. The CBIRC shall also strictly supervise the management of employees of insurance professional intermediaries and make insurance professional intermediaries accountable.

Reward and Incentive

Pursuant to the Notice on Strictly Regulating Incentive Measures of Insurance Intermediaries promulgated on November 15, 2010 by the CIRC, professional insurance intermediaries may only implement equity incentive measures for sales personnel of more than two consecutive years of practice experience within such intermediaries, and may not arbitrarily expand the scope of equity incentives for rapid business growth. In implementing incentives, professional insurance intermediaries may not conduct deceptive or misleading promotion for the incentive program, including exaggeration or arbitrarily promising uncertain earning from future listing; may not induce sales personnel to purchase self-insurance or purchase insurance with borrowings for incentives; may not offer client equity in name of incentive as consideration for illicit interests.

According to the Circular on Further Regulating the Incentive Plans of Professional Insurance Intermediary Institutions, promulgated on February 28, 2012 by the CIRC, all professional insurance intermediary institutions shall not, by way of connecting the equity incentive plan with their listing and exaggerating proceeds brought by their listing and other means, induce any of the general public to become a salesperson, or induce salespersons or clients to buy insurance products which are inconsistent with their actual insurance needs.

Regulations on Mobile Internet

Internet Business

Pursuant to the Administrative Measures for Internet Information Service released by the State Council on September 25, 2000 and amended on January 8, 2011, and the Administration Measures for Not-for-profit online Information Service Registration released on February 8, 2005 by the Ministry of Information Industry (currently known as the Ministry of Industry and Information Technology), and effective from March 20, 2005, Internet information service is classified into for-profit and not-for-profit categories. For-profit Internet information service refers to service activities of compensated provision to online users through the internet of information or website production. Not-for-profit Internet information service refers to service activities of non-compensated provision to online subscribers through the internet of information that is in the public domain and openly accessible. The national government has installed permit system for for-profit Internet information service and filing system for not-for-profit Internet information service. Not-for-profit Internet information service within the territory of the PRC should file for registration with telecommunication administration authority of the province in which it is located. Not-for-profit Internet information service provider should log onto the registration management system of the Ministry of Information Industry at designated time each year to go through the annual verification procedures.

Online Insurance Business

In December 2020, Regulatory Measures for Online Insurance Business, or the Measures, was promulgated by the CBIRC, which sets the standards of services, business, operations and sale of online insurance.

Pursuant to the Measures, insurance institutions that conduct internet insurance services shall, among other requirements: (i) locate the online insurance service access in the People's Republic of China; (ii) set up the information management system and core business system to support the operation of online insurance business; (iii) establish solid network security monitoring, notification, emergency disposal, and network security protection methods; (iv) file the network security classification; (v) have IT systems equipped with insurance sales or insurance application functions that are certified as Safety Level III Computer Information Systems; (vi) establish legal and compliant marketing model and service system; (vii) establish online insurance business management department with corresponding professional staffs; (viii) using professional insurance intermediaries that are national institutions. The Measures requires online insurance transactions to be conducted through online surfaces operated by insurance institutions only. An insurance institution that conducts online insurance business shall (i) build an official website, specifying specific information in a prominent position on its self-operated online platform for online insurance business operation, creating pages for transactions and displaying the details of internet insurance products according to the Measures and other relevant rules; (ii) sell internet insurance products or provide insurance brokerage and insurance loss adjustment services via its own self-operated online platform or via self-operated online platforms of other insurance institutions, and the insurance application page shall belong to its self-operated online platform. In addition, no insurance institution may, in internet insurance sales or brokerage activities, pay commission or labor remuneration directly or in a disguised way to any person who has not yet carried out practice registration with the institution.

Specifically, non-insurance institutions are allowed to conduct online insurance business, including but not limited to: (i) providing insurance product consulting services; (ii) comparing insurance products, (iii) conducting trial calculation of premium or quotation comparison; (iv) designing insurance application plans for policyholders; (v) going through insurance application procedures; and (vi) collecting premiums.

Traceability Management of Internet Insurance Sales Behavior

In order to standardize and strengthen the traceability management of Internet insurance sales, protect consumers' basic rights and promote healthy development of online insurance business, the CBIRC promulgated the Notice of the CBIRC on Regulating the Traceability Management of Internet Insurance Sales on June 22, 2020, which came into effect on October 1, 2020.

According to the Notice of the CBIRC on Regulating the Traceability Management of Internet Insurance Sales, insurance institutions are only allowed to sell commercial insurance products on their own online platform, and they shall implement retrospective management of Internet insurance sales. Insurance institutions shall record and keep operation track of each applicant and insured on the sales page. The operation track shall include the time whenever an applicant or insured click on, enter, fill in, or leave the sales page as well as any other relevant contents. Insurance institutions that are still unqualified after such Notice comes into force shall immediately suspend the relevant online insurance sales business.

Third Party Information Protection

Protection Provisions on the Technical Measures for the Protection of the Security of the Internet promulgated by the Ministry of Public Security effective on March 1, 2006 provide initial requirements on supervising the security of Internet information. The providers of the Internet services and entity users of the network shall establish a corresponding management system. The information as registered by users shall not be publicized or divulged without the approval of the users, unless it is otherwise specified by any law or administrative regulation. The providers of the Internet services and entity users of the network shall adopt technical measures for the protection of the Internet security according to law and shall not take technical measures to injure the users' freedom and confidentiality of communication under the pretext of protecting the security of the Internet.

Decision on Strengthening Information Protection on Networks promulgated by the SCNPC on December 28, 2012 and effective on the same day provides basic principles for protecting electronic information by which individual citizens can be identified and which involves the individual privacy of citizens.

Provisions on Protecting the Personal Information of Telecommunications and Internet Users promulgated by the Ministry of Industry and Information Technology, or the MIIT on July 16, 2013 and effective on September 1, 2013 further improve the personal information protection system of telecommunications and Internet industries and specify the scope and obligation subjects of personal information protection of telecommunications and Internet users, rules on collection and use of users' personal information by telecommunications service operators and providers of Internet information services and agent management and information security guarantee measures. The providers of the Internet services and entity users of the network shall establish a corresponding administration system. The information as registered by users shall not be publicized or divulged without the approval of the users, unless as otherwise compelled by any law or administrative regulation.

According to the Network Security Law of the PRC promulgated by the SCNPC on November 7, 2016 and effective on June 1, 2017, network service providers, in their business operation and provision of services, must observe laws and regulations and perform the obligation of ensuring network security, effectively respond to cybersecurity incidents, prevent illegal activities, and maintain the integrity, confidentiality and availability of network data.

Pursuant to the Notice of CBIRC on Regulating the Traceability Management of Internet Insurance Sales, when insurance institutions carry out Internet insurance sales activities that can be traced back, they shall collect and use consumer information following the principle of legality, and shall not collect unrelated information. In addition, pursuant to the Notice, insurance institutions conduct online insurance business along with self-operated online platforms shall establish refined cybersecurity monitoring, information notification, emergency disposal working mechanisms as well as other protective means such as refined perimeter protection, intrusion detection, data protection and disaster recovery. The data and information for underwriting used by insurance institutions shall be legally sourced and used.

According to the Insurance Brokerages Provisions, an insurance broker and its practitioners shall not disclose trade secrets of the insurer, the applicant and the insured known during the business activities.

Regulations on Mobile Internet Applications Information Services

According to the Administrative Provisions on Mobile Internet Applications Information Services, which were promulgated by the Cyberspace Administration of China on June 28, 2016 and became effective on August 1, 2016, the mobile internet applications (the APPs) information service providers shall implement their information security management responsibilities strictly and fulfill certain obligations, including but not limited to: (i) certify the identification information of the registered users with their mobile telephone number based information under a background real-name principle, (ii) establish and perfect the mechanism for the protection of users' information, (iii) safeguard users' right to know and to choose when users are installing or using such applications, and (iv) record the users' log information and keep the same for 60 days.

Regulations on Information Security

The National People's Congress has enacted legislation that prohibits use of the internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

Pursuant to applicable regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and monitoring systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

In December 2015, the Standing Committee of the National People's Congress promulgated the Anti-Terrorism Law of the PRC, or the Anti-Terrorism Law, which took effect on January 1, 2016 and was amended on April 27, 2018. According to the Anti-Terrorism Law, telecommunication service operators or internet service providers shall (i) carry out pertinent anti-terrorism publicity and education to society; (ii) provide technical interfaces, decryption and other technical support and assistance for the competent departments to prevent and investigate terrorist activities; (iii) implement network security and information monitoring systems as well as safety and technical prevention measures to avoid the dissemination of terrorism information, delete the terrorism information, immediately halt its dissemination, keep relevant records and report to the competent departments once the terrorism information is discovered; and (iv) examine customer identities before providing services. Any violation of the Anti-Terrorism Law may result in severe penalties, including substantial fines.

In November 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the PRC, or the Cyber Security Law, which took effect on June 1, 2017. In accordance with the Cyber Security Law, network operators must comply with applicable laws and regulations and fulfill their obligations to safeguard network security in conducting business and providing services. Network service providers must take technical and other necessary measures as required by laws, regulations and mandatory requirements to safeguard the operation of networks, respond to network security effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

For the further purposes of regulating data processing activities, safeguarding data security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, on June 10, 2021, Standing Committee of the PRC National People's Congress published the Data Security Law of the People's Republic of China, which took effect on September 1, 2021. The Data Security Law requires data processing, which includes the collection, storage, use, processing, transmission, provision, publication of data, to be conducted in a legitimate and proper manner. The Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data is required to designate the personnel and the management body responsible for data security, carry out risk assessments of its data processing activities and file the risk assessment reports with the competent authorities. State core data, i.e. data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, shall be subject to stricter management system. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities. As the Data Security Law was recently promulgated and has not yet taken effect, we may be required to make further adjustments to our business practices to comply with this law, as well as any adjustments that may be required by the ultimate Personal Information Protection Law.

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which, among others, provides for improving relevant laws and regulations on data security, cross-border data transmission, and confidential information management. It provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures.

On December 28, 2021, the Cyberspace Administration of China, or the CAC, and 12 other governmental authorities jointly issued the Measures for Cybersecurity Review, or the Measures, which became effective on February 15, 2022. The relevant operators shall apply with the Cybersecurity Review Office of CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals' personal information pursuing a foreign listing, (ii) operators of "critical information infrastructure" that intend to purchase internet products and services that will or may affect national security, and (iii) internet platform operators carrying out data processing that affect or may affect national security. Besides, the Measures also provides that if the relevant authorities consider that certain network products and services, data processing activities and listings in foreign countries affect or may affect national security, the authorities may initiate a cybersecurity review even if the operators do not have an obligation to report for a cybersecurity review under such circumstances. The Measures also elaborated the factors to be considered when assessing the national security risks of the relevant activities, including among others, risks of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country and risks of critical information infrastructure, core data, important data or a large amount of personal information data being affected, controlled and maliciously used by foreign governments after a foreign listing.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations, and were open for public comments until December 13, 2021. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. Besides, data processors that are listed overseas shall carry out an annual data security assessment.

On July 30, 2021, the State Council issued the Regulations on Protection of Critical Information Infrastructure, or the Regulations. Pursuant to the Regulations, critical information infrastructure shall mean the important network facilities or information systems of key industries or fields such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, and important network facilities or information systems which may endanger national security, people's livelihood and public interest once there occur damage, malfunctioning or data leakage to them. The Regulations provide that no individual or organization may carry out any illegal activity of intruding into, interfering with, or sabotaging any critical information infrastructures, or endanger the security of any critical information infrastructures. The Regulations also require that critical information infrastructure operators shall establish a cybersecurity protection system and accountability system, and that the main responsible person of a critical information infrastructure operator shall take full responsibility for the security protection of the critical information infrastructures operated by it. In addition, relevant administration departments of each important industry and sector shall be responsible for formulating the rule of critical information infrastructure determination applicable to their respective industry or sector, and determine the critical information infrastructure operators in their industry or sector.

On July 12, 2021, the MIIT and two other authorities jointly issued the Provisions on the Administration of Security Vulnerabilities of Network Products, or the Provisions. The Provisions state that, no organization or individual may abuse the security vulnerabilities of network products to engage in activities that endanger network security, or to illegally collect, sell, or publish the information on such security vulnerabilities. Anyone who is aware of the aforesaid offences shall not provide technical support, advertising, payment settlement and other assistance to the relevant offenders. According to the Provisions, network product providers, network operators, and platforms collecting network product security vulnerabilities shall establish and improve channels for receiving network product security vulnerability information and keep such channels available, and retain network product security vulnerability information reception logs for at least six months. The Provisions also bans provision of undisclosed vulnerabilities to overseas organizations or individuals other than to the product providers.

On October 29, 2021, the CAC issued the Measures for Security Assessment of Cross-border Data Transfer (Draft for Comment). According to these measures, in addition to the self-risk assessment requirement for provision of any data outside China, a data processor shall apply to the competent cyberspace department for data security assessment and clearance of outbound data transfer in any of the following events: (i) outbound transfer of personal information and important data collected and generated by an operator of critical information infrastructure; (ii) outbound transfer of important data; (iii) outbound transfer of personal data by a data processor which has processed more than one million users' personal data; (iv) outbound transfer of more than one hundred thousand users' personal information or more than ten thousand users' sensitive personal information cumulatively; (v) such other circumstances where ex-ante security assessment and evaluation of cross-border data transfer is required by the CAC.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose and should be conducted in a method that has the minimum impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope as necessary to achieve the processing purpose and avoid the excessive collection of personal information. Personal information processors shall adopt necessary measures to safeguard the security of the personal information they handle. The offending entities could be ordered to correct, or to suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets during online information distribution. Specifically, internet companies in the PRC with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

Furthermore, the Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security and became effective in March 2006, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, which was promulgated by the PRC National People's Congress in December 2012, states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities.

On October 21, 2019, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretations on Certain Issues Regarding the Applicable of Law in the Handling of Criminal Case Involving Illegal Use of Information Networks and Assisting Committing Internet Crimes, which came into effect on November 1, 2019, and further clarifies the meaning of Internet service provider and the severe situations of the relevant crimes.

Regulations on Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, which was promulgated by MIIT and became effective in September 2013, telecommunication business operators and ICP operators are responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulgence of, damage to, tampering with or loss of users' personal information. In accordance with the Cyber Security Law, network operators are required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators must take immediate remedial measures, notify the affected users and report the incidents to the relevant authorities in a timely manner. If any user knows that a network operator illegally collects and uses his or her personal information in violation of laws, regulations or any agreement with the user, or the collected and stored personal information is inaccurate or wrong, the user has the right to request the network operator to delete or correct the relevant collected personal information.

The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on internet privacy. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress in August 2015 and becoming effective in November 2015, the standards of crime of infringing citizens' personal information were amended accordingly and the criminal culpability of unlawful collection, transaction, and provision of personal information has been reinforced. In addition, any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, will be subject to criminal liability for (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (x) sells or provides personal information to others unlawfully, or (y) steals or illegally obtains any personal information, will be subject to criminal liability in severe situations. In addition, the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, effective in June 2017, have clarified certain standards for the conviction and sentencing in relation to personal information infringement. The PRC government has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. The Civil Code further provides in a stand-alone chapter of right of personality and reiterate that the personal information of a natural person shall be protected by the law. Any organization or individual shall legitimately obtain such personal information of others in due course on a need-to-know basis and ensure the safety and privacy of such information, and refrain from excessively handling or using such information.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the Cyber Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the personal information protection. Furthermore, app operators should not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on October 31, 2019. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly-seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information," "failure to expressly state the purpose, manner and scope of collecting and using personal information," "collection and use of personal information without consent of users of such App," "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity," "provision of personal information to others without users' consent," "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting." Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting a user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking for user's consent such that the user's normal use of such app is disturbed; (iii) any user's personal information which has been actually collected by the app operator or the permission for collecting any user's personal information activated by the app operator is beyond the scope of personal information which such user authorizes such app operator to collect; (iv) seeking for any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting such users' personal information by improper methods such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission of collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

On August 22, 2019, the CAC promulgated the Children Information Protection Provisions, which took effect on October 1, 2019, requiring that before collecting, using, transferring or disclosing the personal information of a child, the Internet service operator should inform the child's guardians in a noticeable and clear manner and obtain their consents. Meanwhile, internet service operators should take measures like encryption when storing children's personal information. On March 12, 2021, the CAC and three other authorities jointly issued the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications. The Rules specifies the scope of necessary personal information to be collected each for a variety of common mobile internet applications, such as maps and navigation apps, online ride-hailing apps, instant messaging apps, online community apps. Operators of such apps shall not refuse to provide basic services to users on the ground of users' refusal to provide their personal non-essential information. On April 26, 2021, the MIIT issued the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications (Draft for Comment). The draft of the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications sets forth two principles of collection and utilization of personal information, namely "explicit consent" and "minimum necessity."

Regulations on Foreign Exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC, or the Foreign Exchange Administration Rules. The Foreign Exchange Administration Rules were promulgated by the State Council on January 29, 1996 and became effective on April 1, 1996 and were subsequently amended on January 14, 1997 and August 5, 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of State Administration of Foreign Exchange, or SAFE, for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant government authorities (if necessary).

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles, or the Circular 37, which is promulgated on July 4, 2014 and became effective on the same day. Under the Circular 37, (i) a PRC resident shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the overseas SPV, including, among other things, a change in the overseas SPV's PRC resident shareholder, name of the overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Failure to comply with the registration procedures set forth in Circular 37 and the subsequent notice, or making misrepresentation or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies, which was promulgated on February 13, 2015 and implemented on June 1, 2015 and amended on December 30, 2019, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

According to the Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt, which was promulgated by SAFE on September 24, 1997 and the Interim Provisions on the Management of Foreign Debts promulgated by SAFE, the NDRC and the MOFCOM which became effective on March 1, 2003, loans by foreign companies to their subsidiaries in the PRC, which accordingly are foreign-invested enterprises, are considered foreign debts.

Pursuant to the Measures for the Administration of Foreign Debt Registration, together with the Guidelines on the Administration of Foreign Debt Registration, both issued by SAFE on April 28, 2013 and amended on May 4, 2015, April 26, 2016 and June 9, 2016, the Notice on Matters concerning the Macro Prudential Administration of Full-Covered Cross Border Financing issued by the PBOC on January 12, 2017, the Circular of the People's Bank of China and the State Administration of Foreign Exchange on Adjusting the Macro-prudential Regulation Parameter for Full-covered Cross-border Financing promulgated by the PBOC and the SAFE on March 12, 2020, and the Circular of the People's Bank of China and the State Administration of Foreign Exchange on Adjusting Macro-prudential Regulation Parameter for Cross-border Financing of Enterprises promulgated by the PBOC and the SAFE on January 7, 2021, the total amount of accumulated foreign debt borrowed by an enterprise is subject to an upper limit of the difference between its registered capital and its total investment amount, or two times, or the then applicable statutory multiple, of the amount of its audited net assets, at its election, and the foreign-invested enterprise is required to file with SAFE after entering into relevant foreign debt contract and within at least three business days before drawing any money from the foreign debts.

Regulations on M&A Rules and Overseas Securities Offering and Listing

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (revised in 2009), or the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it, acquires a domestic company which is related to or connected with it, approval from the MOFCOM is required.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

On December 27, 2021, the NDRC and the MOFCOM jointly issued the 2021 Negative List, which became effective on January 1, 2022. Pursuant to the 2021 Negative List, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors.

On December 24, 2021, the CSRC issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments. According to the Draft Provisions and the Draft Administration Measures, the overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the determination of an indirect offering and listing will be conducted on a "substance over form" basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, an overseas offering and listing is prohibited under any of the following circumstances: (i) if the intended securities offering and listing is specifically prohibited by national laws and regulations and relevant provisions; (ii) if the intended securities offering and listing may constitute a threat to or endangers national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) if there are material ownership disputes over the equity, major assets, and core technology, etc. of the issuer; (iv) if, in the past three years, the domestic enterprise or its controlling shareholders or actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (v) if, in past three years, directors, supervisors, or senior executives have been subject to administrative punishments for severe violations, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (vi) other circumstances as prescribed by the State Council.

According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC (i) with respect to its initial public offering and listing within three business days, after its initial filing of the listing application to the regulator in the place of the intended listing, (ii) with respect to its follow-on offering within three business days after completion of the follow-on offering, (iii) with respect to its follow-on offering for purpose of acquiring specific assets, within three business days after the first public announcement of the transaction, and (iv) with respect to listing by means of reverse takeover, share swap, acquisition and similar transactions, within three business days after its initial filing of the listing application or the first public announcement of the transaction, as case may be. Non-compliance with the Draft Administration Measures or an overseas listing completed in breach of Draft Administration Measures may result in a warning on the relevant domestic companies or a fine of RMB1 million to RMB10 million on them. If the circumstances are serious, they may be ordered to suspend their business or suspend their business pending rectification, or their permits or businesses license may be revoked. Furthermore, the controlling shareholder, actual controllers, directors, supervisors, and other legally appointed persons of the domestic enterprises may be warned, or fined between RMB500,000 to RMB5,000,000 either individually or collectively.

On April 2, 2022, the CSRC released the revised Provision on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or the Draft Archives Rules. The Draft Archives Rules were open for public consultations until April 17, 2022. The Draft Archives Rules regulate both overseas direct offerings and overseas indirect offerings. The Draft Archives Rules provide that, among other things, (i) in relation to the overseas listing activities of domestic enterprises, the domestic enterprises are required to strictly comply with the relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities; (ii) during the course of an overseas offering and listing, if a domestic enterprise needs to publicly disclose or provide to securities companies, accounting firms or other securities service providers and overseas regulators, any materials that contain relevant state secrets, government work secrets or that have a sensitive impact (i.e. be detrimental to national security or the public interest if divulged), the domestic enterprise should complete the relevant approval/filing and other regulatory procedures; and (iii) working papers produced in the PRC by securities companies and securities service providers, which provide domestic enterprises with securities services during their overseas issuance and listing, should be stored in the PRC, and the transmission of all such working papers to recipients outside of the PRC is required to be approved by competent authorities of the PRC.

Regulations on Intellectual Property

Trademark

Pursuant to the Trademark Law of the PRC, which was most recently amended on April 23, 2019 and took effect on November 1, 2019, the valid period for registered trademark is ten years from the date of registration; to renew trademark registration upon expiration, the trademark registrant should follow the provisions to manage renewal 12 months before expiration; if it is not processed within the period, a six-month extension period shall be given. Valid period for each renewal is ten years from the next day after the previous expiration date. If renewal is not obtained after expiration, the trademark shall be canceled. Business administration authority shall sanction any infringement of trademark by law; where suspected crime is involved, the perpetrator shall be promptly apprehended by judicial agency for legal proceedings.

Copyright

Pursuant to the Copyright Law of the PRC most recently amended on November 11, 2020 and took effect on June 1, 2021, Chinese citizens, legal person or any other organization shall be entitled to copyright of its work by this law whether or not such work is published or not. Copyright covers the following forms of creative works: literature, art, natural science, engineering technology works, writing, narration, music, drama, opera, dance and acrobatic works, fine art and architectural works, photography, audio-visual works, drawings of engineering designs and product designs, maps, illustrations, other graphic works and model works; computer software and other intellectual creations that meet the characteristics of works. Perpetrator infringing on copyright or copyright related rights shall be held liable for actual damages to obligee, and may be fined, and the illegal gains, pirate copies and properties used for illegal activities may be confiscated.

Domain Name

Pursuant to the Internet Domain Name Management Measures released by the MIIT on August 24, 2017 and effective on November 1, 2017, domain name registration shall be conducted through domain name registration management service institutions, on the basis of “first apply first register,” unless otherwise specified by the implementation rules for a particular domain name. Domain name registration management service institution should enter into individual domain name registration agreement with the applicant. The domain name holder should notify domain name registration management service institution any alteration in registration information other than that of the holder and apply for registration information change within 30 days after the alteration according to alteration recognition method selected at application.

Patents

Pursuant to the Patent Law of the PRC, or the Patent Law, promulgated by the SCNPC, most recently amended on October 17, 2020 and took effect on June 1, 2021 and the Implementation Rules for the Patent Law of the PRC promulgated by the State Council, patents are categorized into invention, utility model and appearance design. The patent right period for invention is 20 years from the date of application, the patent right period for utility model is ten years from the date of application and the patent right period for appearance design is fifteen years from the date of application. The Patent Law and its Implementation Rules stipulate that a patentee’s patent right entitlement is protected by law.

Regulations on Tax

Corporate Income Tax

Pursuant to the EIT Law of the PRC effective on January 1, 2008 and amended on December 29, 2018 and the Implementation Provisions for the EIT Law of the PRC effective on April 23, 2019, companies are classified into resident companies and non-resident companies. Corporate Income Tax rate is 25%, or 20% for non-resident company which hasn’t set up an organization or an operating site, or its income from established organization or operating side is not connected to such organization or site, judging by the source of its income within the PRC territory. High and new technology companies encouraged by the government shall be accorded with 15% income tax.

Pursuant to the Announcement on Issues Regarding Implementation of Preferential Income Tax Policy for High and New Technology Companies released on June 19, 2017 by State Administration of Taxation or the SAT, company qualified as high or new technology company shall enjoy preferential tax from the year indicated on the certificate for high and new technology company, and file for registration with taxation agency of jurisdiction according to relevant provisions. On expiration of the qualification as high and new technology company, income tax shall be temporarily levied pursuant to a preferential tax rate of 15% before renewal of the qualification; if such qualification is not obtained before the end of the year, the difference between the preferential tax rate and the regular tax rate should be paid according to applicable provisions.

Withholding Income Tax

Pursuant to the Arrangement between Mainland and Hong Kong S.A.R. Regarding Avoidance of Double Taxation on Income and Prevention of Tax Evasion agreed between SAT and Hong Kong S.A.R. on August 21, 2006, and certain relevant conventions implemented as of June 11, 2008, December 20, 2010, December 29, 2015 and December 6, 2019, if Hong Kong resident holds at least 25% of the registered capital of a company in China, the withholding income tax rate applicable to the Chinese company for dividends payable to the Hong Kong resident is 5%. In all other cases, the withholding income tax rate applicable to the Chinese company for dividends payable to the Hong Kong resident is 10%.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC last amended on November 19, 2017, and its Implementation Rules promulgated by the Ministry of Finance, or the MOF and last amended on October 28, 2011, tax payers engaging in sale of goods, provision of processing services, repairs and replacement services, sales of services, intangible assets or real property, or importation of goods within the territory of the PRC shall pay value-added tax, or the VAT.

On November 16, 2011, the MOF and the SAT jointly promulgated the Pilot Plan for Levying Value-Added Tax in lieu of Business Tax. Starting from January 1, 2012, the PRC government has been gradually implementing a pilot program in certain provinces and municipalities, to levy a 6% VAT on revenue generated from modern service industries in lieu of the business tax.

The Measures for the Exemption of Value-Added Tax from Cross-Border Taxable Activities in the Collection of Value-Added Tax in Lieu of Business Tax (for Trial Implementation), which was promulgated on May 6, 2016 by the SAT, and revised according to the Notice of State Administration of Taxation on Revising Some Normative Documents on Taxation on June 15, 2018, provides that if a domestic enterprise provides cross-border taxable activities such as professional technology services, technology transfer, software service etc., the above mentioned cross-border taxable activities shall be exempted from the VAT.

On March 23, 2016, the MOF and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform which confirms that business tax will be completely replaced by the VAT from May 1, 2016.

Pursuant to Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates issued by the MOF and SAT on April 4, 2018 and effective on May 1, 2018, the applicable VAT for VAT-taxable sales activities or imported goods are adjusted respectively from 17% and 11% to 16% and 10%.

Pursuant to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform issued by the MOF, the SAT and the General Administration of Customs on March 20, 2019, which came into force on April 1, 2019, with respect to VAT taxable sales or imported goods of a VAT general taxpayer, where the VAT rate of 16% applies currently, it shall be adjusted to 13%, and the currently applicable VAT rate of 10% shall be adjusted to 9%.

Regulations on Employment and Social Welfare

Employment

The relevant labor laws in China include the Labor Law of the PRC, the Labor Contract Law of the PRC, Interim Provisions on Labor Dispatch, the Social Insurance Law of the PRC, the Provisional Measures for Company Employee Birth Insurance (1994), the Provisional Regulations for the Collection and Payment of Social Insurance Premiums, and Regulations on Management of Housing Provident Fund and other laws and regulations released from time to time by relevant governmental departments.

Pursuant to the Labor Law of the PRC implemented on January 1, 1995 and last amended on December 29, 2018 by the SCNPC, enterprises and institutions must establish and improve work safety and health system, strictly enforce national regulations and standards on work safety and health, and carry out work safety and health education for workers. Working safety and health facilities must meet national standard. Enterprises and institutions must provide workers with working safety and health conditions that satisfy national provisions and relevant articles on labor protection.

Pursuant to the Labor Contract Law of the PRC effective on January 1, 2008 and amended on December 28, 2012 by the SCNPC, or the Labor Contract Law, enterprise or organization which will establish or has established employment relationship with workers should make it official with written employment contract. No enterprise or institution may force workers to work overtime, and employer should pay over-time fee to workers in line with applicable national provisions.

Pursuant to the Interim Provisions on Labor Dispatch which were implemented by the Ministry of Human Resources and Social Security on March 1, 2014, and the Labor Contract Law, employers may only employ dispatched workers in temporary, auxiliary or substitutable positions and the number of which shall not exceed 10% of the total number of its employees. If the employer violates the relevant labor dispatch regulations, the labor administrative department shall order it to make rectifications within a time limit; if it fails to make rectifications within the time limit, penalties shall be imposed for more than RMB5,000 and less than RMB10,000 per person.

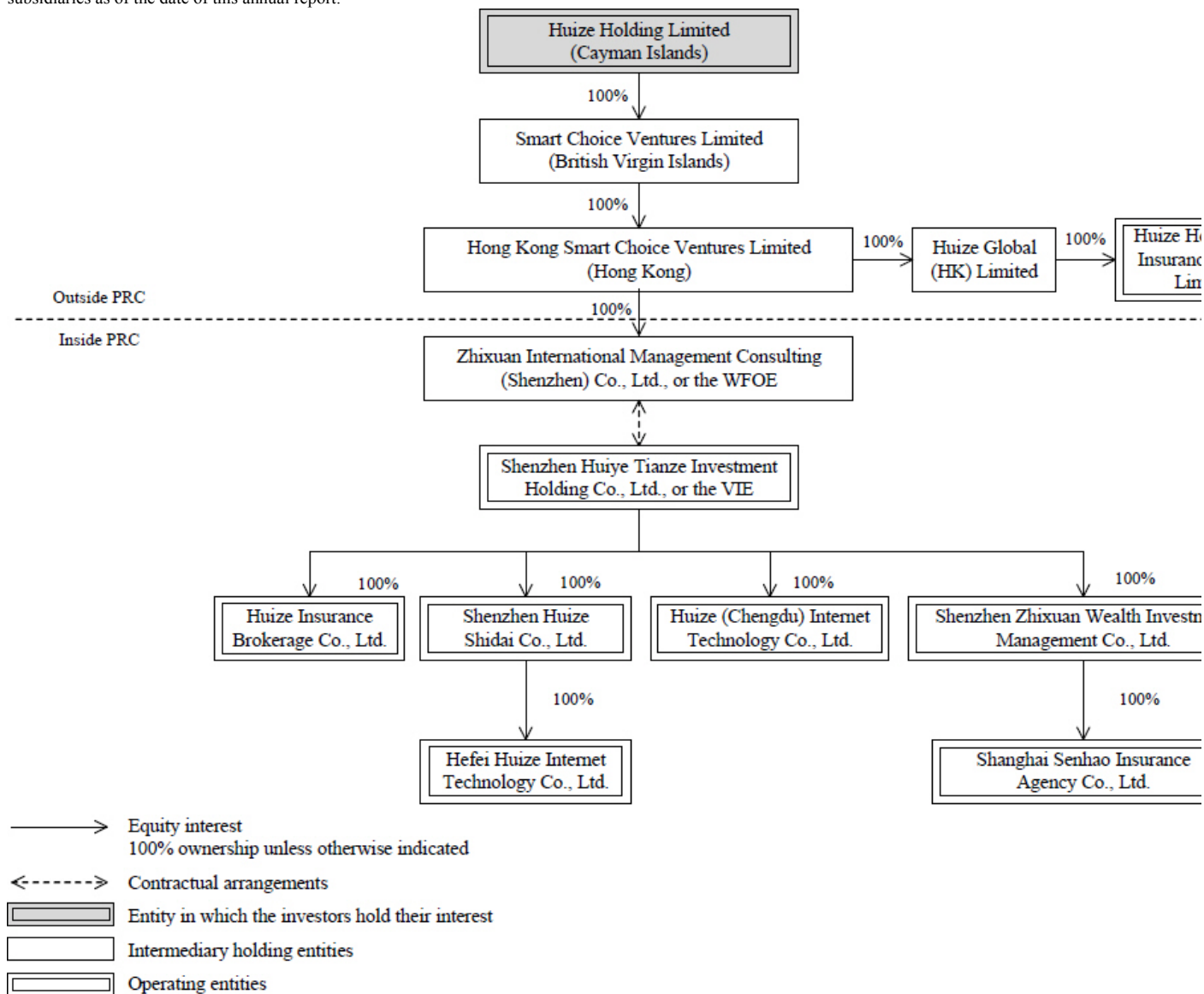
Social Insurance and Housing Provision

Pursuant to the Work-related Injury Insurance Regulations effective on January 1, 2004 and amended on December 20, 2010 by the State Council, and Provisional Measures for Enterprise Employee Birth Insurance released on December 14, 1994 by Labor Ministry (now the Ministry of Human Resources and Social Security), the Decision on the Establishment of Unified Basic Pension System for Enterprise Employees released on July 16, 1997 by the State Council, the Decision on the Establishment of Basic Medical Insurance System for Urban Employees promulgated by the State Council on December 14, 1998, the Regulations on Unemployment Insurance released by the State Council on January 22, 1999, the Provisional Regulations on the Collection and Payment of Social Insurance Premiums released by the State Council on January 22, 1999 and revised on March 24, 2019, and the Social Insurance Law of the PRC effective on July 1, 2011, and amended on December 29, 2018 by the SCNPC, employer should purchase social insurance policies for its employees, including basic pension policy, basic medical insurance policy, unemployment insurance policy, maternity insurance policy and work-related injury insurance policy. Employer failing to make timely and full payment for social insurance for its employees shall be demanded by social security authority of jurisdiction to furnish payment plus the late fee within designated time period. If such employer shall fail to make up for the late fee within designated time period, related administrative department shall impose punitive measures on the employer.

Pursuant to Regulations on Housing Provision Regulations released in 1999 and amended on March 24, 2002 and March 24, 2019 by the State Council, enterprises should file for housing provision payment registration with the Housing Provision Management Center, and set up housing provision account for employees at trusted bank after audited by the Housing Provision Management Center. Enterprises should make timely and full payment for the employee housing provision.

C. Organizational Structure

The following diagram illustrates our current corporate structure, which includes our significant subsidiaries, the VIE and its material subsidiaries as of the date of this annual report:



Note

(1) Shareholders of Shenzhen Huiye Tianze Investment Holding Co., Ltd., or Huiye Tianze, are: (1) Shenzhen Huidacheng Investment Development Limited Partnership and Shenzhen Huideli Consulting Management Limited Partnership, both as our PRC ESOP holding entities, holding an aggregate of 27.56% shares in Huiye Tianze; (2) PRC holding entities of the shareholders of our Cayman Islands holding company, holding shares in Huiye Tianze in a shareholding structure substantially identical to their respective shareholding in our company, and the PRC holding entity of SAIF IV Healthcare (BVI) Limited, a former shareholder of our Cayman Islands holding company.

Contractual Arrangements with The VIE and Its Shareholders

Due to the PRC legal restrictions on foreign ownership of internet-based businesses and qualification requirements on foreign investors in the insurance intermediary business, we rely on certain contractual arrangements with the VIE and its shareholders to conduct substantially all of our operations in China. These contractual arrangements allow us to exercise effective control over the VIE, receive substantially all of the economic benefits of the VIE and have an exclusive option to purchase all or part of the equity interests in the VIE when and to the extent permitted by PRC law. As a result of these contractual arrangements, we expect to be regarded as the primary beneficiary of the VIE, and we will accordingly treat it as a variable interest entity under U.S. GAAP. We will consolidate the financial results of the VIE and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

Below is a summary of the VIE contractual arrangements:

Agreements that Provide us with Effective Control over the VIE

Power of Attorney. On June 6, 2019, each shareholder of the VIE signed a Power of Attorney, pursuant to which each shareholder of the VIE irrevocably authorized our WFOE or any person designated by our WFOE to act as its attorney-in-fact to exercise all of its rights as a shareholder of the VIE, including but not limited to, the right to convene and attend shareholders' meetings, sell, transfer or pledge any of the VIE's assets, vote on any resolution that requires a shareholder vote, such as the appointment of legal representative, directors, and officers, as well as other shareholders' voting rights permitted by the articles of association of the VIE. The shareholders' power of attorney will remain effective until the earlier of (i) the date on which the shareholders are no longer registered shareholders of the VIE; (ii) the expiration date of the VIE; or (iii) the expiration date of term of operation after it has been legally extended (if any), unless otherwise instructed by our WFOE in writing.

Equity Pledge Agreement. On June 6, 2019, our WFOE entered into an equity pledge agreement with the VIE and its shareholders. Pursuant to the equity pledge agreement, the shareholders of the VIE have pledged the 100% equity interests in the VIE to our WFOE to guarantee performance by the shareholders of their obligations under the exclusive business cooperation agreement, exclusive option and equity custody agreement and power of attorney, or together referred to as the "Cooperation Agreements." In the event of a breach by the VIE or any of its shareholders of contractual obligations under the Cooperation Agreements or the equity pledge agreement, our WFOE, as pledgee, will have the right to dispose of the pledged equity interests in the VIE and will have priority in receiving the proceeds from such disposal. The VIE and its shareholders also undertake that, without the prior written consent of our WFOE, the shareholders of the VIE will not dispose of, create or allow any encumbrance on the pledged equity interests. The equity pledge agreement will remain effective until the earlier of (i) the date on which all obligations secured have been fully paid; or (ii) the date on which the pledgors transfer all equity interests in Huiye Tianze and our WFOE is entitled to operate our business as permitted under applicable PRC law. As of the date of this annual report, we have completed the registration of such equity pledges with relevant governmental authority.

Agreement that Allows us to Receive Economic Benefits from the VIE

Exclusive Business Cooperation Agreement. On June 6, 2019, our WFOE, the VIE and its shareholders entered into an exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, our WFOE has the exclusive right to provide the VIE with comprehensive technology and business support as well as the relevant consultations services required by the business of the VIE, or to appoint a third party to provide the VIE with such services. The VIE agrees to pay our WFOE a quarterly service fee, which is at our WFOE's discretion. Our WFOE has the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive business cooperation agreement to the extent permitted by applicable PRC law. During the term of the agreements, the VIE shall not accept any consultations and/or services provided by any third party and shall not cooperate with any third party for the provision of identical or similar services without prior written consent of our WFOE. The exclusive business cooperation agreements will remain effective unless our WFOE exercises its exclusive option and is registered as the sole shareholder of the VIE or otherwise terminates the agreement.

Agreement that Provides us with the Option to Purchase the Equity Interests in and Assets of the VIE

Exclusive Option and Equity Custody Agreement. On June 6, 2019, our WFOE entered into exclusive option and equity custody agreements with the VIE and its shareholders. Pursuant to the exclusive option and equity custody agreement, each of the shareholders of the VIE has irrevocably granted our WFOE an exclusive option to purchase, or have its designated third party to purchase, at its discretion, to the extent permitted under PRC law, all or part of his or its equity interests in the VIE and/or the assets that the VIE holds. Our WFOE or any third party designated by our WFOE may exercise such options at the price of RMB1, or minimum price as required by PRC laws and regulations when our WFOE or any third party designated by our WFOE exercises such options. If such price exceeds RMB1, the VIE's shareholders shall return the excess portion to our WFOE. The shareholders of the VIE irrevocably and without consideration granted our WFOE to take custody of their shares in the VIE, where our WFOE holds and may exercise all shareholder's rights of the VIE. The exclusive option and equity custody agreement will remain effective until all equity interests in the VIE and assets of the VIE have been transferred to our WFOE or its designated third party and registered under our WFOE or its designated third party or until our WFOE terminates the agreement unilaterally with ten days prior written notice.

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel:

- the ownership structures of the VIE in China and our WFOE are not in violation of applicable PRC laws and regulations currently in effect; and
- the contractual arrangements among our WFOE, the VIE and its shareholders governed by PRC law are currently valid and binding in accordance with applicable PRC laws and regulations currently in effect, and do not result in any violation of the applicable PRC laws or regulations currently in effect.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating certain of our operations in China do not comply with PRC regulations relating to insurance brokerage and the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

D. Property, Plants and Equipment

Our corporate headquarter is located in Shenzhen, China. We lease office spaces in Shenzhen, Hefei, Chengdu, Beijing, Shanghai, Guangzhou and Hong Kong from unrelated third parties under operating lease agreements, and we do not hold any facilities of our own. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate future growth.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included elsewhere in this annual report. This annual report contains forward-looking statements. See “Forward-Looking Information” on page 3 of this annual report. In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Key Factors Affecting Our Results of Operations

Our results of operations and financial condition are affected by the general factors affecting China’s online insurance industry, including, among others, (i) China’s overall economic growth, (ii) the increase in per capita disposable income, (iii) regulatory changes, (iv) the rising awareness of insurance and demand for insurance products, and (v) the competitive environment in China. In particular, we operate in a highly regulated industry. The PRC government has not adopted a clear regulatory framework governing the emerging and rapidly evolving online insurance industry, and we expect that the regulatory framework will continue to evolve for some time to come. Regulatory changes will affect the general growth as well as the competitive landscape of the market. Staying in compliance with the regulatory requirements may result in diversion of our management team’s attention and increased operational costs and expenses. Our ability to execute our strategies and make adjustments when necessary in a cost-efficient manner in the changing regulatory environment is key to our future growth. Unfavorable changes in any of these general factors could materially and adversely affect our results of operations.

While our business is influenced by general factors affecting our industry, our results of operations are more directly affected by company-specific factors, including the following major factors:

Offering of a Distinguishable and Popular Insurance Product Mix

We primarily generate revenues from earning brokerage income by distributing insurance products underwritten by our insurer partners. We currently distribute two major categories of insurance products on our platform: (i) life and health insurance products, including long-term health insurance products, short-term health insurance products, annuity insurance products and other life insurance products; (ii) property & casualty insurance products, including travel insurance products, individual casualty insurance products and corporate insurance products. Between the two categories, life and health insurance products accounted for 89.9%, 95.6% and 96.5% of the GWP we facilitated in 2019, 2020 and 2021, respectively.

The insurance brokerage commission fees we charge are typically based on a percentage of the premiums paid by our insurance clients. Most life and health insurance policies we sell require periodic payment of premiums, typically annually, during a pre-determined payment period, generally ranging from three to 30 years. For such insurance policies we sell, insurer partners pay us a first-year commission based on a percentage of the first year premiums, and subsequent commissions based on a smaller percentage of the renewal premiums paid by the insurance clients in the subsequent one to four years. Therefore, life and health insurance products bring us a steady flow of brokerage income during the payment period of the first two to five years as long as the insurance clients meet their payment commitments. Moreover, the commission fee rates our insurer partners pay us for the life and health insurance products are generally higher than those of property & casualty insurance products.

We believe that with the rising insurance awareness in China, insurance clients favor customized insurance products that cater to their personalized protection needs. We stay abreast of market trends and have deep insights in unmet needs of insurance clients. To address such needs, we cooperate with our insurer partners to design and develop tailor-made insurance products, which contribute significantly to the GWP we facilitate, and further, to our revenues from commission fees. In 2021, approximately 60.2% of the GWP facilitated through our platform were contributed by tailor-made insurance products that we developed together with our insurer partners.

Expansion of Our Insurance Client Base

Although we generate our revenues primarily from fees that we charge our insurer partners, their demand for our brokerage services largely depends on our ability to help them reach and sell insurance products to insurance clients. Therefore, the size and composition of our insurance client base on our platform significantly affect our revenues and results of operations. We need to maintain a large and loyal client base with an emphasis on younger generation who could bring us stable, long-term revenues. We maintain various client acquisition channels. To acquire direct client traffic, we conduct product marketing, user education and brand advertising. We also invest in our insurance consulting capabilities to improve client conversion rate. In addition, we partner with a large number of user traffic channels who have considerable influence over their users' insurance purchase decisions and we pay them service fees for directing client traffic to our platform. We need to continuously raise our brand awareness through both our own marketing team and our user traffic channels. We have incurred significant expenses and devoted considerable resources to marketing activities and client acquisition as we have grown our business, and we expect to continue to incur such expenses as we grow. To improve profitability, we need to further enhance our client acquisition efficiency, particularly in accurate advertising and selecting and engaging effective distribution channels leveraging our big data analytics capabilities, in order to expand our client base in a cost-effective manner.

Operating Efficiency of Our Platform

We have incurred significant costs and expenses in building our platform, growing our client base and developing capabilities in data analytics and technology. Our business model is highly scalable and our platform is built to support our continued growth. While we expect our operating costs and expenses to increase in absolute terms as our business expands, we also expect them to decrease as a proportion of our revenues as we improve the operating efficiency of our platform and achieve more economies of scale. We have expended significant costs and expenses in attracting and acquiring traffic to our platform, and converting such traffic into our insurance clients. We pay service fees to our user traffic channels, which is the largest component of our operating costs and expenses. We plan to carefully select influential user traffic channels and further optimize our client acquisition channels to reduce such operating costs as a percentage of our total revenues. For our own client acquisition efforts, we incur personnel costs, including base salaries and performance bonuses. In order to maintain and improve the operating efficiency of our platform, we should expand our client base efficiently without disproportionately adding our personnel costs. Furthermore, we have invested in accumulating and processing multi-dimensional client data and transaction data, and we plan to conduct in-depth analytics and analysis of client needs that will contribute to our client acquisition and conversion, product design and risk management capabilities, which in turn improves our overall operating margin.

Relationship with Our Insurer Partners

As of December 31, 2021, we had effective contracts with 109 insurer partners, including 66 life and health insurance companies and 43 property & casualty insurance companies. We cooperate with our insurer partners to offer their standard insurance products or to design and develop tailor-made insurance products. We need to keep the growth of our business, brand influence and risk management capabilities so as to strengthen the cooperation with our existing insurer partners while attracting more insurance companies to build cooperative relationships with us. Our growth will also allow us to hold stronger bargaining power and be able to negotiate favorable terms in our business cooperation with insurer partners. We plan to diversify and expand the number of insurer partners we work with to manage any potential concentration risk. Our five largest insurer partners in terms of operating revenue contribution aggregately accounted for 60.7%, 63.0% and 78.4% of our total operating revenue in 2019, 2020 and 2021, respectively. We plan to adjust the structure of insurer partners we work with to an extent that is suitable for our long-term growth, while exposes us to limited concentration risk.

Furthermore, we need to ensure the quality of services we provide to insurer partners, including system integration, product design and development services, and risk management solutions to maintain their incentive to keep cooperating with us. We need to provide insurance clients with smooth insurance experience through our platform by offering a series of client services, including, among others, consulting service, intelligent underwriting service and claim application and settlement service. Client satisfaction and positive feedbacks from our insurance clients encourage our insurer partners to maintain and expand their cooperation with us.

Impact of COVID-19 on Our Operations and Financial Performance

The majority of our revenues are derived from brokerage income from commission fees generated from facilitating sales of insurance products underwritten by our insurer partners through our platform. Our results of operations and financial condition in 2021 were affected by the COVID-19 pandemic, and may continue to be affected by the COVID-19 pandemic in 2022 and potentially beyond. COVID-19 has impact on China's insurance industry in general and the distribution of insurance products of our company. The extent to which COVID-19 impacts our results of operations in the future will depend on the future developments of the pandemic, including new information concerning the global severity of and actions taken to contain the pandemic, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the pandemic harms the Chinese and global economy in general. See "Item 3. Key Information—D. Risk Factors— Risks Relating to Our Business and Industry—Our business, financial condition and results of operations have been, and may continue to be, adversely affected by the COVID-19 pandemic."

The pandemic may adversely affect our insurer partners' ability to provide insurance products at competitive prices, and our insurance clients' disposable income to purchase insurance products, and may in turn affect our results of operations and financial conditions. We may also delay acting on new business initiatives due to the negative impact the pandemic has on the macroeconomic conditions and the insurance industry in China. Any of the above could in turn negatively affect our results of operation. We will pay close attention to the development of the COVID-19 pandemic, perform further assessment of its impact and take relevant measures to minimize the impact.

As of December 31, 2021, we had RMB381.2 million (US\$59.8 million) and RMB227.8 million (US\$35.8 million) in cash and cash equivalents and restricted cash, respectively. Our cash and cash equivalents primarily consist of cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash. Our restricted cash primarily consists of unremitted net insurance premiums, pledged deposits for the loan of two of our subsidiaries, and guarantee deposit.

We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. See also “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We face Risks Relating to health epidemics and other outbreaks, as well as natural disasters, which could significantly disrupt our operations and adversely affect our business, financial condition or results of operation.”

Key Operating Metrics

We regularly review a number of operating metrics to evaluate our business, measure our performance, identify trends, formulate financial projections and make strategic decisions. The principal operating metrics we consider are set forth in the table below:

	2019	2020	2021
Cumulative number of insurance clients (million)	6.3	6.8	7.5
Cumulative number of insured (million)	53.2	57.6	62.5
GWP facilitated (million RMB)	2,014.3	3,019.9	5,018.2
First year premiums (million RMB)	1,465.4	1,567.9	3,123.8
Renewal premiums (million RMB)	548.9	1,452.0	1,894.4

Key Components of Our Results of Operations

Revenues

Our revenues are derived from providing insurance brokerage services to our insurer partners, and are comprised of brokerage income and other income. The following table sets forth the components of our revenues by amounts and percentages of our total operating revenue for the periods presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Operating revenue:						
Brokerage income	982,124	98.9	1,215,434	99.6	2,232,253	350,289
Life and health insurance business	902,596	90.9	1,166,118	95.6	2,170,767	340,641
Property & casualty insurance business	79,528	8.0	49,316	4.0	61,486	9,648
Other income	11,195	1.1	4,788	0.4	12,763	2,003
Total operating revenue	<u>993,319</u>	<u>100.0</u>	<u>1,220,222</u>	<u>100.0</u>	<u>2,245,016</u>	<u>352,292</u>

Brokerage income. We derive brokerage income from commission fees generated from facilitating sales of insurance products underwritten by our insurer partners through our platform. We facilitate sales of two major types of insurance products on our platform: (i) life and health insurance products, including long-term health insurance products, short-term health insurance products, annuity insurance products and other life insurance products; (ii) property & casualty insurance products, including travel insurance products, individual casualty insurance products and corporate insurance products.

The commission fees we receive are based on a percentage of the premiums our insurance clients pay our insurer partners. Commission fees generally depend on the type of insurance products and the particular insurer partners, and are subject to regulatory requirements. We typically receive payment of the commission fees from insurer partners on a monthly basis. Our brokerage income is recognized when the signed insurance policy is in place and the premiums is collected from our insurance clients.

Commission fees earned from life and health insurance products have been our primary source of revenues in recent years. Commission fees earned from life and health insurance products accounted for 91.9%, 95.9% and 97.2% of our total brokerage income in 2019, 2020 and 2021, respectively. As we plan to enhance our focus on life and health insurance products, particularly long-term health insurance products and further improve our product design capabilities, we expect life and health insurance products to continue to be a major contributor to our revenues.

Other income. Other income primarily consists of service fees for consulting services. We provide consulting services before selling insurance products to the insured.

Operating Costs and Expenses

Operating costs and expenses consist primarily of cost of revenue, selling expenses, general and administrative expenses and research and development expenses. The following table sets forth the components of our operating expenses by amounts and percentages of total operating cost and expenses for the periods presented:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Operating costs and expenses:							
Cost of revenue	(629,531)	(63.5)	(813,507)	(65.3)	(1,688,087)	(264,898)	(71.5)
Other cost	(1,837)	(0.2)	(2,846)	(0.2)	(2,670)	(419)	(0.1)
Total operating costs	(631,368)	(63.7)	(816,353)	(65.5)	(1,690,757)	(265,317)	(71.6)
Selling expenses	(164,665)	(16.6)	(230,438)	(18.5)	(350,573)	(55,012)	(14.9)
General and administrative expenses	(161,816)	(16.3)	(150,207)	(12.1)	(197,619)	(31,011)	(8.4)
Research and development expenses	(33,831)	(3.4)	(49,135)	(3.9)	(120,478)	(18,906)	(5.1)
Total operating costs and expenses	(991,680)	(100.0)	(1,246,133)	(100.0)	(2,359,427)	(370,246)	(100.0)

Cost of revenue. Cost of revenue primarily consists of (i) channel cost, which is service fees paid to our user traffic channels, including social media influencers and financial institutions under our indirect marketing, and (ii) personnel costs related to our insurance consultants, including base salaries and performance bonuses under our direct marketing. We expect our cost of revenue to increase in absolute terms as our scale of business grows. However, as we expect to attract a larger portion of our client base with our brand influence, we plan to carefully select user traffic channels we work with to achieve better client acquisition results, and we will further improve client acquisition efficiency of each insurance consultant through enhanced training programs and increased application of big data technologies. We expect our cost of revenue as a percentage of our total revenue will decrease.

Other cost. Our other cost primarily consists of non-labor cost for our business, such as office leasing cost. We expect our other cost to be stable in the foreseeable future as we plan to control our non-labor cost.

Selling expenses. Our selling expenses primarily consist of (i) salaries and employment benefits for sales related personnel, including sales and marketing team, product management team and client service team for both indirect and direct marketing, (ii) advertising and marketing expenses, and (iii) rental and utilities expenses, office expenses and traveling expenses incurred in connection with sales activities. We expect our selling expenses to increase in absolute amounts in the foreseeable future as we seek to enhance our insurance service capabilities and increase our brand awareness, and decrease as a percentage of our total operating costs and expenses due to improved economies of scale.

General and administrative expenses. Our general and administrative expenses primarily consist of (i) payroll and related expenses for employees involved in general corporate functions and costs associated with the use of facilities and equipment by these functions, and (ii) professional service expenses in relation to our initial public offering, surcharge from value-added tax, office expenses, rental and utilities expenses and share-based compensation expenses. We expect our general and administrative expenses to increase in absolute amounts in the foreseeable future due to the anticipated growth of our business as well as costs associated with being a public company.

Research and development expenses. Our research and development expenses primarily consist of payroll and related expenses of research and development personnel. We expect our research and development expenses to increase in absolute amounts in the foreseeable future, as we plan to continue to recruit and retain qualified research and development personnel to further improve our operational efficiency and to enhance our technology infrastructure in order to support the growth of our business. Specifically, we intend to continue to invest in our system supporting intelligent underwriting, policy management and claim settlement services and our IT system, and the expenses incurred therefrom will be recorded as research and development expenses.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amount and as a percentage of our total operating revenue for the years presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of our future trends.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages, share and per share data)						
Operating revenue:							
Brokerage income	982,124	98.9	1,215,434	99.6	2,232,253	350,289	99.4
Other income	11,195	1.1	4,788	0.4	12,763	2,003	0.6
Total operating revenue	993,319	100.0	1,220,222	100.0	2,245,016	352,292	100.0
Operating costs and expenses:							
Cost of revenue ⁽¹⁾	(629,531)	(63.3)	(813,507)	(66.7)	(1,688,087)	(264,898)	(75.2)
Other cost	(1,837)	(0.2)	(2,846)	(0.2)	(2,670)	(419)	(0.1)
Total operating costs	(631,368)	(63.5)	(816,353)	(66.9)	(1,690,757)	(265,317)	(75.3)
Selling expenses ⁽¹⁾	(164,665)	(16.6)	(230,438)	(18.9)	(350,573)	(55,012)	(15.6)
General and administrative expenses ⁽¹⁾	(161,816)	(16.3)	(150,207)	(12.3)	(197,619)	(31,011)	(8.8)
Research and development expenses ⁽¹⁾	(33,831)	(3.4)	(49,135)	(4.0)	(120,478)	(18,906)	(5.4)
Total operating costs and expenses	(991,680)	(99.8)	(1,246,133)	(102.1)	(2,359,427)	(370,246)	(105.1)
Operating (loss)/profit	1,639	0.2	(25,911)	(2.1)	(114,411)	(17,954)	(5.1)
Other income/(expenses):							
Interest income/(expenses)	(190)	(0.0)	(1,157)	(0.1)	(3,206)	(503)	(0.1)
Unrealized exchange income/(loss)	362	0.0	(9)	(0.0)	(59)	(9)	(0.0)
Investment income	718	0.1	137	0.0	(5,328)	(836)	(0.2)
Others, net	12,676	1.2	10,177	0.8	12,627	1,981	0.5
(Loss)/profit before income tax, and share of income of equity method investee	15,205	1.5	(16,763)	(1.4)	(110,377)	(17,321)	(4.9)
Income tax expense	(57)	(0.0)	(1,768)	(0.1)	—	—	—
Share of income/(loss) of equity method investee	(180)	(0.0)	239	0.0	2,660	417	0.1
Net (loss)/profit	14,968	1.5	(18,292)	(1.5)	(107,717)	(16,904)	(4.8)

Note:

(1) Share-based compensation expenses were allocated in operating costs and expenses as follows:

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Cost of revenue	43	410	(387)	(61)
Selling expenses	6,514	10,642	(475)	(75)
General and administrative expenses	87,980	40,820	(665)	(104)
Research and development expenses	421	381	(297)	(47)
Total	94,958	52,253	(1,824)	(287)

Year ended December 31, 2021 compared to year ended December 31, 2020

Operating Revenue

Our total operating revenue increased by 84.0% from RMB1,220.2 million in 2020 to RMB2,245.0 million (US\$352.3 million) in 2021. This increase was driven by the growth in our brokerage income from RMB1,215.4 million in 2020 to RMB2,232.3 million (US\$350.3 million) in 2021.

The increase of brokerage income was primarily due to the 66.2% increase in the total GWP facilitated through our platform from RMB3,019.9 million in 2020 to RMB5,018.2 million in 2021, of which first year premium, or FYP, increased by 99.2% from RMB1,567.9 million in 2020 to RMB3,123.8 million in 2021

Operating cost and expenses

Our total operating cost and expenses increased by 89.3% from RMB1,246.1 million in 2020 to RMB2,359.4 million (US\$370.2 million) in 2021. This increase was primarily due to the increase in our cost of revenue resulting from our continued strategy of expanding client base and boosting insurance product sales in 2021.

Cost of revenue. Our cost of revenue increased by 107.5% from RMB813.5 million in 2020 to RMB1,688.1 million (US\$264.9 million) in 2021, primarily attributable to the increase in channel cost paid to our user traffic channels for our indirect marketing. The increase was largely in line with the growth of our business scale, as we obtained more user traffic through our user traffic channels as a result of our enhanced indirect client acquisition efforts in 2021.

Other cost. Our other cost decreased by 6.2% from RMB2.8 million in 2020 to RMB2.7 million (US\$0.4 million) in 2021.

Selling expenses. Our selling expenses increased by 52.1% from RMB230.4 million in 2020 to RMB350.6 million (US\$55.0 million) in 2021, accounting for 18.9% and 15.6% of the total operating revenue of the respective year, primarily attributable to the increase in the number of personnel of sales function, as well as the increase in advertising and marketing expenses to improve our brand awareness, partially offset by a decrease in share-based compensation expenses.

General and administrative expenses. Our general and administrative expenses increased by 31.6% from RMB150.2 million in 2020 to RMB197.6 million (US\$31.0 million) in 2021, accounting for 12.3% and 8.8% of the total operating revenue of the respective year, primarily attributable to the increase in salaries and employment benefits from RMB51.5 million in 2020 to RMB87.3 million (US\$13.7 million) in 2021, which was due to an increase in the number of personnel of general and administrative function, as well as increased rental expenses from office expansion. The increase was partially offset by a decrease in share-based compensation expenses.

Research and development expenses. Our research and development expenses increased by 145.2% from RMB49.1 million in 2020 to RMB120.5 million (US\$18.9 million) in 2021, accounting for 5.4% of the total operating revenue of the respective period, primarily attributable to the increase in the number of research and development personnel in 2021.

Operating loss

As a result of the foregoing, we recorded an operating loss of RMB114.4 million (US\$18.0 million) in 2021, as compared to RMB25.9 million in 2020.

Other income

We recorded other income of RMB12.8 million (US\$2.0 million) in 2021, compared to RMB4.8 million in 2020. This increase was primarily due to the increase in technology development service income and consulting service income.

Net loss

As a result of the foregoing, we recorded a net loss of RMB107.7 million (US\$16.9 million) in 2021, compared to RMB18.3 million in 2020.

Year ended December 31, 2020 compared to year ended December 31, 2019

Operating Revenue

Our total operating revenue increased by 22.8% from RMB993.3 million in 2019 to RMB1,220.2 million in 2020. This increase was driven by the growth in our brokerage income from RMB982.1 million in 2019 to RMB1,215.4 million in 2020.

The increase of brokerage income was primarily due to the 49.9% increase in total GWP facilitated through our platform from RMB2,014.3 million in 2019 to RMB3,019.9 million in 2020, as well as an increase in the commission rate we charged for long-term health insurance and term life insurance products in 2020.

Operating cost and expenses

Our total operating cost and expenses increased by 25.7% from RMB991.7 million in 2019 to RMB1,246.1 million in 2020. This increase was primarily due to the increase in our cost of revenue resulting from our continued strategy of expanding client base and boosting insurance product sales in 2020.

Cost of revenue. Our cost of revenue increased by 29.2% from RMB629.5 million in 2019 to RMB813.5 million in 2020, primarily attributable to the increase in channel cost paid to our user traffic channels for our indirect marketing. The increases resulted from the growth of our business scale, as we obtained more user traffic through our user traffic channels as a result of our indirect client acquisition efforts.

Other cost. Our other cost increased by 55.6% from RMB1.8 million in 2019 to RMB2.8 million in 2020.

Selling expenses. Our selling expenses increased by 39.9% from RMB164.7 million in 2019 to RMB230.4 million in 2020, accounting for 16.6% and 18.9% of the total operating revenue of the respective period, primarily attributable to the increase in advertising and marketing expenses to improve our brand awareness, and the growth of our business scale.

General and administrative expenses. Our general and administrative expenses decreased by 7.2% from RMB161.8 million in 2019 to RMB150.2 million in 2020, accounting for 16.3% and 12.3% of the total operating revenue of the respective year, primarily attributable to the decrease in share-based compensation expense from RMB88.0 million in 2019 to RMB40.8 million in 2020. The decrease was partially offset by the increase in salaries and employment benefits from RMB35.5 million in 2019 to RMB51.5 million in 2020, which was due to an increase in the number of our employees.

Research and development expenses. Our research and development expenses increased by 45.3% from RMB33.8 million in 2019 to RMB49.1 million in 2020, accounting for 3.4% and 4.0% of the total operating revenue of the respective period, primarily attributable to the increase in the number of research and development personnel in 2020.

Operating profit/ (loss)

As a result of the foregoing, we recorded operating loss of RMB25.9 million in 2020, compared to an operating profit of RMB1.6 million in 2019.

Other income/ (expenses)

Others, net. We recorded others, net of RMB10.2 million in 2020, compared to RMB12.7 million in 2019. This decrease was primarily due to a rent exemption for our office space in Hefei confirmed by the local government which was available for the rental period in 2019.

Net profit

As a result of the foregoing, we recorded net loss of RMB18.3 million in 2020, compared to a net profit of RMB15.0 million in 2019.

Taxation

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

Hong Kong

Our subsidiary incorporated in Hong Kong, Hong Kong Smart Choice Ventures Limited, is subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiary to us are not subject to any Hong Kong withholding tax. We did not incur such tax expense in 2019, 2020 or 2021.

PRC

Generally, our WFOE, the VIE and its subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

We are subject to value-added tax at a rate of 6% on the revenues generated from services provided in the PRC, less any deductible value-added tax we have already paid or borne. We are also subject to surcharges on value-added tax payments in accordance with PRC law.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—We may rely principally on dividends and other distributions on equity paid by our WFOE to fund any cash and financing requirements we may have, and any limitation on the ability of our WFOE to pay dividends to us could have a material adverse effect on our ability to conduct our business."

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

Critical Accounting Policies

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Reorganization

Our company was incorporated on December 24, 2014 under the laws of the Cayman Islands. Our company commenced a reorganization (“Reorganization”) in preparation for our initial public offering by issuing 184,200,000 common shares and 98,900,000 redeemable preferred shares to the three then existing shareholders in 2014 and 2015 after our company was established. In June 2015, our WFOE was established as an indirect wholly foreign owned entity of our company in the PRC.

In June 2019, we completed the Reorganization by issuing 261,072,000 common shares, 105,122,000 Series A redeemable preferred shares, 185,512,580 Series B redeemable preferred shares, 43,937,180 Series B+ redeemable preferred shares and 16,574,460 Series B++ redeemable preferred shares to the shareholders of Huiye Tianze. After such share issuance, the total number of shares outstanding equals to that of Huiye Tianze. However, since our company is an offshore entity, all PRC investors are required to register with relevant PRC governmental authorities in order to hold equity interest in our company. The 21.87% shares of our company were issued to an offshore affiliate of that shareholder while the 78.13% shares of our company were held through outbound investment by the other shareholders of Huiye Tianze. Concurrently, our company obtained control over Huiye Tianze through our WFOE by entering into a series of contractual arrangements. As a result, Huiye Tianze became a consolidated variable interest entity of our company. We determined that the Reorganization is a recapitalization and accordingly prepared our financial statements using the carryover basis of assets and liabilities of Huiye Tianze and its PRC subsidiaries.

In February 2020, we completed our initial public offering in Nasdaq Global Market. The initial public offering of an aggregate of 5,250,000 American depository shares, or ADSs, each presenting 20 class A common shares of our company, was priced at US\$10.50 per ADS. On March 10, 2020, the underwriters have exercised part of their option to purchase additional ADSs to purchase an additional 72,453 ADSs of our company at the initial public offering price of US\$10.50 per ADS. After giving effect to the exercise of the option to purchase additional ADSs, we had issued and sold a total of 5,322,453 ADSs in the IPO, for total gross proceeds of approximately US\$55.9 million.

Revenue Recognition

Revenue is the transaction price we expect to be entitled to in exchange for the promised services in a contract in the common course of our activities and is recorded net of value-added tax (“VAT”). The services to be accounted for mainly include insurance brokerage and consulting services.

We have early adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified ASC 606 on January 1, 2017.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, we apply the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under Topic 606, our right to consideration in exchange for goods or services that we have transferred to a customer is recognized as a contract asset. We recognize a contract liability if the customer's payment of consideration precedes our performance.

Insurance Brokerage Services

The primary source of revenues is commissions from insurance brokerage services, determined based on a percentage of premiums paid by insured. The brokerage fee rate which is paid by the insurance companies shall be based on the terms specified in the annual service contract with the insurance company for each product sold through us. We determine that the insurance company, or the insurer, is its customer in this agreement. Insurance brokerage services revenue is recognized when the signed insurance policy is in place and the premium is collected from the insured since the Company has fulfilled its performance obligation to sell an insurance policy on behalf of the insurance company.

We are also entitled to a performance bonus from insurance companies if the cumulative average monthly sales volume exceeds a predetermined level. Such bonus is determined at the end of each month and recognized as revenue.

Other Services

We provide digital and technology development services to certain insurance companies. Upon the delivery of programs developed, our performance obligation related to the technology service has been fully fulfilled. However, the timing of revenue recognition may differ from contract to contract based on whether performance obligations satisfy the criteria of recognizing revenue over time, in accordance with ASC 606. Since the deliverables usually do not have alternative use to our company, revenue is recognized over time once there is an indicator that we have an enforceable right to payment for performance completed to date. Otherwise, the revenue is recognized at a point in time.

For cargo insurance products, in addition to the commission from brokerage service paid by the insurance companies, we also generate service fees from rendering consulting service to assist the insured to obtain such a cargo insurance policy. We determine that the insured is our customer in this consulting service arrangement. Upon successful purchase of cargo insurance products by the insured, our performance obligation related to consulting service to the insured has been fully fulfilled, as such, revenue for those services is recognized when the insurance product has been purchased. While the insurance premium is set by the respective insurance companies, the consulting service fee is determined by us based on a percentage of insurance premium. Of the total contract price received from the insured, the amount equal to the premium of the cargo insurance product as agreed with insurance company is recorded as insurance premium payable while the remaining is recorded as revenue for the consulting service.

Value Added Tax

We are subject to value-added-tax ("VAT") on the revenues earned for services provided in the PRC. The applicable rate of value added tax is 6%. In the accompanying consolidated statements of comprehensive income/(loss), such VAT is excluded from net revenues.

Cost of Revenue

A large component of our cost of revenue is channel cost, which is service fee paid to user traffic channels for successful sales, including social media influencers, emerging media channels and financial institutions. These user traffic channels have influences over their followers and users, who are potential insurance policyholders. Determination of channel cost is based on the service fee rate multiplied by the insurance premium sold. Channel cost is recognized in the period it incurred. The accounts payable represent channel cost payable to user traffic channels.

Another component of cost of revenue is payroll of insurance consultants, who are in charge of identifying and acquiring potential clients through providing advice related to insurance products.

Selling Expenses

We record the marketing campaign expenses and loyalty points as selling expenses.

Marketing campaign expenses consist primarily of advertising and marketing promotion expenses. Advertising and marketing expenses, amounting to approximately RMB47.9 million, RMB71.5 million and RMB97.9 million (US\$15.4 million) for the years ended December 31, 2019, 2020 and 2021, respectively, are charged to the consolidated statements of comprehensive (loss)/income as incurred. Beside marketing campaign expenses, selling expenses consist of salaries and employment benefits for employees who work in brokerage service line, office rental, telecommunications and office supply expenses incurred in connection with sales activities.

We operate a loyalty program which offers points to its users. Such loyalty points can be used to redeem a variety of gifts and services that we purchased from third-party providers. Users have a variety of ways to obtain the points, such as signing up an account, inviting friends, and comment on an insurance product, etc. We account for such points as selling expenses with a corresponding liability recorded under other payables and accrued expenses of consolidated balance sheets upon the offering of these points. We estimate liabilities under the loyalty program based on cost of the gifts and services that can be redeemed taking into account estimated breakage. At the time of redemption, we record a reduction of other payables and accrued expenses.

General and Administrative Expenses

General and administrative expenses consist of payroll, rental, and related expenses for employees involved in general corporate functions, including finance, legal and human resources, as well as costs associated with use of facilities and equipment, such as depreciation expenses and other general corporate related expenses.

General and administrative expenses also include surcharges on VAT payments according to PRC tax.

Others, Net

Others, net, mainly consist of non-operating income and expenses, such as government subsidies.

Taxation

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions.

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carry forwards and credits. Deferred tax assets are reduced by a valuation allowance when, in the opinion of our management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided in accordance with the laws of the relevant taxing authorities. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in which temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the consolidated statement of comprehensive (loss)/income in the period of the enactment of the change.

We consider positive and negative evidence when determining whether a portion or all of our deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods, the experience with tax attributes expiring unused, and the tax planning strategies. The ultimate realization of deferred tax assets is dependent upon the ability to generate sufficient future taxable income within the carry-forward periods provided for in the tax law and during the periods in which the temporary differences become deductible. When assessing the realization of deferred tax assets, we have considered possible sources of taxable income including (i) future reversals of existing taxable temporary differences, (ii) future taxable income exclusive of reversing temporary differences and carry-forwards, (iii) future taxable income arising from implementing tax planning strategies, and (iv) specific known trend of profits expected to be reflected within the industry.

We recognize a tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management. We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense.

Share-based Compensation

Employee Share-based Compensation

All forms of share-based payments to employees, including employee stock options, employee stock purchase plans, restricted shares and share awards, are treated the same as any other form of compensation by recognizing the related cost in the consolidated statements of comprehensive income/(loss) in accordance with ASC 718, “Stock Compensation.” In accordance with the guidance, we determine whether a share option should be classified and accounted for as a liability award or an equity award. 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. The fair value of a liability-classified award will be re-measured to an updated fair value at each reporting period until the award is settled. The compensation cost is recognized over the requisite service period, which is usually the vesting period. If an award requires satisfaction of performance and service conditions, compensation cost is recognized using graded vesting method. If an award requires only service condition, we will use straight line method. For liability-classified award, we will true up compensation cost each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered.

For restricted shares granted with service conditions and performance conditions and graded vesting features, share-based compensation expenses are recorded net of estimated forfeitures using graded vesting method during the requisite service period, such that expenses are recorded only for those share-based awards that are expected to ultimately vest. For share options granted with service condition and the occurrence of an IPO as performance condition, cumulative share-based compensation expenses for the options that have satisfied the service condition, amounting to RMB16,390 thousand, were recorded upon the completion of the IPO in 2020, the remaining share-based compensation expenses are recorded net of estimated forfeitures using graded-vesting method during the requisite service period.

Share-based compensation expenses of RMB95.0 million, RMB52.3 million for 2019 and 2020, and a reversal of share-based compensation expenses of RMB1.8 million for 2021, respectively, were included in cost of revenue, selling expenses, general and administrative expenses and research and development expenses.

The fair value of each option granted under the option plan was estimated on the date of grant using the binomial option pricing model using the following assumptions: (i) the risk-free interest rate is estimated based on the yield curve of US Treasury BVAL Curve from Bloomberg as of the option valuation date; (ii) the expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options; (iii) we do not anticipate any dividend payments in the foreseeable future; (iv) the expected term is the contract life of the options.

Recently issued accounting pronouncements

For a summary of recently issued accounting pronouncements, see Note 2(hh) to the consolidated financial statements of our company pursuant to Item 17 of Part III of this annual report.

B. Liquidity and Capital Resources

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

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash (used in)/provided by operating activities	118,024	137,666	(175,917)	(27,605)
Net cash provided by/(used in) investing activities	(6,927)	(31,078)	(80,926)	(12,700)
Net cash provided by/(used in) financing activities	(14,079)	383,053	141,891	22,266
Effect of exchange rate changes on cash and cash equivalents	38	(10,020)	(5,012)	(786)
Net (decrease)/increase in cash and cash equivalents and restricted cash	97,056	479,621	(119,964)	(18,825)
Cash and cash equivalents and restricted cash at beginning of the year	152,271	249,327	728,948	114,388
Cash and cash equivalents and restricted cash at end of the year	249,327	728,948	608,984	95,563

To date, we have financed our operating and investing activities through cash generated from our operations and from historical financing activities. We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months.

Cash and cash equivalents. Our cash and cash equivalents consist of cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash. As of December 31, 2020 and 2021, respectively, our cash and cash equivalents were RMB404.6 million and RMB381.2 million (US\$59.8 million).

Restricted cash. Our restricted cash was RMB324.3 million and RMB227.8 million (US\$35.8 million) as of December 31, 2020 and 2021, respectively. Our restricted cash consists of (i) unremitted net insurance premiums, (ii) pledged deposit and (iii) guarantee deposit. In our capacity as an insurance broker, we collect premiums from our insurance clients and remit the premiums to the insurer partner who underwrites the respective insurance product. Unremitted net insurance premiums are held in a fiduciary capacity until disbursed by us, and we report the amount of such unremitted net insurance premiums as restricted cash. Unremitted net insurance premiums were RMB193.5 million and RMB126.7 million (US\$19.9 million) as of December 31, 2020 and 2021, respectively. During the year ended December 31, 2021, Hong Kong Smart Choice Ventures Limited, one of our subsidiaries, provided security for the loan of Huize Insurance Brokage Co. Ltd. and Shenzhen Huize Shidai Co., Ltd., two subsidiaries of us, by pledged deposits. The amount of pledged deposits as of December 31, 2021 was RMB75.8 million (US\$11.9 million), compared to RMB106.4 million as of December 31, 2020. We pay guarantee deposit required by China Banking and Insurance Regulatory Commission in order to protect insurance premium appropriation by insurance broker. The amount of guarantee deposit was RMB24.5 million and RMB25.3 million (US\$4.0 million) as of December 31, 2020 and 2021.

Account receivable, net of allowance for doubtful accounts. Our account receivable, net of allowance for doubtful accounts was RMB232.6 million and RMB777.3 million (US\$122.0 million) as of December 31, 2020 and 2021, respectively. Account receivable, net of allowance for doubtful accounts primarily consists of commission fee receivable. The increase was due to the growth of our business scale.

Insurance premium receivable. Our insurance premium receivables decreased from RMB2.0 million as of December 31, 2020 to and RMB1.2 million (US\$0.2 million) as of December 31, 2021, primarily due to the termination of cooperation with our user traffic channels in collecting insurance premium on our behalf, and the shortened insurance premium collection period we adopted in 2021.

Account payable. Our account payable primarily consists of service fees to be paid to our user traffic channels. Our accounts payable were RMB 227.5 million and RMB680.4 million (US\$106.8 million) as of December 31, 2020 and 2021, respectively. The increase was primarily due to an increase of service fees to be paid to our user traffic channels.

Insurance premium payables. Our insurance premium payables was RMB187.2 million and RMB124.0 million (US\$19.5 million) as of December 31, 2020 and 2021, respectively. Our insurance premium payables primarily consists of insurance premiums collected on behalf of our insurer partners but not yet remitted as of the balance sheet dates.

In the future, we may decide to enhance our liquidity position or increase our cash reserve for future investments through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

As of December 31, 2021, 79.2% of our cash and cash equivalents and restricted cash were held in China, and 78.0% were held by the VIE and denominated in Renminbi. Although we consolidate the results of the VIE and its subsidiaries, we only have access to the assets or earnings of the VIE and its subsidiaries through our contractual arrangements with the VIE and its shareholders. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with The VIE and Its Shareholders.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

In utilizing the proceeds we received from our initial public offering, we may make additional capital contributions to our WFOE, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiary, or acquire offshore entities with operations in China in offshore transactions. However, most of these uses are subject to PRC regulations.

See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of conversion of foreign currencies into Renminbi may delay or prevent us from using the proceeds of our initial public offering to make loans to our WFOE, the VIE and its subsidiaries or to make additional capital contributions to our WFOE, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

A majority of our future revenues are likely to continue to be in the form of Renminbi. Under existing PRC foreign exchange regulations, Renminbi may be converted into foreign exchange for current account items, including profit distributions, interest payments and trade and service related foreign exchange transactions.

We expect that substantially all of our future revenues will be denominated in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiary is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

Operating Activities

Net cash used in operating activities in 2021 was RMB175.9 million (US\$27.6 million), as compared to a net loss of RMB107.7 million (US\$16.9 million) in the same period. The difference was primarily due to a decrease in accounts receivables of RMB545.7 million (US\$85.6 million), a decrease in insurance premium payables of RMB63.2 million (US\$9.9 million) and a decrease in prepaid expense and other receivables of RMB40.0 million (US\$6.3 million), partially offset by an increase in accounts payable of RMB452.6 million (US\$71.0 million), an increase in other payables and accrued expenses of RMB29.9 million (US\$4.7 million) and an increase in payroll and welfare payable RMB25.6 million (US\$4.0 million).

Net cash provided by operating activities in 2020 was RMB137.7 million, as compared to a net loss of RMB18.3 million in the same period. The difference was primarily due to an increase in accounts payable of RMB103.1 million, an increase in insurance premium payables of RMB61.6 million, share-based compensation expense of RMB35.9 million and an increase in payroll and welfare payable of RMB24.1 million, partially offset by an increase in account receivables of RMB52.8 million and an increase in prepaid expense and other receivables of RMB30.8 million. The incurrence of share-based compensation expense was due to the issuance of restricted shares in 2019 to Bodyguard Holding Limited, our ESOP platform.

Net cash provided by operating activities in 2019 was RMB118.0 million, as compared to a net profit of RMB15.0 million in the same period. The difference was primarily due to the share-based compensation expense of RMB95.0 million, an increase in accounts payable of RMB52.2 million, an increase in payroll and welfare payable of RMB12.1 million, an increase in insurance premium payables of RMB11.1 million and a decrease in amounts due from related parties of RMB10.3 million, partially offset by an increase in account receivables of RMB74.5 million, an increase in other assets of RMB10.3 million and an increase in prepaid expense and other receivables of RMB6.9 million. The incurrence of share-based compensation expense was primarily due to the issuance of restricted shares to Huidz Holding Limited, the holding company of Mr. Cunjun Ma, and Bodyguard Holding Limited, our ESOP platform. The decrease in amounts due from related parties was primarily due to the full repayment of personal cash advances from Mr. Cunjun Ma, and the completion of capital contribution from Shenzhen Huidecheng Investment Development, L.P. to the VIE.

Investing Activities

Net cash used in investing activities in 2021 was RMB80.9 million (US\$12.7 million), primarily due to purchase of property, equipment and intangible assets of RMB38.1 million (US\$6.0 million), purchase of long-term investment of RMB33.6 million (US\$5.3 million) and acquisition of subsidiary of RMB14.3 million (US\$2.2 million) in 2021.

Net cash used in investing activities in 2020 was RMB31.1 million, primarily due to purchase of long-term investment of RMB22.5 million and purchase of property, equipment and intangible assets of RMB8.2 million in 2020.

Net cash used in investing activities in 2019 was RMB6.9 million, primarily due to our purchase of property, equipment and intangible assets of RMB6.0 million and purchase of long-term investment of RMB2.0 million in 2019.

Financing Activities

Net cash provided by financing activities in 2021 was RMB141.9 million (US\$22.3 million), primarily due to proceeds from borrowings of RMB184.0 million (US\$28.9 million), partially offset by repayment of borrowings of RMB40.5 million (US\$6.4 million) and cash used in share repurchase of RMB3.0 million (US\$0.5 million).

Net cash provided by financing activities in 2020 was RMB383.1 million, primarily due to proceeds from our initial public offering, net of issuance costs of RMB340.5 million and proceeds from borrowings of RMB105.4 million, partially offset by repayments of borrowings of RMB61.3 million.

Net cash used in financing activities in 2019 was RMB14.1 million, primarily due to our repayments of borrowings of RMB35.3 million and our repayment of convertible bonds of RMB8.8 million, partially offset by proceeds from borrowings of RMB30.0 million.

Capital Expenditures

Our capital expenditures were RMB8.2 million and RMB38.1 million (US\$6.0 million) in 2020 and 2021. We intend to fund our future capital expenditures with our existing cash balance and cash flow from operating activities. We will continue to make capital expenditures to meet the expected growth of our business.

Material Cash Requirements

Our material cash requirements as of December 31, 2021 and any subsequent interim period primarily include our capital expenditures, operating lease obligations, investment commitments, short-term and long-term borrowings.

Our capital expenditures primarily consist of purchases of computers, office equipment and softwares. Our capital expenditures were RMB8.2 million in 2020 and RMB38.1 million in 2021. We will continue to make capital expenditures to meet the expected growth of our business.

Our operating lease obligations consist of the commitments under the lease agreements for our office premises. We lease our office facilities under non-cancelable operating leases with various expiration dates. Our leasing expense was RMB8.9 million and RMB46.5 million for the years ended December 31, 2020 and 2021, respectively. The majority of our operating lease commitments are related to our office lease agreements in China.

We had investment commitments of RMB55.5 million as of December 31, 2021.

Short-term and long-term borrowings represent the bank borrowings. As of December 31, 2021, the total amount of our bank borrowings was RMB236.7 million, which will mature from 2022 to 2023.

We intend to fund our existing and future material cash requirements with our existing cash balance. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have retained or contingent interests in assets transferred. We have not entered into contractual arrangements that support the credit, liquidity or market risk for transferred assets. We do not have obligations that arise or could arise from variable interests held in an unconsolidated entity, or obligations related to derivative instruments that are both indexed to and classified in our own equity, or not reflected in the statement of financial position.

Other than as discussed above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2021.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2021:

	Payment Due by Period As of December 31, 2021 RMB
Operating Lease Obligations	
Within one year (including one year)	28,261
One to three years (including three years)	60,835
Thereafter	245,770
Total	334,866

We recorded rental expense of RMB8.9 million and RMB46.5 million (US\$7.3 million) in 2020 and 2021, respectively. We had investment commitments of RMB55.5 million (US\$8.7 million) as of December 31, 2021. Other than what is disclosed above, we did not have other significant commitments, long-term obligations or guarantees as of December 31, 2021.

Holding Company Structure

Huize Holding Limited is a holding company with no material operations of its own. We conduct our operations primarily through our WFOE, the VIE and its subsidiaries in China. As a result, our ability to pay dividends depends upon dividends paid by our WFOE. If our existing PRC subsidiary or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and the VIE in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and the VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our WFOE have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

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

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

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2020 to December 31, 2021 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires our management to make estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on our own historical experience and other assumptions that we believe are reasonable after taking account of our circumstances and expectations for the future based on available information.

We evaluate these estimates on an ongoing basis. We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Revenue Recognition

The revenue standard requires us to estimate the amount of variable consideration to which we will be entitled. For revenue recognition, we make estimates using surrender rate and renewal rate based on the historical experience, reasonable and supportable prediction of policy holders' behaviour, current economic conditions and other factors that may affect the realizability of brokerage income. We only include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized for such transactions will not occur. Changes in estimates used in the revenue recognition have a material impact on our financial statements. The estimation of variable consideration of revenue recognition did not change significantly throughout the periods presented and there is no indication that this estimate will change significantly in the near future.

Asset Acquisition

When we acquire other entities, if the assets acquired and liabilities assumed do not constitute a business, the transaction is accounted for as an asset acquisition. For the asset acquisition, we make estimates of valuation of intangible assets acquired and liability assumed. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Changes in these estimates and assumptions could materially affect the determination of the asset's fair value.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. None of our directors or the directors of our operating entities are officials of the Chinese Communist Party.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Cunjun Ma	50	Chairman of the Board of Directors and Chief Executive Officer
Xuchun Luo	52	Director and Secretary of the Board of Directors
Bin Wei	52	Independent Director
Jun Ge	49	Independent Director
Aaron Xiaolei Hou	48	Independent Director
Li Jiang	51	Chief Operating Officer
Ronald Tam	40	Co-Chief Financial Officer
Minghan Xiao	48	Co-Chief Financial Officer
Kai Ouyang	44	Chief Technology Officer
Haosheng Song	39	Chief Content Officer
Yongsheng Wang	48	Chief Human Resources Officer

Mr. Cunjun Ma is our founder and has been chairman of our board of directors and our chief executive officer since our inception. Mr. Cunjun Ma has over 24 years of insurance related experience, and holds exceptional insurance expertise and insights that have considerably contributed to our fast growth and unique corporate culture. He founded Shenzhen Huize Internet Insurance Agent Co., Ltd. in 2006 and worked as its general manager until June 2011. Prior to that, he worked as the head of a subsidiary of Hua An Property Insurance Co., Ltd. for two years. Prior to that, Mr. Ma worked in Shenzhen branch of Ping An Property Insurance Co., Ltd. from August 1995 to February 2004. Mr. Ma obtained an MBA degree from Nankai University.

Ms. Xuchun Luo has served as our secretary of the board of directors since our inception. Ms. Luo has over 14 years of insurance related experience, and 19 years of accounting and financing related experience. Before joining our company, Ms. Luo worked as a department manager in Shenzhen Huize Internet Insurance Agent Co., Ltd. from March 2007 to November 2011. Ms. Luo also worked in Hua An Property Insurance Co., Ltd. for two years. Prior to that, Ms. Luo worked as an accountant in Industrial and Commercial Bank of China for 15 years, and as a department manager in an industrial company for two years. Ms. Luo obtained a Specialist's degree in Financial Accounting from Jiangxi Radio and Television University in 2001, and a Bachelor's degree in Law from The Open University of China in 2009.

Mr. Bin Wei has served as our independent director since February 2020. Mr. Wei has over 26 years of accounting and finance related experience. Mr. Wei has served as an asset management partner of CDH Investments Management (Hong Kong) Limited since April 2019. Prior to that, he served as a partner at Hillhouse Capital Group from April 2018 to March 2019. Prior to that, Mr. Wei worked in China Resources (Holdings) Co., Ltd. for 16 years from 2001 to 2017 in his capacities as director of finance, chief accountant and chief financial officer. From 1996 to 2001, Mr. Wei worked as the head of the accounting department in Nanguang (Group) Co., Ltd. Prior to that, Mr. Wei worked in the Audit Office of the Ministry of Foreign Trade and Economic Cooperation as a civil servant from 1992 to 1996. Mr. Wei serves as directors of various companies listed on Hong Kong Stock Exchange, including Hao Tian International Construction Investment Group Limited (HKSE: 1341), Honghua Group Limited (HKSE: 00196) and OCI International Holdings Limited (HKSE: 0329). Mr. Wei has become qualified as a Chinese CPA since 1993, a Senior Auditor in China since 2003 and a Senior Accountant in China since 2003. Mr. Wei obtained his bachelor's degree in Auditing from Zhongnan University of Finance and Economics in 1992, and his master's degree in Finance from Jinan University in 2001.

Mr. Jun Ge has served as our independent director since February 2020. Mr. Ge had previously served as the assistant engineer of Shanghai Research Institute of Building Research; administrative manager, deputy director of the corporation and public affairs department, director of the President office, secretary general of the foundation and Assistant president of the China Europe International Business School; President of the Pudong Innovation Institute; and associate dean of the Shanghai Institute of Advanced Finance at Shanghai Jiaotong University. Mr. Ge is currently an Executive director of the National Innovation and Development Strategy Research Association. Mr. Ge has been an independent non-executive director of China Mengniu Dairy Co. Ltd. (HKEX, stock code: 2319) since December 2021. Mr. Ge was an independent director of Focus Media Information Technology Co Ltd. (Shenzhen Stock Exchange, stock code: 002027) from February 2019 to November 2021. Mr. Ge was also an independent director of Meinian Onehealth Healthcare Holdings Co., Ltd. (Shenzhen Stock Exchange, stock code: 002044) from October 2018 to October 2021. Mr. Ge's areas of academic expertise include corporate governance, corporate stakeholder relations, evaluation of innovation mechanism, responsible business and sustainable development.

Mr. Aaron Xiaolei Hou has served as our independent director since February 2021. He has nearly 20 years of risk management and capital markets experience. He founded China Springs Capital Co., Ltd. in October 2016, and currently serves as its Chief Executive Officer and Chief Investment Officer. Prior to that, he worked as the Chief Risk Officer of CITIC Securities from 2011 to 2013, and an executive director in the market risk management division at the global headquarter of Goldman Sachs Group in New York from 2007 to 2013. Mr. Hou received his MBA degree in Finance and Accounting from the University of Rochester in 2000, and Masters of Science in Quantitative Methods and Modeling from CUNY Baruch College in 2003.

Mr. Li Jiang has served as our chief operating officer since 2015. Mr. Jiang has been working in the insurance industry since 2003. Prior to joining our company, Mr. Jiang worked as senior manager in Starr Insurance (China) from 2009 to 2015. Prior to that, Mr. Jiang worked as senior manager in AIG Insurance from 2003 to 2009. Before entering the insurance industry, Mr. Jiang worked as marketing manager for AirChina from 1993 to 2003. Mr. Jiang obtained his Master's degree in Marketing from Hong Kong University in 2013.

Mr. Ronald Tam has served as our co-chief financial officer since August 2020. Prior to that, Mr. Tam served as our chief strategy officer from April 2020 to July 2020. Mr. Tam has over 15 years of experience in driving and executing corporate strategy, strategic investments, mergers and acquisitions and capital markets transactions. Prior to joining our company, Mr. Tam served as the chief financial officer of Chong Sing Holdings FinTech Group Limited, a Hong Kong-listed fintech group, from 2016 to 2019, and Vice President of Corporate Finance from 2014 to 2016. Prior to that, Mr. Tam was an executive director and head of general industries investment banking for Greater China at Daiwa Capital Markets Hong Kong Limited from 2011 to 2013. Mr. Tam was a director at Crosby Capital Partners with a focus on private equity and special situations investments from 2010 to 2011. Mr. Tam commenced his career in investment banking at Goldman Sachs (Asia) L.L.C. in Hong Kong from 2002 to 2008 in its Equity Capital Markets and Corporate Finance groups, and advised corporate clients and financial sponsors on equity, equity-linked and M&A transactions across industries in Asia. Mr. Tam graduated magna cum laude with a Bachelor of Arts degree in Economics and Computer Science from Yale University in 2002, and is currently a Finance EMBA candidate at Tsinghua PBC School of Finance.

Mr. Minghan Xiao has served as our co-chief financial officer since November 2016. Prior to joining our company, Mr. Xiao worked in his capacity as chief financial officer, senior accountant or secretary of board of directors in several companies from October 2007 to May 2016. Mr. Xiao worked in his capacity as assistant manager for Klynveld Peat Marwick Goerdeler from November 2006 to August 2007, and as senior accountant for Deloitte Touche Tohmatsu Limited from December 2004 to October 2006. Prior to that, Mr. Xiao worked for five years in a PRC accounting firm. Mr. Xiao obtained his Bachelor's degree in Logic from the Department of Philosophy, Peking University in 1995, and his Master's degree in Logic from the Department of Philosophy, Sun Yat-sen University in 1998.

Dr. Kai Ouyang has served as our chief technology officer since September 2014. Prior to joining our company, he worked as technical director of Fangduoduo Internet Technology Co., Ltd. from October 2011 to August 2014. Dr. Ouyang worked as the technology architect in Tencent Technology Co., Ltd. from August 2008 to October 2011. Before that, he worked as a doctoral lecturer in School of Computer Science of Wuhan University of Science and Technology from June 2006 to July 2007, and as a postdoctoral researcher in School of Computer Science of Hong Kong Baptist University from July 2007 to August 2008. Dr. Ouyang obtained his Bachelor's degree in Material Science and Engineering, minor in Computer Science in 1999, his Master's degree in Computer Science in 2002, and his PhD degree in 2006, all from Huazhong University of Science and Technology.

Mr. Haosheng Song has served as our chief content officer since 2015, and has been in charge of our branding, marketing and public relations since then. Mr. Song has rich experience in content provision and communication. Prior to joining our company, he worked as a reporter and chief editor in China Central Television from July 2007 to December 2014. Mr. Song obtained his Bachelor's degree in Chinese Literature in 2004 from Shandong University. He obtained his Master's degree in advertising from Communication University of China in 2007.

Mr. Yongsheng Wang has served as our chief human resources officer since 2016. Mr. Wang has rich experience in human resource management. Prior to joining our company, Mr. Wang worked in his capacity as senior consulting director and partner at two management consulting companies for eight years. Prior to that, Mr. Wang worked in the human resource departments of China National Accord Medicines Co., Ltd., Jindi Group Co., Ltd., and Huawei Technologies Co., Ltd., respectively, from 2000 to 2008. Mr. Wang obtained both his Bachelor's degree and Master's degree from Tianjin University.

B. Compensation

For the fiscal year ended December 31, 2021, we paid an aggregate of RMB17.9 million (US\$2.8 million) in cash to our executive officers, and paid RMB1.0 million (US\$0.2 million) to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our WFOE, the VIE and its subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, for certain acts of the executive officer, such as continued failure to satisfactorily perform, willful misconduct or gross negligence in the performance of agreed duties, conviction or entry of a guilty or nolo contendere plea of any felony or any misdemeanor involving moral turpitude, or dishonest act that results in material to our detriment or material of the employment agreement. We may also terminate an executive officer's employment without cause upon 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as may be agreed between the executive officer and us. The executive officer may resign at any time with a 60-day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) solicit from any client doing business with us during the effective term of the employment agreement business of the same or of a similar nature to our business; (ii) solicit from any of our known potential client business of the same or of a similar nature to that which has been the subject of our known written or oral bid, offer or proposal, or of substantial preparation with a view to making such a bid, proposal or offer; (iii) solicit the employment or services of, or hire or engage, any person who is known to be employed or engaged by us; or (iv) otherwise interfere with our business or accounts, including, but not limited to, with respect to any relationship or agreement between any vendor or supplier and us.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

Share Incentive Plans

Global Share Incentive Plan

On June 30, 2019, our shareholders and board of directors approved the Global Share Incentive Plan, which we refer to as the Global Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. The maximum aggregate number of common shares that may be issued under Global Plan is 57,501,813 common shares.

The following paragraphs summarize the principal terms of the Global Plan.

Type of Awards. The Global Plan permits the awards of options, restricted share units and other types of share incentive awards.

Plan Administration. Our board of directors or a committee of one or more members of the board will administer the Global Plan. The plan administrator will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each grant.

Award Agreement. Awards granted under the Global Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to our directors, employees, consultants and members.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of effectiveness of the Global Plan.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the Global Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the Global Plan. The administrator has the authority to terminate, amend, suspend or modify the Global Plan in accordance with our articles of association. However, no such action may adversely affect in any material way any award previously granted pursuant to the Global Plan.

Amended and Restated 2019 Share Incentive Plan

On June 30, 2019, our shareholders and board of directors approved the 2019 Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. The maximum aggregate number of common shares that may be issued under 2019 Plan was 20,351,945 common shares. On September 8, 2021, our board of directors approved the Amended and Restated 2019 Share Incentive Plan thereby, increasing the maximum aggregate number of common shares that may be issued under such plan to 51,703,365 Class A common shares.

The following paragraphs summarize the principal terms of the Amended and Restated 2019 Plan.

Type of Awards. The Amended and Restated 2019 Plan permits the awards of options, restricted shares, restricted share under other types of share incentive awards.

Plan Administration. Our board of directors or a committee of one or more members of the board will administer the Amended and Restated 2019 Plan. The committee will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each grant.

Award Agreement. Awards granted under the Amended and Restated 2019 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to our directors, employees, consultants and members.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of effectiveness of the Amended and Restated 2019 Plan.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the Amended and Restated 2019 Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the Amended and Restated 2019 Plan. At any time and from time to time, the board may terminate, amend or modify the plan; provided, however, that (a) to the extent necessary and desirable to comply with applicable laws or stock exchange rules, the Company shall obtain shareholder approval of any plan amendment in such a manner and to such a degree as required, unless the Company decides to follow home country practice, and (b) unless the Company decides to follow home country practice, shareholder approval is required for any amendment to the plan that (i) increases the number of shares available under the plan, or (ii) permits the committee to extend the term of the plan or the exercise period for an option beyond ten years from the date of grant.

The following table summarizes, as of February 28, 2022, the number of common shares underlying outstanding options and restricted shares that we granted to our directors and executive officers under the Global Plan and the Amended and Restated 2019 Plan.

Name	Common Shares Underlying Options and Restricted Shares	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Cunjun Ma	Options: 7,556,701		June 30, 2019	
	Restricted Shares: 14,229,183	0.1567	June 30, 2019	June 30, 2029
	Options: 3,911,945	0.1490	September 8, 2021	September 8, 2031
Xuchun Luo	Options: 802,803		June 30, 2019	
	Restricted Shares: 3,114,150	0.1567	June 30, 2019	June 30, 2029
	Options: 1,600,000	0.1490	September 8, 2021	September 8, 2031
Li Jiang	Options: *	0.1567	June 30, 2019	June 30, 2029
	Restricted Shares: *		June 30, 2019	
Ronald Tam	Options: *		March 9, 2021	June 30, 2029
	Restricted Shares: *	0.3500	March 9, 2021	June 30, 2029
Minghan Xiao	Options: *	0.1567	June 30, 2019	June 30, 2029
	Restricted Shares: *		June 30, 2019	
Kai Ouyang	Options: *	0.1490	September 8, 2021	September 8, 2031
	Options: *	0.1567	June 30, 2019	June 30, 2029
Haosheng Song	Restricted Shares: *		June 30, 2019	
	Options: *	0.1490	September 8, 2021	September 8, 2031
	Options: *	0.1567	June 30, 2019	June 30, 2029
Yongsheng Wang	Restricted Shares: *		June 30, 2019	
	Options: *	0.1490	September 8, 2021	September 8, 2031
	Options: *	0.1567	June 30, 2019	June 30, 2029
Other employees	Restricted Shares: *		June 30, 2019	
	Options: 3,331,310	0.1567	June 30, 2019-August 19, 2019	June 30, 2029-August 19, 2029
	Options: 9,722,500	0.1490	September 8, 2021	September 8, 2031

* Less than 1% of our total outstanding shares.

As of February 28, 2022, our employees, other than our directors and executive officers, held options to purchase 3,331,310 Class A common shares, with exercise price of US\$0.1567 per share, under the Global Plan, and options to purchase 9,722,500 Class A common shares, with exercise price of US\$0.1490 per share, under the Amended and Restated 2019 Plan.

C. Board Practices

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our company is required to declare the nature of his interest at a meeting of our directors at which the question of entering into the contract or arrangement is first considered. Subject to the Nasdaq Global Market rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or arrangement or proposed contract or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he shall be counted in the quorum at any meeting of our directors at which any such contract or transaction or proposed contract or transaction is considered. Our directors may exercise all the powers of our company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party.

Committees of the Board of Directors

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

Audit Committee. Our audit committee consists of Bin Wei, Jun Ge and Aaron Xiaolei Hou. Bin Wei is the chairman of our audit committee. We have determined that each of Bin Wei, Jun Ge and Aaron Xiaolei Hou satisfies the "independence" requirements of Nasdaq Stock Market Rules and Rule 10A-3 under the Exchange Act. We have determined that Bin Wei qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Bin Wei, Jun Ge and Aaron Xiaolei Hou. Jun Ge is the chairman of our compensation committee. We have determined that each of Bin Wei, Jun Ge and Aaron Xiaolei Hou satisfies the "independence" requirements of Rule 5605 of the Nasdaq Stock Market Rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;

- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Bin Wei, Jun Ge and Aaron Xiaolei Hou. Aaron Xiaolei Hou is the chairperson of our nominating and corporate governance committee. Each of Bin Wei, Jun Ge and Aaron Xiaolei Hou satisfies the "independence" requirements of Rule 5605 of the Nasdaq Stock Market Rules. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees and officer nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth Courts have moved toward an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings; declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our directors may be elected by an ordinary resolution of our shareholders. Alternatively, our board of directors may, by the affirmative vote of a simple majority of the directors present and voting at a board meeting appoint any person as a director to fill a casual vacancy on our board. Our directors are not automatically subject to a term of office and will hold office until such time as they are removed from office by an ordinary resolution of our shareholders. Notwithstanding the foregoing, for so long as SAIF IV Healthcare (BVI) Limited is a shareholder holding at least 10% of the issued shares of our company, it shall have the exclusive right to appoint, remove and replace one director by written notice to our company and such appointment, removal or replacement shall become effective forthwith upon delivery of such written notice to our company without the need for further authorization from the board of directors or shareholders. On May 9, 2020, SAIF IV Healthcare (BVI) Limited executed a waiver letter to waive such right. As of December 31, 2021, SAIF IV Healthcare (BVI) Limited held no equity interests in our company. In addition, a director will cease to be a director if he (i) resigns his office by notice delivered to our company or tendered at a board meeting; (ii) becomes of unsound mind or dies; (iii) without special leave of absence from the board of directors, is absent from meetings of the board for six consecutive times and the board resolves that his office be vacated; (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors; (v) is prohibited by law from being a director; or (vi) ceases to be a director by virtue of any provision of the Companies Act or our articles of association.

Our officers are appointed by and serve at the discretion of the board of directors, and may be removed by our board of directors save that the chairman of the board shall be elected and removed by ordinary resolution of shareholders. Executive officers, including but not limited to chief executive officer, chief operating officer, co-chief financial officers, chief technology officer, chief content officer, chief human resource officer, shall be nominated by the nominating and corporate governance committee of the board.

Board Diversity Matrix

Board Diversity Matrix (As of February 28, 2022)	
Country of Principal Executive Offices	PRC
Foreign Private Issuer	Yes
Disclosure Prohibited Under Home Country Law	No
Total Number of Directors	5

	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	1	4	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction			0	
LGBTQ+			0	
Did Not Disclose Demographic Background			0	

D. Employees

As of December 31, 2019, 2020 and 2021, we had 1,160, 1,314 and 1,644 employees. The following table sets forth the numbers of our employees categorized by function as of December 31, 2021.

Functions:	As of December 31, 2021	
	Number	% of Total
Insurance consulting	379	23.1
Sales, marketing and training	599	36.4
Client service	89	5.4
Product management	50	3.0
Research and technology	376	22.9
General and administrative	151	9.2
Total	1,644	100.0

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our common shares on an as-converted basis as of February 28, 2022 by:

- each of our directors and executive officers; and
- each of our principal shareholders who beneficially own more than 5% of our total issued and outstanding shares.

The calculations in the table below are based on 1,036,757,933 ordinary shares issued and outstanding as of February 28, 2022, including (i) 886,166,726 Class A common shares (excluding 4,852,460 Class A common shares reserved for issuance under our Global Plan and 2019 Plan and 3,436,860 Class A ordinary shares in the form of ADSs that we repurchased under our share repurchase program); and (ii) 150,591,207 Class B common shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Common shares Beneficially Owned			
	Class A Common Shares	Class B Common Shares	% of Total Common Shares	% of Aggregate Voting Power
Directors and Executive Officers**:				
Cunjun Ma ⁽¹⁾	152,660,038	150,591,207	29.1	76.5
Xuchun Luo	13,911,567	—	1.3	*
Bin Wei	—	—	—	—
Jun Ge	—	—	—	—
Aaron Xiaolei Hou	—	—	—	—
Li Jiang	*	—	*	*
Ronald Tam	*	—	*	*
Minghan Xiao	*	—	*	*
Kai Ouyang	*	—	*	*
Haosheng Song	*	—	*	*
Yongsheng Wang	*	—	*	*
All Directors and Executive Officers as a Group	168,876,435	150,591,207	30.4	76.5
Principal Shareholders:				
Huidz Holding Limited ⁽¹⁾	—	150,591,207	14.5	71.8
Crov Global Holding Limited ⁽²⁾	155,929,140	—	15.0	5.0
Wande Weirong Limited ⁽³⁾	98,321,680	—	9.5	3.1
CDF Capital Insurtech Limited ⁽⁴⁾	80,991,300	—	7.8	2.6
Bodyguard Holding Limited ⁽⁵⁾	55,110,084	—	5.3	1.8

* Less than 1% of our total common shares on an as-converted basis outstanding as of February 28, 2022.

** Except as indicated otherwise below, the business address of our directors and executive officers is 49/F, Building T1, Qianhai Financial Centre, Linhai Avenue, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen 518000, People's Republic of China.

† For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B common shares as a single class. In respect of all matters subject to a shareholders' vote, each Class A common share is entitled to one vote, and each Class B common share is entitled to 15 votes, voting together as a single class. Each Class B common share is convertible into one Class A common share at any time at the option of the holder thereof. Class A common shares are not convertible into Class B common shares under any circumstances.

(1) Represents (i) 6,173,212 Class A common shares issuable to Mr. Ma upon exercise of options within 60 days after February 28, 2022; (ii) 7,105,740 Class A common shares held by Mr. Cunjun Ma in the form of ADSs; and (iii) 150,591,207 Class B common shares directly held by Huidz Holding Limited, a company incorporated in British Virgin Islands that is ultimately controlled by QYRT Family Trust, a trust established under the laws of the British Virgin Islands and managed by HSBC International Trustee Limited as the trustee. Mr. Cunjun Ma is the settlor of the trust and his family member(s) are the trust's beneficiaries. Mr. Cunjun Ma also has sole voting power to 139,381,086 Class A common shares held by other shareholders of our company, including Wande Weirong Limited, CFO Capital Insurtech Limited, Bodyguard Holding Limited, Tian Jin kun Zhi Enterprise management Limited, Kunlun Technology Limited, Jumi Holding Limited and One Mind Holding Limited.

- (2) Based on the statement on Schedule 13G filed on February 11, 2021, represents (i) 24,000,000 Class A common shares in the form of 1,200,000 ADSs, and (ii) 131,929,140 Class A common shares held by Crov Global Holding Limited, a company incorporated in the British Virgin Islands. Crov Global Holding Limited is wholly owned by Made-in-China.com LIMITED, which in turn is wholly owned by Focus Technology Co., Ltd., a company with its securities listed on Shenzhen Stock Exchange (stock code: 002315). Mr. Jinhua Shen is the controlling shareholder and chairperson of Focus Technology Co., Ltd. The registered address of Crov Global Holding Limited is Marcy Building, 2nd Floor, Purcell Estate, P.O. Box 2416 Road Town, Tortola, British Virgin Islands.
- (3) Based on the statement on Schedule 13G filed on February 11, 2021 and information provided by Wande Weirong Limited, represents 98,321,680 Class A common shares in the form of 4,916,084 ADSs held by Wande Weirong Limited, a company incorporated in the British Virgin Islands. Wande Weirong Limited is wholly owned by Jiaying Weirong Investment Management Partnership (Limited Partnership), whose general partner is Wanrong Times Asset Management (Xuzhou) Co., Ltd. Beijing Wanrong Times Capital Management Co., Ltd. is the controlling shareholder of Wanrong Times Asset Management (Xuzhou) Co., Ltd. Mr. Jun Xiong is the controlling shareholder of Beijing Wanrong Times Capital Management Co., Ltd. Mr. Jun Xiong disclaims beneficial ownership of the shares held by Wande Weirong Limited, except to the extent of his pecuniary interests therein. The registered address of Wande Weirong Limited is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1 110. Wande Weirong Limited has, pursuant to certain irrevocable proxy and power of attorney, delegated the voting power of 5,565,380 Class A common shares to Mr. Cunjun Ma, our chairman and chief executive officer.
- (4) Based on the statement on Schedule 13G/A filed on February 11, 2021, represents 80,991,300 Class A common shares held by CDF Capital Insurtech Limited, a company incorporated in the British Virgin Islands. CDF Capital Insurtech Limited is wholly owned by Tianjin Chuangdongfang Enterprise Management Partnership (Limited Partnership), whose general partner is Mr. Ke Xiao. The registered address of CDF Capital Insurtech Limited is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1 110. CDF Capital Insurtech Limited has, pursuant to certain irrevocable proxy and power of attorney, delegated the voting power of 3,339,220 Class A common shares to Mr. Cunjun Ma, our chairman and chief executive officer.
- (5) Based on the statement on Schedule 13G/A filed on February 11, 2022, represents 55,110,084 Class A common shares directly held by Bodyguard Holding Limited. Bodyguard Holding Limited holds these Class A common shares as an ESOP platform for the restricted share award of our company or on behalf of certain director. The restricted shares are granted to certain directors, management and key employees of our company who are shareholders of Bodyguard Holding Limited. The voting power of all Class A common shares held by Bodyguard Holding Limited has been delegated to Mr. Cunjun Ma. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Global Share Incentive Plan” for details. The address of Bodyguard Holding Limited is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1 110.

To our knowledge, as of February 28, 2022, 611,423,760 of our common shares were held by one record holder in the United States, which was Citibank N.A., the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our common shares in the United States.

Our common shares are divided into Class A common shares and Class B common shares. Holders of Class A common shares are entitled to one vote per share, while holders of Class B common shares are entitled to fifteen votes per share.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Contractual Arrangements with The VIE and Its Shareholders

See “Item 4. Information on the Company—C. Organizational Structure.”

Shareholders Agreement and Registration Rights

We entered into a shareholders agreement with our shareholders on June 4, 2019 that provides for certain shareholders' rights, including registration rights, information and inspection rights, right of participation, right of first refusal and right of co-sale, and contains provisions governing our board of directors and other corporate governance matters. Such shareholder rights and corporate governance provisions, other than the registration rights, automatically terminated upon the completion of our initial public offering.

Set forth below is a description of the registration rights granted under the shareholders agreement that survives our initial public offering.

Demand Registration Rights

Holders of at least 33% of the registrable securities then outstanding have the right to demand that we file a registration statement covering the registrable securities that the holders request to be registered. We have the right to defer filing of a registration statement for a period of not more than ninety (90) days after the receipt of the request of the initiating holders if we furnish to the holders requesting registration a certificate signed by our president or chief executive officer stating that in the good faith judgment of our board of directors, it would be materially detrimental to us and our shareholders for such registration statement to be filed at such time. However, we cannot exercise the deferral right for a period more than ninety (90) days after receipt of the request of the holder. We are obligated to effect no more than three demand registrations, other than demand registration to be effected pursuant to registration statement on Form F-3, for which an unlimited number of demand registrations shall be permitted.

Piggyback Registration Rights

If we propose to file a registration statement for a public offering of our securities, we must offer our shareholders an opportunity to include in the registration all or any part of the registrable securities held by such holders. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, and the number of shares that may be included in the registration and the underwriting shall be allocated first, to us, second, to each of the holders requesting inclusion of their registrable securities in a registration statement on a pro rata basis based on the total number of shares of registrable securities then held by each such holder, and third, to holders of our other securities.

Form F-3 Registration Rights

Holders of at least 33% of the registrable securities then outstanding may request us in writing to file an unlimited number of registration statements on Form F-3. We shall effect the registration of the securities on Form F-3 as soon as practicable, except in certain circumstances.

Expenses of Registration

We will pay all expenses, other than the underwriting discounts and selling commissions applicable to the sale of registrable securities pursuant to the registration rights (which will be borne by the holders requesting registration on a pro rata basis in proportion to their respective numbers of registrable securities sold in such registration), incurred in connection with registrations, filings or qualifications pursuant to the registration rights, including all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for us and reasonable fees and disbursement of one counsel for all selling holders. However, we are not obligated to pay any expenses of any registration proceeding if the registration request is subsequently withdrawn at the request of a majority-in-interest of the holders requesting such registration.

Termination of Obligations

The registration rights set forth above will terminate on the earlier of (i) the date that is five years after the date of closing our initial public offering, which was February 12, 2020 and (ii) with respect to any holder, the date on which such holder may sell all of such holder's registrable securities under Rule 144 of the Securities Act in any ninety-day period.

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements and Indemnification Agreements.”

Share Incentive Plans

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Global Share Incentive Plan” and “—2019 Share Incentive Plan”

Other Transactions with Related Parties

For the year ended December 31, 2021, Xiaoke Huixuan (Shenzhen) Technology Co., Ltd., a company that we have significant influence on, provided technology services to our company. As of December 31, 2021, we had service fee due to Xiaoke Huixuan (Shenzhen) Technology Co., Ltd. of RMB11.8 million (US\$1.8 million). As of December 31, 2021, we had RMB128 thousand (US\$20.1 million) due from shareholders, which represented the advance miscellaneous fees for shareholders.

As of December 31, 2018, we had interest-free, unsecured personal cash advances outstanding in the total amount of RMB1.9 million to Mr. Cunjun Ma, our Chief Executive Officer and Chairman of the board of directors. We received the full amount of repayment from Mr. Cunjun Ma on March 31, 2019.

Huidecheng Investment Development, a shareholder of the VIE, had in the past delayed paying capital contribution to the VIE. We received the full amount of capital contribution on April 19, 2019.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are currently not involved in any material legal or administrative proceedings. From time to time, we may be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Such legal or administrative claims and proceedings, even if without merit, could result in the expenditure of financial and management resources and potentially result in civil liability for damages.

Dividend Policy

Our board of directors has discretion as to whether to declare dividends subject to certain requirements of the Companies Act. Our articles of association provides that dividends may be declared and paid out of the profits of our company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act. Under the Companies Act, no distribution or dividend may be paid out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company shall be able to pay its debts as they fall due in the ordinary course of business. Even if we decide to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our common shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our WFOE to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulations on Foreign Exchange.”

If we pay any dividends on our common shares, we will pay those dividends which are payable in respect of the common shares underlying the ADSs to the depositary, as the registered holder of such common shares, and the depositary then will pay such amounts to the ADS holders in proportion to the common shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description of Securities other than Equity Securities—D. American Depositary Shares.” Cash dividends on our common shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing 20 Class A common shares, have been listed on the Nasdaq Global Market since February 11, 2020 under the symbol “HUIZ.”

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing 20 Class A common shares, have been listed on the Nasdaq Global Market since February 11, 2020 under the symbol “HUIZ.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our third amended and restated memorandum and articles of association and the Companies Act insofar as they relate to the material terms of our common shares. Neither our certificate of incorporation nor our memorandum and articles of association contains any charter of the Chinese Communist party or any text thereof.

Common Shares

General. Holders of Class A common shares and Class B common shares have the same rights except for voting and conversion rights. All of our outstanding common shares are fully paid and non-assessable. Certificates representing the common shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their common shares.

Dividends. The holders of our common shares are entitled to such dividends as may be declared by our board of directors. Our third amended and restated articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act. Holders of Class A common shares and Class B common shares will be entitled to identical rights to dividends, if declared.

Voting Rights. In respect of all matters subject to a shareholders' vote, each Class A common share is entitled to one vote, and each Class B common share is entitled to fifteen (15) votes, voting together as one class. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any one or more shareholders who together hold not less than 10% of the nominal value of the total issued voting shares of our company present in person or by proxy. An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast at a meeting, while a special resolution requires the affirmative vote of not less than two-thirds of the votes cast attaching to the outstanding common shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our third amended and restated memorandum and articles of association.

Conversion. Each Class B common share is convertible into one Class A common share at any time at the option of the holder thereof. Class A common shares are not convertible into Class B common shares under any circumstances. Upon any transfer of Class B common shares by a holder to any person or entity which is not an affiliate of such holder, such Class B common shares shall be automatically and immediately converted into the equivalent number of Class A common shares.

Transfer of Common Shares. Subject to the restrictions contained in our third amended and restated articles of association, any of our shareholders may transfer all or any of his or her common shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any common share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any common share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of common shares;
- the instrument of transfer is duly and properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the common share is to be transferred does not exceed four; and a fee of such maximum sum as the Nasdaq may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the Nasdaq, be suspended and the register of members closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register of members closed for more than 30 days in any year as our board may determine.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of common shares), assets available for distribution among the holders of common shares shall be distributed among the holders of the common shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately. Any distribution of assets or capital to a holder of a Class A common share and a holder of a Class B common share will be the same in any liquidation event.

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

Redemption of Common Shares. The Companies Act and our third amended and restated articles of association permit us to purchase our own shares. In accordance with our third amended and restated articles of association and provided the necessary shareholders or board approval have been obtained, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner, including out of capital, as may be determined by our board of directors.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Act, be varied with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

General Meetings of Shareholders

A majority of the board or the chairman of the board may call general meetings, and they shall on a shareholders' requisition forthwith proceed to convene an extraordinary general meeting of our company. A shareholders' requisition is a requisition of shareholders holding at the date of deposit of the requisition shares which carry in aggregate not less than forty per cent (40%) of all votes attaching to all issued shares of our company that as at the date of the deposit carry the right to vote at general meetings of the company.

Advance notice of at least ten clear days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders but a general meeting may be called by shorter notice, subject to the Companies Act, if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all the shareholders entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority of the shareholders having the right to attend and vote at the meeting together holding not less than forty per cent. (40%) of all votes attaching to all the issued shares giving that right.

A quorum required for and throughout a meeting of shareholders consists of at least one shareholder entitled to vote and present in person or by proxy or (in the case of a shareholder being a corporation) by its duly authorized representative representing not less than one-third of all voting power of our share capital in issue.

Inspection of Books and Records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies in the Cayman Islands for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Holders of our common shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will in our articles provide our shareholders with the right to inspect our list of shareholders and to receive annual audited financial statements. See “Where You Can Find More Information.”

Changes in Capital

We may from time to time by ordinary resolution:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so canceled.

However, no alteration contemplated above, or otherwise, may be made to the par value of the Class A common shares or Class B common shares unless an identical alteration is made to the par value of the Class B common shares or Class A common shares, as the case may be.

We may by special resolution, subject to any confirmation or consent required by the Companies Act, reduce our share capital or any capital redemption reserve in any manner permitted by law.

Exempted Company

We are an exempted company with limited liability incorporated under the Companies Act. The Companies Act in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company’s register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and an exempted company may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We currently intend to comply with the Nasdaq rules in lieu of following home country practice. The Nasdaq rules require that every company listed on the Nasdaq hold an annual general meeting of shareholders. In addition, our articles of association allow directors to call special meeting of shareholders pursuant to the procedures set forth in our articles.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” or elsewhere in this annual report.

D. Exchange Controls

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

E. Taxation

The following summary of the Cayman Islands, PRC and U.S. federal income tax considerations of an investment in the ADSs or Class A common shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax considerations relating to an investment in the ADSs or Class A common shares, such as the tax considerations under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our common shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our common shares, nor will gains derived from the disposal of our common shares be subject to Cayman Islands income or corporation tax.

People’s Republic of China Taxation

The following discussion is the opinion of Commerce & Finance Law Offices, our legal counsel as to PRC Law. Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties, etc. of an enterprise. In April 2009, the State Administration of Taxation issued a circular, as amended in November 2013 and partially invalid, known as SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China only if all of the following conditions are met: (i) the primary location where the senior executives and the corresponding executive departments perform their duty of day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

Huize Holding Limited is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Huize Holding Limited meets all of the conditions above. Huize Holding Limited is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. In the opinion of Commerce & Finance Law Offices, our legal counsel as to PRC law, it is more likely than not that Huize Holding Limited will not be deemed as a PRC resident enterprise for PRC tax purposes. As such, holders of the ADSs and common shares who are not PRC residents likely will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Public Notice 7 and SAT Public Notice 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee, or the PRC entity which directly owns such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 7 and SAT Public Notice 37, and we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37, or to establish that we should not be taxed under these circulars. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.” However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

Our PRC legal counsel has also advised us that, there is a risk that the PRC tax authorities may deem us as a PRC resident enterprises since a substantially majority of the members of our management team are located in China. If the PRC tax authorities determine that Huize Holding Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or common shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including the ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear whether non-PRC shareholders of Huize Holding Limited would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Huize Holding Limited is treated as a PRC resident enterprise. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—If we are classified as a PRC resident enterprises for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

United States Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or common shares by a U.S. Holder (as defined below) that acquires and holds our ADSs or common shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect, and there can be no assurance that the Internal Revenue Service (the “IRS”) or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift, Medicare tax on certain net investment income, and alternative minimum tax considerations, backup withholding and information reporting requirements, including pursuant to sections 1471 through 1474 of the Code, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or common shares. The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

[Table of Contents](#)

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- persons liable for alternative minimum tax;
- persons who acquire their ADSs or common shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or common shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own ADSs or common shares representing 10% or more of our stock (by vote or value); or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or common shares through such entities;

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of our ADSs or common shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or common shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or

- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of common shares for ADSs generally will not be subject to U.S. federal income tax.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if, applying applicable look-through rules, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the “asset test”). For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles not reflected on its balance sheet are taken into account. Passive income generally includes, among other things, dividends, interest, income equivalent to interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is not entirely clear, we treat our consolidated VIE as being owned by us for U.S. federal income tax purposes because we control its management decisions and are entitled to substantially all of the economic benefits associated with it, and, as a result, we consolidate its results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the consolidated VIE for U.S. federal income tax purposes, the composition of our income and assets would change and we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIE (including its subsidiaries) for United States federal income tax purposes, we do not believe we were a PFIC for the taxable year ended December 31, 2021, and based upon our current income and assets, including goodwill and other unbooked intangibles not reflected on our balance sheet, and the value of our ADSs, we do not anticipate becoming a PFIC in the current taxable year or in the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC for any taxable year is a factual determination made annually that will depend, in part, upon the composition and classification of our income and assets. Furthermore, fluctuations in the market price of our ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and other unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In particular, recent fluctuations in the market price of our ADSs increased our risk of becoming a PFIC. The market price of our ADSs may continue to fluctuate considerably and, consequently, we cannot assure you of our PFIC status for any taxable year. In addition, the composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are a PFIC for any year during which a U.S. Holder holds our ADSs or common shares, we will generally continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares.

The discussion below under “—Dividends” and “—Sale or Other Disposition” is written on the basis that we will not be or become classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply generally if we are treated as a PFIC are discussed below under “—Passive Foreign Investment Company Rules.”

Dividends

The gross amount of any distributions paid on our ADSs or common shares (including the amount of any PRC tax withheld) out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of common shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on our ADSs or common shares will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Individuals and other non-corporate U.S. Holders will be subject to tax on any such dividends at the lower capital gains tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ADSs or common shares on which the dividends are paid are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, we are eligible for the benefit of the U.S.-PRC income tax treaty (the “Treaty”), (2) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period requirements are met. For this purpose, ADSs listed on the Nasdaq Global Market will generally be considered to be readily tradable on an established securities market in the United States. Since we do not expect that our common shares will be listed on an established securities market in the United States, it is unclear whether dividends that we pay on our common shares that are not represented by ADSs currently meet the conditions required for these reduced tax rates. U.S. Holders are urged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or common shares. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our common shares, regardless of whether such shares are represented by the ADSs, and regardless of whether our ADSs are readily tradable on an established securities market in the United States, would be eligible for the reduced rates of taxation described in the preceding paragraph.

For U.S. foreign tax credit purposes, dividends paid on our ADSs or common shares will generally be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or common shares (see “Taxation—People’s Republic of China Taxation”). Depending on the U.S. Holder’s particular facts and circumstances and subject to a number of complex conditions and limitations, PRC withholding taxes on dividends that are non-refundable under the Treaty may be treated as foreign taxes eligible for a foreign tax credit against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or common shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or common shares. The gain or loss will generally be capital gain or loss. Any capital gain or loss will be long term if the ADSs or common shares have been held for more than one year at the time of disposition. The deductibility of a capital loss may be subject to limitations.

Pursuant to recently issued Treasury Regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or common shares. Each U.S. Holder is advised to consult its tax advisor regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or common shares, including the availability of the foreign tax credit under its particular circumstances.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid to the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or common shares), and (ii) any gain recognized on the sale or other disposition (including, under certain circumstances, a pledge) of ADSs or common shares. Under the PFIC rules:

- the excess distribution or recognized gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or common shares;
- the amount of the excess distribution or recognized gain allocated to the taxable year of the distribution or gain and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (each, a "pre-PFIC year"), will be taxable as ordinary income; and the amount of the excess distribution or recognized gain allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year, increased by an additional tax equal to the interest on the resulting tax deemed deferred with respect to each such taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares and any of our subsidiaries or other corporate entities in which we own equity interests, the VIE or any of the subsidiaries of the VIE is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, the VIE or any of the subsidiaries of the VIE.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If a U.S. Holder makes this election with respect to our ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

The mark-to-market election is available only for "marketable stock," which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable United States Treasury regulations. Our ADSs, but not our common shares, are listed on the Nasdaq Global Market, which is a qualified exchange for these purposes. We expect that our ADSs will be considered regularly traded, but no assurances may be given in this regard.

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

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or common shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax consequences of owning and disposing of our ADSs or common shares if we are or become a PFIC.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be obtained over the internet at the SEC's website at www.sec.gov or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Citibank N.A., the depository of the ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at ir.huize.com. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our revenues and most of our expenses are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

As of December 31, 2021, we had Renminbi-denominated cash and cash equivalents of RMB330.1 million. A 10% depreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2021 would result in a decrease of US\$5.2 million in cash and cash equivalents. A 10% appreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2021 would result in an increase of US\$5.2 million in cash and cash equivalents.

Interest Rate Risk

Fluctuations in market interest rates may negatively affect our financial condition and results of operations. We have not been exposed to material risks due to changes in market interest rates as the borrowings held by us all bear interest at a fixed interest rate.

Inflation

To date, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2019, 2020 and 2021 were increases of 4.5%, 0.2% and 1.5%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

Seasonality

We experience seasonality in our business. For example, we generally have more life and health insurance purchase orders in the first quarter of each year. On the other hand, for property & casualty insurance products we offer on our platform, mostly consisted of travel insurance products, we experience more purchase orders in the third quarter, and the first and fourth quarters of each year are the low season for travel insurance products. As we are shifting to a product mix with more life and health insurance products focused, we expect that we will experience stronger influence of seasonality of life and health insurance products compared with property & casualty insurance products. Overall, the historical seasonality of our business has been relatively mild due to our rapid growth in recent years, but may increase further in the future. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our business is subject to fluctuations, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.”

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

As an ADS holder, you will be required to pay the following fees under the terms of the deposit agreement:

<u>Service</u>	<u>Fees</u>
• Issuance of ADSs (e.g., an issuance of ADS upon a deposit of Class A common shares, upon a change in the ADS(s)-to-Shares ratio, or for any other reason), excluding ADS issuances as a result of distributions of Class A common shares	Up to U.S. 50 per ADS issued
• Cancellation of ADSs (e.g., a cancellation of ADSs for delivery of deposited property, upon a change in the ADS(s)-to-Shares ratio, or for any other reason)	Up to U.S. 50 per ADS canceled
• Distribution of cash dividends or other cash distributions (e.g., upon a sale of rights and other entitlements)	Up to U.S. 50 per ADS held
• Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs	Up to U.S. 50 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs (e.g., upon a spin-off)	Up to U.S. 50 per ADS held
• ADS Services	Up to U.S. 50 per ADS held on the applicable record date(s) established by the depositary
• Registration of ADS transfers (e.g., upon a registration of the transfer of registered ownership of ADSs, upon a transfer of ADSs into DTC and vice versa, or for any other reason)	Up to U.S. 50 per ADS (or fraction thereof) converted
• Conversion of ADSs of one series for ADSs of another series (e.g., upon conversion of Partial Entitlement ADSs for Full Entitlement ADSs, or upon conversion of Restricted ADSs (each as defined in the Deposit Agreement) into freely transferable ADSs, and <i>vice versa</i>).	Up to U.S. 50 per ADS (or fraction thereof) transferred

As an ADS holder you will also be responsible to pay certain charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- the registration fees as may from time to time be in effect for the registration of Class A common shares on the share register and applicable to transfers of Class A common shares to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;
- certain cable, telex and facsimile transmission and delivery expenses;
- the fees, expenses, spreads, taxes and other charges of the depositary and/or service providers (which may be a division, branch or affiliate of the depositary) in the conversion of foreign currency;
- the reasonable and customary out-of-pocket expenses incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to Class A common shares, ADSs and ADRs; and the fees, charges, costs and expenses incurred by the depositary, the custodian, or any nominee in connection with the ADR program.

ADS fees and charges for (i) the issuance of ADSs, and (ii) the cancellation of ADSs are charged to the person for whom the ADSs are issued (in the case of ADS issuances) and to the person for whom ADSs are canceled (in the case of ADS cancellations). In the case of ADSs issued by the depositary into DTC, the ADS issuance and cancellation fees and charges may be deducted from distributions made through DTC, and may be charged to the DTC participant(s) receiving the ADSs being issued or the DTC participant(s) holding the ADSs being cancelled, as the case may be, on behalf of the beneficial owner(s) and will be charged by the DTC participant(s) to the account of the applicable beneficial owner(s) in accordance with the procedures and practices of the DTC participants as in effect at the time. ADS fees and charges in respect of distributions and the ADS service fee are charged to the holders as of the applicable ADS record date. In the case of distributions of cash, the amount of the applicable ADS fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the ADS service fee, holders as of the ADS record date will be invoiced for the amount of the ADS fees and charges and such ADS fees and charges may be deducted from distributions made to holders of ADSs. For ADSs held through DTC, the ADS fees and charges for distributions other than cash and the ADS service fee may be deducted from distributions made through DTC, and may be charged to the DTC participants in accordance with the procedures and practices prescribed by DTC and the DTC participants in turn charge the amount of such ADS fees and charges to the beneficial owners for whom they hold ADSs. In the case of (i) registration of ADS transfers, the ADS transfer fee will be payable by the ADS Holder whose ADSs are being transferred or by the person to whom the ADSs are transferred, and (ii) conversion of ADSs of one series for ADSs of another series, the ADS conversion fee will be payable by the Holder whose ADSs are converted or by the person to whom the converted ADSs are delivered.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder. Certain depositary fees and charges (such as the ADS services fee) may become payable shortly after the closing of the ADS offering. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

Fees and Other Payments Made by the Depositary to Us

The depositary may reimburse us for certain expenses incurred by us in respect of the ADR program, by making available a portion of the ADS fees charged in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary agree from time to time.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS MATERIAL Modifications to the Rights of Security Holders

See “Item 10—Additional Information—B. Memorandum and Articles of Association—Common Shares” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File number: 333-233614) in relation to the initial public offering of 5,250,000 ADSs representing 105,000,000 of our Class A common shares, at an initial offering price of US\$10.5 per ADS. Our initial public offering closed in February 2020. Citigroup Global Markets Inc. and China International Capital Corporation Hong Kong Securities Limited were the representatives of the underwriters for our initial public offering. Counting in the ADSs sold upon the partial exercise of the over-allotment option by our underwriters, we offered and sold 5,322,453 ADSs and received net proceeds of approximately US\$47.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. The registration statement was declared effective by the SEC on February 11, 2020. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates. As of December 31, 2021, we had used approximately 40% of the net proceeds from our initial public offering. We still intend to use the proceeds from our initial public offering as disclosed in our registration statement on Form F-1.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Based upon that evaluation, our management has concluded that, due to the outstanding material weakness described below, as of December 31, 2021, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and co-chief financial officers, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company’s assets that could have a material effect on the consolidated financial statements.

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

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management, including our chief executive officer and co-chief financial officers, assessed the effectiveness of internal control over financial reporting as of December 31, 2021 using the criteria set forth in the report “Internal Control—Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the management concluded that our internal control over financial reporting was ineffective as of December 31, 2021 because of the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified relates to lack of sufficient and competent financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to formalize key controls over financial reporting and to prepare consolidated financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements.

We have implemented and plan to implement a number of measures to address the material weakness, including: (i) recruiting more financial reporting and accounting personnel who have adequate U.S. GAAP knowledge, (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel. During the year ended December 31, 2021, we arranged formal training sessions related to recent U.S. GAAP development and SEC reporting updates for our accounting and financial reporting personnel; in addition, our key personnel in the financial reporting team has started to prepare to take the AICPA examinations; (iii) planning to hire additional resources to strengthen the financial reporting function and set up a financial and system control framework, and (iv) establishing effective oversight and clarifying reporting requirements for non-recurring and complex transactions to ensure consolidated financial statements and related disclosures are accurate, complete and in compliance with U.S. GAAP and SEC reporting requirements. However, we cannot assure you that we will remediate our material weakness in a timely manner, or at all. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results.”

As a company with less than US\$1.07 billion in revenue for our last fiscal year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, in the assessment of the emerging growth company’s internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting as we qualify as an “emerging growth company” under section 3(a) of the Securities Exchange Act of 1934, as amended, and are therefore exempt from the attestation requirement.

Changes in Internal Control

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Bin Wei, a member of our audit committee and independent director (under the standards set forth in Nasdaq Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act), is an audit committee financial expert.

ITEM 16.B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of our company, whether they work for the Company on a full-time, part-time, consultative or temporary basis. We have filed our code of business conduct and ethics as Exhibit 99.1 to our registration statement on Form F-1 (File Number 333-199996), as amended, initially filed with the SEC on September 4, 2019.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by the categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP and its affiliates, our principal external auditors, for the years indicated. We did not pay any other fees to our principal external auditors during the years indicated below.

	For the Year Ended December 31,	
	2020	2021
	(in thousands of RMB)	
Audit-related fees ⁽¹⁾	5,730	5,150
Tax fees ⁽²⁾	150	150
All other fees ⁽³⁾	—	650
Total	5,880	5,950

Note:

- (1) "Audit fees" means the aggregate fees billed for professional services rendered by our principal external auditors for the audits of our annual financial statements and the quarterly reviews of our condensed consolidated financial information.
- (2) "Tax fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal external auditors for tax compliance, tax advice, and tax planning.
- (3) "All other fees" means the aggregate fees billed for professional services rendered by our principal external auditors associated with other advisory services.

The policy of our audit committee is to pre-approve all audit and other service provided by PricewaterhouseCoopers Zhong Tian LLP and its affiliates, including audit services, tax services and other services described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

ITEM 16.D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On April 15, 2020, our board of directors authorized a share repurchase program under which we may repurchase up to US\$10 million of our outstanding American depository shares over the next 12 months, subject to relevant rules under the Securities Exchange Act of 1934, as amended, and our insider trading policy. The share repurchases may be made from time to time in the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. Our board of directors will review the share repurchase program periodically and may authorize adjustment of its terms and size. We expect to fund repurchases made under this program from our existing funds.

The table below summarizes the repurchases we made in the periods indicated.

<u>Month</u>	<u>Total Number of Ordinary Shares Purchased</u>	<u>Average Price Paid Per Ordinary Share (US\$)</u>	<u>Total Number of Ordinary Shares Purchased as Part of Share Repurchase Program</u>	<u>Approximate Dollar Value of Ordinary Shares that May Yet Be Purchased Under Share Repurchase Program (US\$, in millions)</u>
January 2021	—	—	—	—
February 2021	—	—	—	—
March 2021	106,734	9.369	106,734	—
April 2021	—	—	—	—
May 2021	—	—	—	—
June 2021	—	—	—	—
July 2021	—	—	—	—
August 2021	—	—	—	—
September 2021	—	—	—	—
October 2021	—	—	—	—
November 2021	—	—	—	—
December 2021	—	—	—	—

ITEM 16.F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16.G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to Nasdaq’s corporate governance requirements. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from Nasdaq’s corporate governance requirements. We have relied on the exemption available to foreign private issuers for the requirement under Nasdaq Rule 5635(c) that shareholders’ approval must be obtained prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or when other equity compensation arrangement is to be made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants. We elected to follow our home country practice and did not obtain shareholders’ approval for the material amendment to our 2019 Plan. If we continue to rely on this and other exemptions available to foreign private issuers in the future, our shareholders may be afforded less protection than they otherwise would under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks relating to our ADSs and Trading Market—As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq listing standards.”

ITEM 16.H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16.I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 16. FINANCIAL STATEMENTS

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

ITEM 17. FINANCIAL STATEMENTS

The consolidated financial statements of Huize Holding Limited are included at the end of this annual report.

ITEM 18. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)
2.2	Registrant's Specimen Certificate for Class A common shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
2.3	Deposit Agreement, dated as of February 11, among the Registrant, Citibank N.A., as the depository, and all holders and beneficial owners of the American Depositary Shares issued thereunder (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-238148), filed with the SEC on May 11, 2020)
2.4	Shareholders Agreement between the Registrant and other parties thereto dated June 6, 2019 (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
2.5	Description of Securities (incorporated herein by reference to Exhibit 2.5 to the annual report on Form 20-F (File No. 001-39216) filed with the SEC on April 24, 2020)
4.1	Global Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
4.2	2019 Share Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
4.3	Form of Indemnification Agreement, between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)
4.5	English translation of executed Exclusive Business Cooperation Agreement among our WFOE, the VIE and its shareholders (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)

Table of Contents

4.6	<u>English translation of form of executed Power of Attorney signed by shareholders of the VIE (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)</u>
4.7	<u>English translation of executed Equity Pledge Agreement among our WFOE, the VIE and its shareholders (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)</u>
4.8	<u>English translation of executed Exclusive Option and Equity Custody Agreement among our WFOE, the VIE and its shareholders (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)</u>
8.1*	<u>Principal Subsidiaries of the Registrant</u>
11.1	<u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-233614), as amended, initially filed with the SEC on September 4, 2019)</u>
12.1*	<u>CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.3*	<u>CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.3**	<u>CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of PricewaterhouseCoopers Zhong Tian LLP</u>
15.2*	<u>Consent of Commerce & Finance Law Offices</u>
101.INS*	Inline XBRL Instance Document—this instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Huize Holding limited

By: /s/ Cunjun Ma

Name: Cunjun Ma

Title: Chairman of the Board of Directors and Chief
Executive Officer

Date: April 27, 2022

HUIZE HOLDING LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm (PCAOB ID: 1424)	F-2
Consolidated Balance Sheets as of December 31, 2020 and 2021	F-3
Consolidated Statements of Comprehensive Income/(Loss) for the Years Ended December 31, 2019, 2020 and 2021	F-7
Consolidated Statements of Changes in Shareholders' (Deficit)/Equity for the Years Ended December 31, 2019, 2020 and 2021	F-9
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2020 and 2021	F-12
Notes to the Consolidated Financial Statements	F-14

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Huize Holding Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Huize Holding Limited and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income/(loss), of changes in shareholders’ (deficit)/equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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 of these consolidated financial statements 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 consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers Zhong Tian LLP
Shenzhen, the People’s Republic of China
April 27, 2022

We have served as the Company’s auditor since 2018.

HUIZE HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except share data, or otherwise noted)

	Note	As of December 31,	As of December 31,	
		2020	2021	US\$ Note 2(f)
		RMB	RMB	
Assets				
Current assets				
Cash and cash equivalents	2(g)	404,618	381,158	59,812
Restricted cash (including amounts of the consolidated VIE of RMB 217,950 thousand and RMB 127,315 thousand as of December 31, 2020 and 2021, respectively)	2(h)	324,330	183,408	28,781
Contract assets	2(y)	216	—	—
Accounts receivable, net of allowance for doubtful accounts	2(i), 5	232,589	777,262	121,969
Insurance premium receivables (including amounts of the consolidated VIE of RMB 1,974 thousand and RMB 1,217 thousand as of December 31, 2020 and 2021, respectively)	2(j)	1,974	1,217	191
Amounts due from related parties	6	251	128	20
Prepaid expense and other receivables	7	44,377	77,511	12,163
Total current assets		<u>1,008,355</u>	<u>1,420,684</u>	<u>222,936</u>
Non-current assets				
Restricted cash (including amounts of the consolidated VIE of RMB nil and RMB 24,680 thousand as of December 31, 2020 and 2021, respectively)	2(h)	—	44,418	6,970
Property, plant and equipment, net	8	10,251	48,461	7,605
Intangible assets, net	9	2,030	21,626	3,394
Deferred tax assets	14	605	605	95
Long-term investments	2(q), 10	46,084	73,001	11,456
Operating lease right-of-use assets	2(t), 24	267,352	247,819	38,888
Goodwill	2(o)	461	461	72
Other assets	7	838	379	59
Total non-current assets		<u>327,621</u>	<u>436,770</u>	<u>68,539</u>
Total assets		<u>1,335,976</u>	<u>1,857,454</u>	<u>291,475</u>

HUIZE HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

	Note	As of December 31,	As of December 31,	
		2020	2021	US\$
		RMB	RMB	Note 2(f)
Liabilities and Shareholders' Equity				
Current liabilities				
Short-term borrowings (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 31,540 thousand and RMB 216,710 thousand as of December 31, 2020 and 2021, respectively)	2(r), 11	31,540	216,710	34,007
Accounts payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 227,532 thousand and RMB 680,183 thousand as of December 31, 2020 and 2021, respectively)	2(z)	227,532	680,369	106,765
Insurance premium payables (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 187,219 thousand and RMB 124,019 thousand as of December 31, 2020 and 2021, respectively)		187,219	124,019	19,461
Contract liabilities (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB nil and RMB 2,681 thousand as of December 31, 2020 and 2021, respectively)	2(y)	—	7,236	1,135
Other payables and accrued expenses (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 39,419 thousand and RMB 207,461 thousand as of December 31, 2020 and 2021, respectively)	12	31,153	71,255	11,181
Payroll and welfare payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 52,564 thousand and RMB 92,094 thousand as of December 31, 2020 and 2021, respectively)		63,919	93,451	14,665
Income taxes payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 2,440 thousand and RMB 2,440 thousand as of December 31, 2020 and 2021, respectively)	14	2,440	2,440	383
Operating lease liabilities (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 12,763 thousand and RMB 12,362 thousand as of December 31, 2020 and 2021, respectively)	2(t), 24	12,763	14,886	2,336
Amounts due to related parties (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB nil and RMB 11,875 thousand as of December 31, 2020 and 2021, respectively)	6	—	11,875	1,863
Total current liabilities		<u>556,566</u>	<u>1,222,241</u>	<u>191,796</u>

HUIZE HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

	Note	As of December 31, 2020	As of December 31, 2021	
		RMB	RMB	US\$ Note 2(f)
Non-current liabilities				
Long-term borrowings (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 53,860 thousand and RMB 20,000 thousand as of December 31, 2020 and 2021, respectively)	2(r), 15	53,860	20,000	3,138
Deferred tax liabilities (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 605 thousand and RMB 4,455 thousand as of December 31, 2020 and 2021, respectively)	14	605	4,892	768
Operating lease liabilities (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB 252,106 thousand and RMB 245,396 thousand as of December 31, 2020 and 2021, respectively)	2(t), 24	252,106	249,183	39,102
Payroll and welfare payable (including amounts of the consolidated VIE and its subsidiaries without recourse to the Company of RMB nil both as of December 31, 2020 and 2021, respectively)		4,156	225	35
Total non-current liabilities		<u>310,727</u>	<u>274,300</u>	<u>43,043</u>
Total liabilities		<u>867,293</u>	<u>1,496,541</u>	<u>234,839</u>

HUIZE HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

	Note	As of December 31, 2020	As of December 31, 2021	
		RMB	RMB	US\$ Note 2(f)
Liabilities and Shareholders' Equity (Continued)				
Commitments and contingencies	25			
Shareholders' equity				
Class A common shares (US\$0.00001 par value; 7,000,000,000 shares authorized as of December 31, 2020 and 2021, respectively; 894,456,046 shares issued as of December 31, 2020 and 2021, respectively; 888,506,366 shares and 886,166,726 shares outstanding as of December 31, 2020 and 2021, respectively)	16	62	62	10
Class B common shares (US\$0.00001 par value; 800,000,000 shares authorized as of December 31, 2020 and 2021, respectively; 150,591,207 shares issued and outstanding as of December 31, 2020 and 2021, respectively)	16	10	10	2
Treasury stock (896,180 shares and 3,436,860 shares as of December 31, 2020 and 2021, respectively)	16	(2,063)	(9,545)	(1,498)
Additional paid-in capital		884,920	896,772	140,723
Accumulated other comprehensive loss		(21,972)	(27,295)	(4,283)
Accumulated deficit		(392,274)	(499,940)	(78,451)
Total shareholders' equity attributable to Huize Holding Limited shareholders		<u>468,683</u>	<u>360,064</u>	<u>56,503</u>
Non-controlling interests		—	849	133
Total shareholders' equity		<u>468,683</u>	<u>360,913</u>	<u>56,636</u>
Total liabilities and shareholders' equity		<u>1,335,976</u>	<u>1,857,454</u>	<u>291,475</u>

The accompanying notes form an integral part of these consolidated financial statements.

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(All amounts in thousands, except share data, or otherwise noted)

	Note	Year Ended December 31,			
		2019	2020	2021	
		RMB	RMB	RMB	USDS Note 2(f)
Operating revenue					
Brokerage income	2(y), 19	982,124	1,215,434	2,232,253	350,289
Other income		11,195	4,788	12,763	2,003
Total operating revenue		<u>993,319</u>	<u>1,220,222</u>	<u>2,245,016</u>	<u>352,292</u>
Operating costs and expenses					
Cost of revenue	2(z)	(629,531)	(813,507)	(1,688,087)	(264,898)
Other cost		(1,837)	(2,846)	(2,670)	(419)
Total operating costs		<u>(631,368)</u>	<u>(816,353)</u>	<u>(1,690,757)</u>	<u>(265,317)</u>
Selling expenses	20	(164,665)	(230,438)	(350,573)	(55,012)
General and administrative expenses	21	(161,816)	(150,207)	(197,619)	(31,011)
Research and development expenses		(33,831)	(49,135)	(120,478)	(18,906)
Total operating costs and expenses		<u>(991,680)</u>	<u>(1,246,133)</u>	<u>(2,359,427)</u>	<u>(370,246)</u>
Operating income/(loss)		<u>1,639</u>	<u>(25,911)</u>	<u>(114,411)</u>	<u>(17,954)</u>
Other income/(expenses)					
Interest expenses		(190)	(1,157)	(3,206)	(503)
Unrealized exchange income/(loss)		362	(9)	(59)	(9)
Investment income/(loss)	22	718	137	(5,328)	(836)
Others, net		12,676	10,177	12,627	1,981
Profit/(loss) before income tax, and share of (loss)/income of equity method investee		<u>15,205</u>	<u>(16,763)</u>	<u>(110,377)</u>	<u>(17,321)</u>
Income tax expense	14	(57)	(1,768)	—	—
Share of (loss) /income of equity method investee		(180)	239	2,660	417
Net profit/(loss)		<u>14,968</u>	<u>(18,292)</u>	<u>(107,717)</u>	<u>(16,904)</u>
Net profit/(loss) attributable to non-controlling interests					
		66	—	(51)	(8)
Net profit/(loss) attributable to Huize Holding Limited		<u>14,902</u>	<u>(18,292)</u>	<u>(107,666)</u>	<u>(16,896)</u>
Redeemable preferred shares redemption value accretion	17	(32,854)	(4,274)	—	—
Allocation to redeemable preferred shares		(7,431)	1,074	—	—
Net loss attributable to common shareholders		<u>(25,383)</u>	<u>(21,492)</u>	<u>(107,666)</u>	<u>(16,896)</u>
Net profit/(loss)		<u>14,968</u>	<u>(18,292)</u>	<u>(107,717)</u>	<u>(16,904)</u>
Foreign currency translation adjustment, net of tax		140	(22,386)	(5,323)	(835)
Comprehensive income/(loss)		<u>15,108</u>	<u>(40,678)</u>	<u>(113,040)</u>	<u>(17,739)</u>

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(All amounts in thousands, except share data, or otherwise noted)

	Note	Year Ended December 31,			
		2019	2020	2021	
		RMB	RMB	RMB	USDS Note 2(f)
Comprehensive income/(loss) attributable to non-controlling interests		87	—	(51)	(8)
Comprehensive income/(loss) attributable to Huize Holding Limited		15,021	(40,678)	(112,989)	(17,731)
Weighted average number of common shares used in computing net profit per share					
Basic and diluted	23	452,445,068	963,817,614	1,021,861,206	1,021,861,206
Net loss per share attributable to common shareholders					
Basic and diluted	23	(0.06)	(0.02)	(0.11)	(0.02)

The accompanying notes form an integral part of these consolidated financial statements.

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(All amounts in thousands, except share data, or otherwise noted)

	Common shares		Additional paid-in capital RMB	Accumulated other comprehensive (income)/ loss RMB	Accumulated deficit RMB	Non- Controlling interest RMB	Total shareholders' (deficit)/equity RMB
	Share	Amount RMB					
Balance at 1 January 2019	445,272,000	31	2,778	295	(388,884)	542	(385,238)
Net profit for the year	—	—	—	—	14,902	66	14,968
Share-based payment compensation	18	38,038,373	2	94,958	—	—	94,960
Redeemable preferred shares redemption value accretion	17	—	—	(32,854)	—	—	(32,854)
Foreign currency translation	—	—	—	119	—	21	140
Others	—	—	—	—	—	(629)	(629)
Balance at 31 December 2019	<u>483,310,373</u>	<u>33</u>	<u>64,882</u>	<u>414</u>	<u>(373,982)</u>	<u>—</u>	<u>(308,653)</u>

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(All amounts in thousands, except share data, or otherwise noted)

	Common shares		Class A Common shares		Class B Common shares		Treasury Shares	Stock	Additional paid-in capital	Accumulated other comprehensive (income)/ loss	Accumulated deficit	Non-Controlling interest	Total shareholders' (deficit)/equity
	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB							
Balance at 1 January 2020	483,310,373	33	—	—	—	—	—	—	64,882	414	(373,982)	—	(308,653)
Net loss for the year	—	—	—	—	—	—	—	—	—	—	(18,292)	—	(18,292)
Issuance of common shares upon Initial Public Offering ("IPO")	16	—	105,000,000	7	—	—	—	—	324,208	—	—	—	324,215
Shares issued upon exercise of over-allotment option	16	—	1,449,060	1	—	—	—	—	4,851	—	—	—	4,852
Re-designation of common shares into Class A common shares and Class B common shares	16	(483,310,373)	(33)	332,719,166	23	150,591,207	10	—	—	—	—	—	—
Conversion and re-designation of redeemable preferred shares into Class A common shares	17	—	—	450,046,220	31	—	—	—	458,870	—	—	—	458,901
Repurchase of Class A common shares	16	—	—	—	—	—	896,180	(2,063)	—	—	—	—	(2,063)
Shares issued upon exercise of option	18	—	—	188,100	—	—	—	—	503	—	—	—	503
Share-based payment compensation	18	—	—	—	—	—	—	—	35,880	—	—	—	35,880
Redeemable preferred shares redemption value accretion	17	—	—	—	—	—	—	—	(4,274)	—	—	—	(4,274)
Foreign currency translation	—	—	—	—	—	—	—	—	—	(22,386)	—	—	(22,386)
Balance at 31 December 2020	<u>—</u>	<u>—</u>	<u>889,402,546</u>	<u>62</u>	<u>150,591,207</u>	<u>10</u>	<u>896,180</u>	<u>(2,063)</u>	<u>884,920</u>	<u>(21,972)</u>	<u>(392,274)</u>	<u>—</u>	<u>468,683</u>

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(All amounts in thousands, except share data, or otherwise noted)

	Common shares		Class A Common shares		Class B Common shares		Treasury	Stock	Additional	Accumulated	Accumulated	Non-	Total
	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	paid-in capital	other comprehensive (income)/ loss	deficit	Controlling interest	shareholders' (deficit)/equity
									RMB	RMB	RMB	RMB	RMB
Balance at 1 January 2021	—	—	889,402,546	62	150,591,207	10	896,180	(2,063)	884,920	(21,972)	(392,274)	—	468,683
Net loss for the year	—	—	—	—	—	—	—	—	—	—	(107,666)	(51)	(107,717)
Repurchase of Class A common shares	16	—	—	—	—	—	2,540,680	(7,482)	—	—	—	—	(7,482)
Shares issued upon exercise of option	18	—	201,040	—	—	—	—	—	497	—	—	—	497
Share-based payment compensation	18	—	—	—	—	—	—	—	11,355	—	—	—	11,355
Set-up of subsidiaries with non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	900	900
Foreign currency translation	—	—	—	—	—	—	—	—	—	(5,323)	—	—	(5,323)
Balance at 31 December 2021	—	—	<u>889,603,586</u>	<u>62</u>	<u>150,591,207</u>	<u>10</u>	<u>3,436,860</u>	<u>(9,545)</u>	<u>896,772</u>	<u>(27,295)</u>	<u>(499,940)</u>	<u>849</u>	<u>360,913</u>

The accompanying notes form an integral part of these consolidated financial statements.

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands, except share data, or otherwise noted)

	Year Ended December 31			
	2019	2020	2021	
	RMB	RMB	RMB	USDS Note 2(f)
Cash flows from operating activities:				
Net profit/(loss)	14,968	(18,292)	(107,717)	(16,904)
Adjustments to reconcile net profit/(loss) to net cash provided by operating activities:				
Allowance for doubtful account	626	1,218	1,445	227
Depreciation and amortization	3,779	5,108	7,424	1,165
Unrealized exchange (income)/ loss	(362)	9	59	9
Share-based compensation expense	94,958	35,880	11,355	1,782
Interest expense	190	1,157	3,206	503
Investment (income)/loss	(718)	(137)	5,328	836
Share of loss/(income) of equity method investee	180	(239)	(2,660)	(417)
Deferred income tax	20	(466)	—	—
Amortization of right-of-use assets	—	8,408	32,941	5,169
Amortization of Directors and Officers Liability Insurance premium	—	6,127	7,798	1,224
Loss on disposal of Property, plant and equipment	—	44	(194)	(30)
	<u>113,641</u>	<u>38,817</u>	<u>(41,015)</u>	<u>(6,436)</u>
Changes in operating assets and liabilities:				
Increase in account receivables	(74,508)	(52,824)	(545,678)	(85,629)
Decrease in insurance premium receivables	6,814	355	757	119
Increase in prepaid expense and other receivables	(6,860)	(30,755)	(40,020)	(6,280)
Decrease in amounts due from related parties	10,266	29	123	19
Increase/(decrease) in amounts due to related party	465	(465)	11,875	1,863
Decrease/(increase) in other assets	(10,332)	—	—	—
Decrease/(increase) in contract assets	—	(216)	216	34
Increase in accounts payable	52,163	103,091	452,550	71,015
Increase/(decrease) in insurance premium payables	11,140	61,632	(63,200)	(9,917)
Increase in payroll and welfare payable	12,143	24,082	25,578	4,014
Increase in tax payable	37	2,234	—	—
Increase in other payables and accrued expenses	3,055	2,577	29,860	4,686
Decrease in operating lease liabilities	—	(10,891)	(14,199)	(2,228)
Increase in contract liabilities	—	—	7,236	1,135
Net cash provided by/(used in) operating activities	<u>118,024</u>	<u>137,666</u>	<u>(175,917)</u>	<u>(27,605)</u>
Cash flows from investing activities:				
Purchase of long-term investment	(2,000)	(22,450)	(33,614)	(5,275)
Purchase of property, equipment and intangible assets	(6,035)	(8,196)	(38,061)	(5,973)
Proceeds from disposal of property, equipment and intangible assets	60	—	980	154
Proceeds from disposal of investments	—	—	3,820	599
Acquisition of subsidiary, net of cash acquired	—	(569)	(14,292)	(2,243)
Others	1,048	137	241	38
Net cash used in investing activities	<u>(6,927)</u>	<u>(31,078)</u>	<u>(80,926)</u>	<u>(12,700)</u>
Cash flows from financing activities:				
Proceeds from borrowings	30,000	105,400	184,000	28,874
Repayments of borrowings	(35,285)	(61,266)	(40,503)	(6,356)
Repayments of convertible bonds	(8,794)	—	—	—
Proceeds from IPO, net of issuance costs	—	340,479	—	—
Repurchase of Class A common shares	—	(2,063)	(3,003)	(471)
Proceeds from exercise of share options	—	503	497	78
Cash received by subsidiaries from minority shareholders	—	—	900	141
Net cash (used in)/provided by financing activities	<u>(14,079)</u>	<u>383,053</u>	<u>141,891</u>	<u>22,266</u>
Effect of exchange rate changes on cash and cash equivalents	<u>38</u>	<u>(10,020)</u>	<u>(5,012)</u>	<u>(786)</u>
Net increase/(decrease) in cash and cash equivalents and restricted cash				
Total cash and cash equivalents and restricted cash at beginning of year	97,056	479,621	(119,964)	(18,825)
	<u>152,271</u>	<u>249,327</u>	<u>728,948</u>	<u>114,388</u>
Total cash and cash equivalents and restricted cash at end of year	<u>249,327</u>	<u>728,948</u>	<u>608,984</u>	<u>95,563</u>

HUIZE HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

	Year ended December 31			
	2019	2020	2021	USDS Note 2(f)
	RMB	RMB	RMB	
Supplemental disclosure of cash flow information				
Cash paid for interest	(2,094)	(4,386)	(7,813)	(1,226)
Cash paid for income tax	—	—	—	—
Supplemental disclosure of non-cash investing and financing activities				
Accretion on redeemable preferred shares to redemption value	(32,854)	(4,274)	—	—
Supplemental disclosure of non-cash operating activities				
Operating lease assets obtained in exchange for operating lease liabilities	—	270,256	13,400	2,103

The accompanying notes form an integral part of these consolidated financial statements.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share data, or otherwise noted)

1. Principal activities and reorganization

(a) History and Reorganization

The Group commenced its operation in August 2006 by Mr. Cunjun Ma (“the founder”). Subsequently in December 2014, March 2016 and July 2016, the Company completed Series A, Series B and Series B+ financing respectively, and issued redeemable preferred shares to certain third party investors. In July 2018, the Company issued a convertible bond to certain third party investors. In October 2018, the investors converted the bond into Series B++ redeemable preferred shares.

Huize Holding Limited (“Huize” or the “Company”) was incorporated on December 24, 2014 under the laws of the Cayman Islands. The Company commenced a reorganization (“Reorganization”) in preparation of an offshore listing by issuing 184,200,000 common shares and 98,900,000 redeemable preferred shares were issued to the three shareholders in 2014 and 2015 after the Company was established. In June 2015, Shenzhen Zhixuan was established as an indirect wholly foreign owned entity of the Company in the People’s Republic of China (the “PRC”).

In June 2019, the Group completed the Reorganization by issuing 261,072,000 common shares, 105,122,000 Series A redeemable preferred shares, 185,512,580 Series B redeemable preferred shares, 43,937,180 Series B+ redeemable preferred shares and 16,574,460 Series B++ redeemable preferred shares to the shareholders of Huiye Tianze. After such share issuance, the total number of shares outstanding equals to that of Huiye Tianze. However, since the Company is an offshore entity, all PRC investors are required to register with relevant PRC governmental authorities in order to hold equity interest in the Company. All shareholders, except for one shareholder that which owns 21.87% of Huiye Tianze, have completed the relevant registrations. 78.13% of the shareholders received shares of the Company. The 21.87% shares of the Company were issued to an offshore affiliate of that shareholder. Concurrently, the Company obtained control over Huiye Tianze through Shenzhen Zhixuan by entering into a series of contractual arrangements as described in note 2b. As a result, Huiye Tianze became a consolidated VIE of the Group. The Company determined that the Reorganization is a recapitalization and accordingly prepared its financial statements using the carryover basis of assets and liabilities of Huiye Tianze and its subsidiaries.

Accordingly, the Company became the ultimate holding company of Huiye Tianze and its subsidiaries, which is principally engaged in the provision of insurance brokerage services in the PRC. The Company and its consolidated subsidiaries and variable interest entities (“VIE”) are collectively referred to as the “Group”.

In February 2020, the Company completed its initial public offering (“IPO”) in Nasdaq Global Market. The initial public offering of an aggregate of 5,250,000 American depository shares (“ADS”), each presenting 20 class A common shares of the Company, was priced at US\$10.50 per ADS. On March 10, 2020, the underwriters have exercised part of their over-allotment option to purchase an additional 72,453 American Depository Shares of the Company at the IPO price of US\$10.50 per ADS. After giving effect to the exercise of the over-allotment option, the Company had issued and sold a total of 5,322,453 ADSs in the IPO, for total gross proceeds of approximately US\$55.9 million.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

1. Principal activities and reorganization (Continued)

(a) History and Reorganization (Continued)

As of December 31, 2021, the Company's principal subsidiaries, consolidated VIE and subsidiaries of VIE are as follows:

Principal Subsidiaries	Date of Incorporation/ Establishment	Place of Incorporation/ Establishment	Percentage of Direct or Indirect Economic Interest	Principal Activities
Smart Choice Ventures Limited (“Smart Choice”)	January 14, 2015	British Virgin Islands	100%	Investment holding
Hong Kong Smart Choice Ventures Limited (“HK Smart Choice”)	February 18, 2015	Hong Kong	100%	Investment holding
Zhixuan International Management Consulting (Shenzhen) Co., Ltd. (“Shenzhen Zhixuan”)	June 9, 2015	PRC	100%	Management consulting and marketing consulting
Huize Global (HK) Limited	March 26, 2021	Hong Kong	100%	Investment holding
Huize Hong Kong Insurance Broker Limited	May 5, 2021	Hong Kong	100%	Insurance brokerage service
VIE				
Shenzhen Huiye Tianze Investment Holding Co., Ltd (“Huiye Tianze”)	October 30, 2014	PRC	100%	Investment, investment consulting service
VIE's Principal Subsidiaries				
Huize Insurance Brokerage Co., Ltd. (“Huize Insurance Brokerage”)	October 14, 2011	PRC	100%	Insurance brokerage service
Shenzhen Huize Shidai Co., Ltd. (“Huize Technology”)	April 28, 2012	PRC	100%	Technology development and Internet information consulting service
Hefei Huize Internet Technology Co., Ltd. (“Hefei Huize”)	August 5, 2015	PRC	100%	Technology development and Internet information consulting service
Shenzhen Zhixuan Wealth Investment Management Co., Ltd. (“Zhixuan Investment”)	April 20, 2016	PRC	100%	Management consulting, investment consulting and financial consulting
Huize (Chengdu) Internet Technology Co., Ltd. (“Chengdu Huize”)	May 11, 2018	PRC	100%	Technology development consulting service

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies

(a) Basis of presentation

The Group's consolidated financial statements for the years ended December 31, 2019, 2020 and 2021 are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and related disclosures. Actual results may differ from those estimates. Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

As an emerging growth company, the Company elects to use the extended transition year for complying with new or revised financial accounting standards.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and a consolidated VIE, including the VIE's subsidiaries, for which the Company is the ultimate primary beneficiary.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

A consolidated VIE is an entity in which the Company, or its subsidiaries, through contractual arrangements, has the power to direct the activities that most significantly impact the entity's economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or one of its subsidiaries is the primary beneficiary of the entity.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

All transactions and balances among the Company, its subsidiaries, the VIE and the VIE's subsidiaries have been eliminated upon consolidation.

The following is a summary of the contractual agreements (collectively, "Contractual Agreements") between the Company's PRC subsidiary, Zhixuan and the VIE, Huiye Tianze. Through the Contractual Agreements, the VIE is effectively controlled by the Company.

Exclusive Business Cooperation Agreement: Under the exclusive business cooperation agreement, Zhixuan has the exclusive right to provide Huiye Tianze and its subsidiaries with technical support, consulting services and other services. Reciprocally, Huiye Tianze and its subsidiaries shall not accept any technical support, consulting services and other services from any third parties. In exchange, Zhixuan is entitled to receive a service fee from Huiye Tianze on a monthly basis and in an amount equal to all of its net income. Zhixuan owns the intellectual property rights arising out of the performance of the exclusive business cooperation agreement. Unless otherwise agreed by the parties, this agreement will remain effective for a maximum term allowed under PRC law and may be extended from time to time by Zhixuan at its determination.

Exclusive Option Agreement: Pursuant to the exclusive option agreement, Huiye Tianze and each of its subsidiaries have irrevocably granted Zhixuan an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion at any time, to the extent permitted under PRC law, all or part of their assets and business in the applicable entities. As for the consideration, the purchase price should be equal to the minimum price as permitted by PRC law.

Pursuant to the exclusive option agreements, each shareholder of Huiye Tianze has irrevocably granted Zhixuan an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion at any time, to the extent permitted under PRC law, all or part of their current and future shares in Huiye Tianze. As for the consideration, the purchase price should be equal to the minimum price as permitted by PRC law.

Share Pledge Agreements: Concurrent with the exclusive option agreements and pursuant to the share pledge agreements, the shareholders of Huiye Tianze have pledged all of their equity interest in Huiye Tianze as a continuing first priority security interest, as applicable, to respectively guarantee the VIE's performance of their obligations under the exclusive business cooperation agreement between Huiye Tianze and Zhixuan. If Huiye Tianze or any of its shareholders breach their contractual obligations under these agreements, Zhixuan, as pledgee, will be entitled to certain rights regarding the pledged equity interests. In the event of such breaches, Zhixuan's rights include forcing the disposition or sale of all or part of the pledged equity interests of the applicable VIE and receiving proceeds from such auction or sale in accordance with PRC law. Each of the shareholders of Huiye Tianze agrees that, during the term of the applicable share pledge agreement, such shareholder will not dispose of the pledged equity interests or create or allow creation of any encumbrance on the pledged equity interests without the prior written consent of Zhixuan. Zhixuan is entitled to all dividends declared by Huiye Tianze. Each share pledge agreement will remain effective until the applicable VIE discharges all its obligations under the exclusive business cooperation agreement.

Power of Attorney: Pursuant to each power of attorney, each shareholder of Huiye Tianze has irrevocably appointed Zhixuan to act as such shareholder's exclusive attorney-in-fact to exercise all shareholder rights, including the right to attend and vote on shareholder's meetings, appoint directors and executive officers and sell or dispose all or part of the equity interests owned by such shareholder in Huiye Tianze. Each power of attorney will remain in force for so long as the shareholder remains a shareholder of the applicable VIE.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The following table sets forth the assets, liabilities, results of operations and cash flows of Huiye Tianze and its subsidiaries, which are included in the Group's consolidated financial statements. Transactions between the VIE and its subsidiaries are eliminated in the balances presented below:

Selected Condensed Consolidated Balance Sheets Information

	As of	
	December 31, 2020 RMB	December 31, 2021 RMB
Assets		
Current assets		
Cash and cash equivalent	211,979	323,011
Restricted cash	217,950	127,315
Account receivables, net of allowance for impairment	232,589	777,055
Insurance premium receivables	1,974	1,217
Prepaid expense and other receivables	66,323	106,865
Total current assets	<u>730,815</u>	<u>1,335,463</u>
Non-current assets		
Restricted cash	—	24,680
Property, Plant and Equipment, net	10,217	47,800
Intangible assets, net	2,030	18,979
Deferred tax assets	605	605
Long-term investments	36,889	59,450
Operating lease right-of-use assets	267,352	241,880
Goodwill	461	461
Other Assets	838	379
Total non-current assets	<u>318,392</u>	<u>394,234</u>
Total assets	<u>1,049,207</u>	<u>1,729,697</u>
Liabilities and Shareholders' Equity		
Liabilities		
Short-term borrowings	31,540	216,710
Accounts payable	227,532	680,183
Insurance premium payables	187,219	124,019
Contract liabilities	—	2,681
Other payables and accrued expenses	39,419	207,461
Payroll and welfare payable	52,564	92,094
Income taxes payable	2,440	2,440
Operating lease liabilities	12,763	12,362
Amount due to related parties	—	11,875
Total current liabilities	<u>553,477</u>	<u>1,349,825</u>
Non-current liabilities		
Long-term borrowings	53,860	20,000
Deferred tax liabilities	605	4,455
Operating lease liabilities	252,106	245,396
Total non-current liabilities	<u>306,571</u>	<u>269,851</u>
Total liabilities	<u>860,048</u>	<u>1,619,676</u>
Shareholders' equity		
Common shares	44,766	44,766
Additional paid-in capital	462,858	460,157
Accumulated deficit	(318,465)	(395,751)
Total shareholders' equity attributable to Huize Holding Limited shareholders	<u>189,159</u>	<u>109,172</u>
Non-controlling interests	—	849
Total shareholders' equity	<u>189,159</u>	<u>110,021</u>
Total liabilities and shareholders' equity	<u>1,049,207</u>	<u>1,729,697</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

Selected Condensed Consolidated Statements of Income Information

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Operating revenue			
Brokerage commission income	973,715	1,215,434	2,231,388
Other income	11,195	4,560	11,494
Total operating revenue	<u>984,910</u>	<u>1,219,994</u>	<u>2,242,882</u>
Operating costs and expenses			
Cost of revenue	(622,906)	(813,507)	(1,687,770)
Other cost	(1,837)	(2,846)	(2,670)
Total operating costs	<u>(624,743)</u>	<u>(816,353)</u>	<u>(1,690,440)</u>
Selling expenses	(163,119)	(230,438)	(346,305)
General and administrative expenses	(153,324)	(136,921)	(172,822)
Research and development expenses	(33,831)	(49,135)	(120,478)
Total operating costs and expenses	<u>(975,017)</u>	<u>(1,232,847)</u>	<u>(2,330,045)</u>
Operating income/(loss)	<u>9,893</u>	<u>(12,853)</u>	<u>(87,163)</u>
Other income/(expenses)			
Interest expenses	(197)	(1,813)	(4,092)
Unrealized exchange income/(loss)	421	(421)	—
Investment income	—	137	(1,369)
Others, net	12,690	10,153	12,627
Profit before income tax, and share of (loss)/income of equity method investee	<u>22,807</u>	<u>(4,797)</u>	<u>(79,997)</u>
Income tax expense	(20)	(1,768)	—
Share of (loss)/income of equity method investee	(180)	239	2,660
Net profit/(loss)	<u>22,607</u>	<u>(6,326)</u>	<u>(77,337)</u>
Net profit/(loss) attributable to non-controlling interests	—	—	(51)
Net profit/(loss) attributable to Huize Holding Limited	<u>22,607</u>	<u>(6,326)</u>	<u>(77,286)</u>
Redeemable preferred shares redemption value accretion	—	—	—
Allocation to redeemable preferred shares	—	—	—
Net profit/(loss) attributable to common shareholders	<u>22,607</u>	<u>(6,326)</u>	<u>(77,286)</u>
Net profit/(loss)	<u>22,607</u>	<u>(6,326)</u>	<u>(77,337)</u>
Foreign currency translation adjustment, net of tax	—	—	—
Comprehensive income/(loss)	<u>22,607</u>	<u>(6,326)</u>	<u>(77,337)</u>
Comprehensive income/(loss) attributable to non-controlling interests	—	—	(51)
Comprehensive income/(loss) attributable to Huize Holding Limited	<u>22,607</u>	<u>(6,326)</u>	<u>(77,286)</u>

Selected Condensed Consolidated Cash Flows Information

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Net cash provided by/(used in) operating activities	<u>120,566</u>	<u>168,225</u>	<u>(152,844)</u>
Cash flows from investing activities:			
Purchase of long-term investment	(2,000)	(22,450)	(22,601)
Purchase of property, equipment and intangible assets	(6,035)	(8,162)	(37,359)
Proceeds from disposal of property, equipment and intangible assets	60	—	961
Acquisition of subsidiary, net of cash paid	—	(569)	(11,805)
Payments of inter-company balances	—	—	(5,050)
Proceeds from disposal of investments	—	—	890
Others	11	137	241
Net cash used in investing activities	<u>(7,964)</u>	<u>(31,044)</u>	<u>(74,723)</u>
Cash flows from financing activities:			
Proceeds from issuance of common share and redeemable preferred shares during Reorganization	(62)	—	—
Proceeds from borrowings	30,000	105,400	184,000
Repayments of borrowings	(35,285)	(61,266)	(40,503)
Repayments of convertible bonds	(8,794)	—	—
Proceeds from inter-company balances	—	—	128,000
Proceeds from exercise of share option	—	245	247
Cash received by subsidiaries from minority shareholders	—	—	900
Net cash (used in)/provided by financing activities	<u>(14,141)</u>	<u>44,379</u>	<u>272,644</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase in cash and cash equivalents and restricted cash	<u>98,461</u>	<u>181,560</u>	<u>45,077</u>
Total cash and cash equivalents and restricted cash at beginning of year	149,908	248,369	429,929
Total cash and cash equivalents and restricted cash at end of year	<u>248,369</u>	<u>429,929</u>	<u>475,006</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The significant portion of the total assets and total liabilities of Huiye Tianze and its subsidiaries approximate the amounts in the Group's consolidated financial statements.

Under the contractual arrangements with the VIE, the Company can have the assets transferred out of the VIE and VIE's subsidiaries, except for restricted cash and insurance premium receivables balance as disclosed on the balance sheet. Except for these two amounts, there is no other asset of the VIE that can only be used to settle obligations of the VIE and VIE's subsidiaries. Since the VIE are incorporated as limited liability companies under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Company. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIE. However, as the Company is conducting certain businesses through its VIE and VIE's subsidiaries, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

In the opinion of the Company's management, the contractual arrangements among its subsidiary, the VIE and their respective Nominee Shareholders are in compliance with current PRC laws and are legally binding and enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. In addition, shareholders of the VIE are PRC holding entities of certain pre-IPO shareholders of our company, including entities beneficially owned by Mr. Cunjun Ma, the chairman of our board of directors and our chief executive officer, who controls more than 50% of our total voting power. Therefore, the enforceability of the contractual agreements between us, the VIE and its shareholders depends on whether our shareholders or their PRC holding entities will fulfill these contractual agreements. There is a risk that the benefits of ownership between the Company and the VIE may not be aligned in the future. Given the significance and importance of the VIEs, there would be a significant negative impact to the Company if these contracts were not enforced.

In March 2019, the People's Congress of the PRC passed the Draft Foreign Investment Enterprises ("FIE") Law, which was released for public comment by the Ministry of Commerce ("MOFCOM") in January 2015. The newly passed FIE Law will go into effect in 2020. The FIE Law appears to include VIE within the scope of entities that could be considered to be FIEs, that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the FIE Law includes control through contractual arrangements within the definition of "actual control". These provisions regarding control through contractual arrangements could be construed to include the Group's contractual arrangements with its VIE, and as a result, the Group's VIE could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The FIE Law includes provisions that would exempt from the definition of FIEs where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The FIE Law is silent as to what type of enforcement action might be taken against existing VIE, that operates in restricted or prohibited industries and is not controlled by entities organized under PRC law or individuals who are PRC citizens. If the restrictions and prohibitions on FIEs included in the FIE Law are enacted and enforced in their current form, the Group's ability to use the contractual arrangements with its VIE and the Group's ability to conduct business through the VIE could be severely limited.

The Company's ability to control the VIE also depends on the power of attorney Zhixuan has to vote on all matters requiring shareholders' approvals in the VIE. As noted above, the Company believes these power of attorney are legally binding and enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure or the contractual arrangements with the VIE were found to be in violation of any existing PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict its operations;
- restrict the Group's right to collect revenues;
- block the Group's websites;
- require the Group to restructure its operations, re-apply for the necessary licenses or relocate the Group's businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

The imposition of any of these restrictions or actions may result in a material adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these restrictions causes the Group to lose the right to direct the activities of the VIE or the right to receive their economic benefits, the Group would no longer be able to consolidate the financial statements of the VIE. In the opinion of management, the likelihood of losing the benefits in respect of the Group's current ownership structure or the contractual arrangements with its VIE is remote.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(c) Business combinations and non-controlling interests

The Company 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 to the sellers, liabilities incurred by the Company and equity instruments issued by the Company. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured separately at their fair values 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of comprehensive income (loss). During the measurement period, which can be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Subsequent to the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any further adjustments are recorded in the consolidated statements of comprehensive income (loss).

When there is a change in ownership interests that result in a loss of control of a subsidiary, the Company deconsolidates the subsidiary from the date control is lost. Any retained non-controlling investment in the former subsidiary is measured at fair value and is included in the calculation of the gain or loss upon deconsolidation of the subsidiary.

For the Company’s majority-owned subsidiaries and VIE, a non-controlling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company. Consolidated net profit/(loss) in the consolidated statements of comprehensive income/(loss) includes the net (profit)/loss attributable to non-controlling interests, and common shareholders and redeemable preferred shareholders where applicable. The cumulative results of operations attributable to non-controlling interests are recorded as non-controlling interests in the Company’s consolidated balance sheets. Cash flows related to transactions with non-controlling interests are presented under financing activities in the consolidated statements of cash flows.

(d) Use of estimates

Financial statements amounts that reflect significant accounting estimates and assumptions mainly include, but are not limited to (i) allowance for doubtful accounts (losses of accounts receivable, insurance premium receivables and other receivables), (ii) valuation and forfeiture rate of share-based compensation arrangements, (iii) operating revenue and cost of revenue recognition, (iv) fair value of long-term investments, (v) useful life of property, plant and equipment and intangible assets, (vi) valuation of acquired assets and liabilities assumed, (vii) assessment for impairment of intangible assets, (viii) realizability of deferred tax assets, (ix) uncertainty tax position and (x) discount rate of lease liability. Actual results could materially differ from these estimates.

(e) Comprehensive Income and Foreign Currency Translation

The Group’s operating results are reported in the consolidated statements of comprehensive income/(loss) pursuant to FASB ASC Topic 220, “Comprehensive Income”. Comprehensive income consists of two components: net income and other comprehensive income (“OCI”). The Group’s OCI is comprised of gains and losses resulting from translating foreign currency financial statements of entities, of which functional currency is other than Renminbi (“RMB”) which is the reporting currency of the Group, net of related income taxes, where applicable. Such subsidiaries’ assets and liabilities are translated into RMB at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Adjustments that result from translating amounts from a subsidiary’s functional currency to the RMB (as described above) are reported net of tax, where applicable, in accumulated OCI in the consolidated balance sheets.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(f) Convenience translation

Translations of balances in the Group's consolidated balance sheets, consolidated statements of comprehensive income/(loss) and consolidated statements of cash flows from RMB into US\$ as of and for year ended December 31, 2021 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB 6.3726, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on the last trading day of 2021 (December 30, 2021). No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2021 or at any other rate.

(g) Cash and cash equivalents

Cash and cash equivalents consist of (1) cash on hand; (2) bank deposits and short-term, highly liquid investments, with original maturities of less than three months that are readily convertible to known amounts of cash, and have insignificant risk of changes in value related to changes in interest rates.

(h) Restricted cash

In its capacity as an insurance broker, the Group collects "premiums" (unremitted insurance premiums) from certain insureds and remits the "premiums" to the appropriate insurance companies. Unremitted insurance premiums are held in custody until disbursed by the Group. The Group reports such amounts as restricted cash in the consolidated balance sheets, and classify into current and non-current portion based on the length of restricted period. Unremitted insurance premiums were RMB 193,470 thousand and RMB 126,715 thousand (US\$ 19,884 thousand) as of December 31, 2020 and December 31, 2021, respectively. During the year ended December 31, 2020 and 2021, HK Smart Choice provided security for the loan of Huize Technology by pledged deposits. The amount of pledged deposits as of December 31, 2020 and 2021 were RMB 106,380 thousand and RMB 75,831 (US\$ 11,900 thousand), respectively. Also, restricted cash balance includes guarantee deposits are required by China Banking and Insurance Regulatory Commission ("CBIRC") in order to protect insurance premium appropriation by insurance broker. The restricted cash balance related to this requirement were RMB 24,480 thousand and RMB 25,280 (US\$ 3,967 thousand) as of December 31, 2020 and as of December 31, 2021.

(i) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable represent brokerage fees receivable from insurance companies. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable balance. The Group assesses the collectability of accounts receivable by determining the allowance percentage for the overdue balances by age. The Group makes allowance for the overdue balances of continuing cooperating insurance companies over 6 months and for the overdue balances of discontinuing cooperating insurance companies over 3 months.

(j) Insurance Premium Receivables

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

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(k) Fair value measurement

Fair value is 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 it 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 that may be used to measure fair value include:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Recurring

The Group's financial instruments are not measured at fair value in the consolidated balance sheets, but for which the fair value is estimated for disclosure purpose.

The carrying amount of cash and cash equivalents, restricted cash-current portion, accounts receivable, insurance premium receivables, amounts due from related parties, other receivables, accounts payable, insurance premium payables, other payables and amount due to related parties approximate their net carrying values reported in the consolidated balance sheets due to the short term maturities of these instruments. Restricted cash-non current portion, long-term borrowings and operating lease liabilities are measured at amortized cost using discounted rates reflected time value of money. As the market interest rate is relatively stable during the reporting period, the carrying values of restricted cash-non current portion and long-term borrowings approximated their fair values reported in the consolidated balance sheets. Investment accounted for at fair value are measured at fair value.

Non-recurring

The Group measures certain financial assets, including equity securities without readily determinable fair value and investments under equity method, at fair value on a non-recurring basis only if an impairment charge were to be recognized. The Group's non-financial assets such as property, equipment, software and licenses, would be measured at fair value only if they were determined to be impaired.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(l) Property, Plant and Equipment, net

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, if any. The table below sets forth the estimated useful life and residual value:

<u>Category</u>	<u>Estimated useful life</u>	<u>Residual value</u>
Office furniture and equipment	5~10 years	0%~5%
Computer and electronic equipment	3~5 years	0%~5%
Motor vehicles	4~5 years	5%
Leasehold improvements	shorter of remaining lease period and estimated useful life	Nil

Expenditures for maintenance and repairs are expensed as incurred. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation/amortization are removed from the accounts and any resulting gain or loss is recognized in consolidated statements of comprehensive income/(loss).

(m) Intangible assets, net

Intangible assets with an indefinite useful life represent the insurance brokerage license, insurance agency license and insurance adjusting license. Intangible assets with an indefinite useful life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

Intangible assets with finite lives represent domain name and purchased computer software. These intangible assets are amortized on a straight-line basis over their estimated useful lives of the respective assets. The table below sets forth the estimated useful life and residual value:

<u>Category</u>	<u>Estimated useful life</u>	<u>Residual value</u>
Domain name	10 years	0%
Purchased computer software	3~10 years	0%

(n) Impairment of long-lived assets and intangible assets

Long-lived assets including property, plant and equipment and intangible assets with indefinite lives and finite lives, are assessed for impairment, whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Group measures the carrying amount of long-lived assets against the estimated undiscounted future cash flows associated with it. Impairment exists when the estimated undiscounted future cash flows are 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. No impairment loss was recognized for the years ended December 31, 2019, 2020 and December 31, 2021.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(o) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired in a business combination. Impairment of goodwill assessment is performed on at least an annual basis on December 31 or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. According to ASC 350-20-35, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. The Group, however, selects proceed directly to perform a two-step goodwill impairment test. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in adjusting the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets, liabilities and goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of each reporting unit includes estimating future cash flows, determining appropriate discount rates, control premium, comparable companies' multipliers and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

(p) Asset acquisition

When the Company acquires other entities, if the assets acquired and liabilities assumed do not constitute a business, the transaction is accounted for as an asset acquisition. Assets are recognized based on the cost, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the Company's financial statements. The cost of a group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair value and does not give rise to goodwill.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(q) Long-term investments

(i) Equity investments accounted for using the equity method

In accordance with ASC 323 — “Investment — Equity Method and Joint Ventures”, the Group applies the equity method of accounting to equity investments, in common stock or in-substance common stock, over which it has significant influence but does not own a majority equity interests or otherwise control.

An investment in in-substance common stock is an investment that has risk and reward characteristics that are substantially similar to that entity’s common stock. The Group considers subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to one in that entity’s common stock.

Under the equity method, the Group initially records its investment at cost. The difference between the cost of the equity investment and the amount of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill or as an intangible asset as appropriate. The Group subsequently adjusts the carrying amount of the investment to recognize the Group’s proportionate share of each equity investee’s net income or loss into the consolidated statements of comprehensive income (loss) after the date of acquisition. When the Group’s share of losses in the equity investee equals or exceeds its interest in the equity investee, the Group does not recognize further losses, unless the Group has incurred obligations or made payments or guarantees on behalf of the equity investee, or the Group holds other investments in the equity investee.

The Group continually reviews its investment in equity investees under the equity method to determine whether a decline in fair value to 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 recent financing rounds.

The fair value determination, particularly for investments in early stage privately held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and the determination of whether any identified impairment is other-than-temporary. If any impairment is considered other-than-temporary, the Group writes down the asset to its fair value and takes the corresponding charge to the consolidated statements of comprehensive income (loss).

(ii) Investments accounted for at fair values

Securities with readily determinable fair values are measured at fair value. Equity securities accounted for at fair values include investments in i) marketable equity securities, which are publicly traded stock and ii) unlisted companies, for which the Company measures at fair value on a recurring basis. Pursuant to ASC 321, for equity investments measured at fair value with changes in fair value recorded in earnings, the Company does not assess whether those securities are impaired.

(iii) Equity investments measured at measurement alternative and NAV practical expedient

Private equity funds pursue various investment strategies. Investments in private equity funds generally are not redeemable due to the closed-ended nature of these funds. The private equity fund, over which the Group does not have the ability to exercise significant influence, is accounted for under the practical expedient in ASC Topic 820, Fair Value Measurements and Disclosures (“ASC 820”) to estimate fair value using the net asset value per share (or its equivalent) of the investment (“NAV practical expedient”).

For investments in an investee over which the Group does not have significant influence and which do not have readily determinable fair value and do not qualify for NAV practical expedient, the Company elects to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes, in accordance with ASU 2016-01. Under this measurement alternative, changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer. For those equity investments that the Company elects to use the measurement alternative, the Company makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Company 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 Company recognizes an impairment loss in net income (loss) equal to the difference between the carrying value and fair value.

(r) Short-term and long-term borrowings

The Short-term and long-term borrowings represent the Group’s borrowings from commercial banks for our working capital. Short-term borrowings include borrowings with maturity terms shorter than one year and the current portion of the long-term borrowings.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(s) 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, and insurance premiums due but not yet collected from the insured.

(t) Lease

Before January 1, 2020, the Group adopted ASC Topic 840 (“ASC 840”), Leases, and each lease is classified at the inception date as either a capital lease or an operating lease.

The Group adopted ASU No. 2016-02, Leases (Topic 842) (“ASC 842”) from January 1, 2020, using the modified retrospective approach and applying the transition method which does not require adjustments to comparative periods nor require modified disclosures in the comparative periods. The Group has elected to apply “the package” of practical expedients afforded under ASC 842. Short-term leases have not been recorded on the balance sheet.

The Group determines if an arrangement is a lease or contains a lease at lease inception. For 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 on the consolidated balance sheets at commencement date. As most of the Company’s leases do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Lease terms are determined after taking into account of rental escalation clauses, renewal options and/or termination options, if any. Lease expense is recorded in the consolidated statements of comprehensive income/(loss) on a straight-line basis over the lease term.

Upon adoption, the Group as the lessee of operating leases recognized ROU assets and lease liabilities (including current and non-current) for operating leases of approximately RMB5,504 thousand and RMB5,504 thousand, respectively, without any impact on the shareholder’s equity, as of January 1, 2020.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(u) Share-based Compensation

Employee share-based compensation

All forms of share-based payments to employees, including employee stock options, employee stock purchase plans restricted shares and shares award, are treated the same as any other form of compensation by recognizing the related cost in the consolidated statements of comprehensive income/(loss) in accordance with ASC 718, "Stock Compensation". In accordance with the guidance, the Company determines whether a share option should be classified and accounted for as a liability award or an equity award. 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. The fair value of a liability-classified award will be re-measured to an updated fair value at each reporting period until the award is settled. The compensation cost is recognized over the requisite service period, which is usually the vesting period. If an award requires satisfaction of performance and service conditions, compensation cost is recognized using graded vesting method. If an award requires only service condition, the Group will use straight line method. For liability-classified award, the Group will true up compensation cost at each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered.

For restricted shares granted with service conditions and performance conditions and a graded vesting features, share-based compensation expenses are recorded net of estimated forfeitures using graded vesting method during the requisite service period, such that expenses are recorded only for those share-based awards that are expected to ultimately vest. For share options granted with service condition and the occurrence of an IPO as performance condition, cumulative share-based compensation expenses for the options that have satisfied the service condition, amounting to RMB16,390 thousand, were recorded upon the completion of the IPO in 2020, the remaining share-based compensation expenses are recorded net of estimated forfeitures using graded-vesting method during the requisite service period.

The Group utilizes the binomial option pricing model to determine the fair value of share options, and determines the fair value of restricted share based on the fair value of the underlying common shares at the grant date considering the dilutive effect of restricted share.

(v) Fair Value of Redeemable Preferred Shares and Common Shares

Shares of the Company, which do not have quoted market prices, were valued based on the income approach. The income approach involves applying the discounted cash flow analysis based on projected cash flow using the Group's best estimate as of the valuation dates. Estimating future cash flow requires the Group to analyze projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. In determining an appropriate discount rate, the Group considered the cost of equity and the rate of return expected by venture capitalists. The Group also applied a discount for lack of marketability given that the shares underlying the award were not publicly traded at the time of grant. Determination of estimated fair value of the Group requires complex and subjective judgments due to its limited financial and operating history, unique business risks and limited public information on companies in China similar to the Group.

Option-pricing method was used to allocate enterprise value to redeemable preferred shares and common shares. The method treats redeemable preferred shares and common shares as call options on the enterprise's value, with exercise prices based on the redeemable preferred shares. The strike prices of the "options" based on the characteristics of the Group's capital structure, including number of shares of each class of common shares, seniority levels and redemption values for the redeemable preferred shares. The option-pricing method also involves making estimates of the volatility of the Group's equity securities. The anticipated timing is based on the plans of board of directors and management of the Group. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. Volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(w) Redeemable Preferred Shares and Convertible Bond

Accounting of Redeemable Preferred Shares

The Company classified the redeemable preferred shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain events outside of the Company's control. The redeemable preferred shares are recorded initially at fair value, net of issuance costs.

The Group determined that the redemption features do not require bifurcation as they either are clearly and closely related to the redeemable preferred shares or do not meet the definition of a derivative.

The Group has determined that there was no embedded beneficial conversion feature ("BCF") attributable to the redeemable preferred shares. In making this determination, the Group compared the initial effective conversion prices of the redeemable preferred shares and the fair values of the Group's common shares determined by the Group at the issuance dates. The initial effective conversion prices were greater than the fair values of the common shares to which the redeemable preferred shares are convertible into at the issuance dates.

Subsequently, the carrying amount is increased by periodic accretion, using the interest method, so that the carrying amount will equal to mandatory redemption amount on the redemption date.

Accounting of convertible bond

The Company determined convertible bond, which was classified as liabilities, initially at par under ASC 470 and subsequently stated at amortized cost plus accrued unpaid interest.

The Company has determined that there was a BCF as its conversion price is lower than the Company's stock price at the commitment date. The BCF was recognized as a discount to the convertible bond which was subsequently amortized as interest expenses using the effective interest method over the period from the issuance date to the maturity date.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(x) Employee Benefit Plans

As stipulated by the regulations of the PRC, the Group's subsidiaries and VIE 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/(loss) as they become payable in accordance with the rules of the above mentioned defined contribution plans.

(y) Revenue recognition

Revenue is the transaction price the Group expects to be entitled to in exchange for the promised services in a contract in the common course of the Group's activities and is recorded net of value-added tax ("VAT"). The services to be accounted for mainly include insurance brokerage and consulting services.

The Group has adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified ASC 606 on January 1, 2017.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the Group applies the following steps:

- Step 1: Identify the contract (s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under Topic 606, the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer is recognized as a contract asset. The Group recognizes a contract liability if the customer's payment of consideration precedes the Group's performance.

Insurance brokerage services

The primary source of revenues is commissions from insurance brokerage services, determined based on a percentage of premiums paid by insured. The brokerage fee rate, which is paid by the insurance companies, shall be based on the terms specified in the annual service contract with the insurance company for each product sold through the Group. The Group determines that the insurance company, or the insurer, is its customer in this agreement. Insurance brokerage services revenue is recognized when the signed insurance policy is in place and the premium is collected from the insured since the Company has fulfilled its performance obligation to sell an insurance policy on behalf of the insurance company.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(y) Revenue recognition (Continued)

The Group is also entitled to a performance bonus from insurance companies if the cumulative average monthly sales volume exceeds a predetermined level. Such bonus is determined at the end of each month and recognized as revenue.

Other services

The Group provides digital and technology development services to certain insurance companies. Upon the delivery of programs developed, the Group's performance obligation related to the technology service has been fully fulfilled. However, the timing of revenue recognition may differ from contract to contract based on whether performance obligations satisfy the criteria of recognizing revenue over time, in accordance with ASC 606. Since the deliverables usually do not have alternative use to the Group, revenue is recognized over time once there is an indicator that the Group has an enforceable right to payment for performance completed to date. Otherwise, the revenue is recognized at a point in time.

For cargo insurance products, in addition to the commission from brokerage service paid by the insurance companies, the Group also generates service fees from rendering consulting service to assist the insured to obtain such a cargo insurance policy. The Group determines that the insured is its customer in this consulting service arrangement. Upon successful purchase of cargo insurance products by the insured, the Group's performance obligation related to consulting service to the insured has been fully fulfilled, as such, revenue for those services is recognized when the insurance product has been purchased. While the insurance premium is set by the respective insurance companies, the consulting service fee is determined by the Group based on a percentage of insurance premium. Of the total contract price received from the insured, the amount equal to the premium of the cargo insurance product as agreed with insurance company is recorded as insurance premium payable while the remaining is recorded as revenue for the consulting service.

Value added tax

The Group is subject to value-added-tax ("VAT") on the revenues earned for services provided in the PRC. The applicable rate of value added tax is 6%. In the accompanying consolidated statements of comprehensive income/(loss), such VAT is excluded from net revenues.

(z) Cost of revenue

A large component of the Group's cost of revenue is channel cost, which is service fee paid to user traffic channels for successful sales, including social media influencers, emerging media channels and financial institutions. These user traffic channels have influences over their followers and users, who are potential insurance policyholders. Determination of channel cost is based on the service fee rate multiplied by the insurance premium sold. Channel cost is recognized in the year it incurred. The accounts payable represent channel cost payable to user traffic channels.

Another component of cost of revenue is payroll of insurance consultants, who are in charge of identifying and acquiring potential customers through providing advices related to insurance product.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(aa) Selling expenses

The Group records its marketing campaign expenses and loyalty points as selling expenses.

Marketing campaign expenses consist primarily of advertising and marketing promotion expenses. Advertising and marketing expenses, amounting to approximately RMB47,927 thousand, RMB71,472 thousand and RMB97,945 thousand for the years ended December 31, 2019, 2020 and 2021, respectively, are charged to the consolidated statements of comprehensive income/(loss) as incurred. Beside marketing campaign expenses, selling expenses consist of salaries and employment benefits for employees who work in brokerage service line, office rental, telecommunications and office supply expenses incurred in connection with sales activities.

The Group operates a loyalty program which offers points to its users. Such loyalty points can be used to redeem a variety of gifts and services that the Group purchased from third-party providers. Users have a variety of ways to obtain the points, such as signing up an account, inviting friends, and comment on the insurance product, etc. The Group accounts for such points as selling expenses with a corresponding liability recorded under other payables and accrued expenses of consolidated balance sheets upon the offering of these points. The Group estimates liabilities under the loyalty program based on cost of the gifts and services that can be redeemed taking into account estimated breakage. At the time of redemption, the Group records a reduction of other payables and accrued expenses.

(bb) General and Administrative Expenses

General and administrative expenses consist of payroll, rental, and related expenses for employees involved in general corporate functions, including finance, legal and human resources, as well as costs associated with use of facilities and equipment, such as depreciation expenses and other general corporate related expenses.

General and administrative expenses also include surcharges on VAT payments according to PRC tax.

(cc) Others, net

Others, net, mainly consist of non-operating income and expenses, such as government subsidies.

(dd) Taxation

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions.

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carry forwards and credits. 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. Current income taxes are provided in accordance with the laws of the relevant taxing authorities. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in which temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the consolidated statements of comprehensive income/(loss) in the year of the enactment of the change.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(dd) Taxation (Continued)

The Group considers positive and negative evidence when determining whether a portion or all of its deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods, its experience with unused accumulated tax loss, and its tax planning strategies. The ultimate realization of deferred tax assets is dependent upon its ability to generate sufficient future taxable income within the carry-forward periods provided for in the tax law and during the periods in which the temporary differences become deductible. When assessing the realization of deferred tax assets, the Group has considered possible sources of taxable income including (i) future reversals of existing taxable temporary differences, (ii) future taxable income exclusive of reversing temporary differences and loss carry-forwards, (iii) future taxable income arising from implementing tax planning strategies, and (iv) specific known trend of profits expected to be reflected within the industry.

The Group recognizes a tax benefit associated with an uncertain tax position when, in its judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, the Group initially and subsequently measures the tax benefit as the largest amount that the Group judges to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The Group's liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. The Group's effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management. The Group classifies interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense.

(ee) Net profit/(loss) per share

Basic loss per share is computed by dividing net profit/(loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year using the two-class method. Under the two-class method, net profit/(loss) is allocated between common shares and other participating securities based on their participating rights. Net profit/(loss) is not allocated to other participating securities if based on their contractual terms they are not obligated to share in the profit or loss. Diluted profit/(loss) per share is calculated by dividing net profit/(loss) attributable to common shareholders by the weighted average number of common and dilutive common equivalents shares outstanding during the year. Common equivalents shares consist of shares issuable upon the conversion of the redeemable preferred shares using the if-converted method, and shares issuable upon the exercise of share options using the treasury stock method. Common equivalents shares are not included in the denominator of the diluted profit/(loss) per share calculation when inclusion of such shares would be anti-dilutive.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(ff) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group determines that their chief executive officer (“CEO”) is the chief operating decision-maker.

The Group manages its business as a single operating segment engaged in the provision of insurance brokerage services in the PRC. Substantially all of its revenues are derived in the PRC. All long-lived assets are located in PRC.

(gg) Significant Risk and Uncertainties

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 RMB 247,354 thousand, RMB 429,970 thousand and RMB 481,589 thousand of cash and cash equivalents and restricted cash denominated in RMB as of December 31, 2019, 2020 and December 31, 2021, respectively.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(gg) Significant Risk and Uncertainties (Continued)

Concentration of Credit Risk

Details of the customers accounting for 10% or more of total operating revenue are as follows:

	Year Ended December 31					
	2019 RMB	%	2020 RMB	%	2021 RMB	%
Customer A	94,182	10%	32,347	3%	715,287	32%
Customer K	—	0%	292,975	24%	489,862	22%
Customer L	35,791	4%	152,296	12%	191,059	9%
Customer H	124,946	13%	67,823	6%	186,036	8%
Customer B	184,035	19%	97,624	8%	156,754	7%
Customer C	142,443	14%	63,179	5%	62,753	3%
Customer I	57,081	6%	157,750	13%	46,972	2%
	<u>638,478</u>	<u>66%</u>	<u>863,994</u>	<u>71%</u>	<u>1,848,723</u>	<u>83%</u>

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

	As of December, 31			
	2020 RMB	%	2021 RMB	%
Customer A	13,057	6%	464,289	60%
Customer H	—	0%	165,688	21%
Customer K	67,726	29%	32,702	4%
Customer L	38,040	16%	20,156	3%
	<u>118,823</u>	<u>51%</u>	<u>682,835</u>	<u>88%</u>

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

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

Interest rate risk

Fluctuations in market interest rates may negatively affect the Group's financial condition and results of operations. The Group have not been exposed to material risks due to changes in market interest rates as the borrowings held by the Group all bear interest at a fixed interest rate.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(hh) Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities that are U.S. SEC filers, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2022, and interim periods within fiscal years beginning after December 15, 2023. The Group is in the process of evaluating the impact of adoption of this guidance on the Group’s consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740)”. This standard simplifies the Accounting for Income Taxes, removes certain exceptions for recognizing deferred taxes for investments, performing intra period tax allocations and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating income taxes to members of a consolidated group. ASU 2019-12 is effective for annual periods beginning on January 1, 2021, with earlier adoption permitted. The Group has adopted the ASU on January 1, 2021. The adoption of ASU 2019-12 did not have a material impact on the Group’s consolidated financial statements.

In January 2020, the FASB issued ASU 2020-1, “investments—equity securities (Topic 321)”. The amendments in this update clarify the interaction of the accounting for equity securities under Topic 321 and investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with earlier adoption permitted. The Group intends to adopt the ASU on the effective date of January 1, 2022 and the impact of adopting this standard does not have a material impact on the Group’s consolidated financial statements.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

2. Summary of significant accounting policies (Continued)

(hh) Recent Accounting Pronouncements (Continued)

In March 2020, FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting”, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments are effective for all entities beginning on March 12, 2020, and the entity may elect to apply the amendments prospectively through December 31, 2022. The adoption did not have a material accounting impact on the Group’s consolidated financial position or results of operations.

In August 2020, the FASB issued ASU No. 2020-06, “Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40)”. The amendments in this update affect entities that issue convertible instruments and/or contracts indexed to and potentially settled in an entity’s own equity. The new ASU eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity’s own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. The amendments in the ASU are effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The standard is effective for EGCs for fiscal year beginning after December 15, 2023. The FASB also specified that an entity should adopt the guidance as of the beginning of its annual fiscal year and is not permitted to adopt the guidance in an interim period. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In November 2021, the FASB issued ASU No. 2021-10, “Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance”. The amendments in this update require the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy: i) Information about the nature of the transactions and the related accounting policy used to account for the transactions; ii) The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item; iii) Significant terms and conditions of the transactions, 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 Group is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

3. Fair Value measurement

The following tables set forth, by level within the fair value hierarchy, financial assets measured at fair value as of December 31, 2020 and 2021. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
	RMB	RMB	RMB	RMB
Investments accounted for at fair value				
Listed equity securities	840	—	—	840

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

4. Acquisitions of subsidiary*Asset acquisitions*

In 2021, the Group entered into purchase agreements with four companies to acquire 100% equity ownership for a total cash consideration of RMB13,759 thousand. One company holds an insurance adjusting license and the others hold insurance agency licenses.

The Group evaluated the acquisition of the purchased assets under ASC 805-Business Combination (ASC 805), and concluded that as substantially all of the fair value of the gross assets acquired is concentrated in an identifiable group of similar assets, the transaction did not meet the requirements to be accounted for as a business combination and therefore the transaction was accounted for as an asset acquisition.

The purchase price of the assets are as follows:

	As of December 31, 2021 RMB
Cash	1,954
Intangible assets — Insurance adjusting licenses	3,067
Intangible assets — Insurance agency licenses	12,336
Accounts receivable, net of allowance for doubtful accounts	37
Prepaid expense and other receivables	194
Property, plant and equipment, net	19
Intangible assets, net	30
Total assets acquired	17,637
Accounts payable	(3)
Payroll and welfare payable	(22)
Income taxes payable	(2)
Deferred tax liabilities	(3,851)
Total liabilities assumed	(3,878)
Net assets acquired	13,759

Business combinations

In May 2021, the Group completed a business combination to complement its existing businesses. Total cash consideration transferred for the acquisitions amounted to RMB 2,712 thousand. The purchase price allocated to the fair value of assets acquired and liabilities assumed were RMB 3,452 thousand and RMB 740 thousand, respectively. No goodwill was recognized in this acquisition.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

5. Accounts receivable, net of allowance for doubtful accounts

Account receivables, net of allowance for doubtful accounts by the Group consist of the following:

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Accounts receivable	234,313	780,431
Less: allowance for doubtful accounts	(1,724)	(3,169)
Accounts receivable, net	232,589	777,262

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

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Balance at the beginning of the year	1,127	1,724
Provision for doubtful accounts	709	1,445
Write-offs	(112)	—
Balance at the end of the year	1,724	3,169

6. Related party balances and transactions

The table below sets major related parties of the Group and their relationships with the Group:

Entity or individual name	Relationship with the Group
Cunjun Ma	Chief Executive Officer and Director of the Group
Individual Director or Officer	Directors or Officers of the Group
Shareholders and minority shareholders	Shareholders and minority shareholders
Xiaoke Huixuan (Shenzhen) Technology Co., Ltd. ("Xiaoke")	Company that the Group has significant influence on

Details of related party transactions for the years ended December 31, 2019, 2020 and 2021 are as follows:

Service provided by related parties:

	For the year ended December 31		
	2019	2020	2021
	RMB	RMB	RMB
Technology service fee to Xiaoke	—	—	11,609
Others	—	—	552
Total	—	—	12,161

Xiaoke provides technology service to the Company according to the cooperation agreement in 2021.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

6. Related party balances and transactions (Continued)

Details of related party balances as of December 31, 2020 and 2021 are as follows:

Amounts due from related parties:

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Shareholders	251	128
	<u>251</u>	<u>128</u>

The amount due from related parties represents the advance miscellaneous fees for shareholders.

Amounts due to related parties:

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Xiaoke		11,753
Others	—	122
	<u>—</u>	<u>11,875</u>

The amount due to Xiaoke represents the payable for technology service.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

7. Prepaid expenses and other receivables and other assets

Prepaid expenses and other receivables and other assets consist of the following, with current portion presented as Prepaid expenses and other receivables and non-current portion presented as other assets:

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Current portion:		
Prepaid input value-added tax	15,331	44,017
Rental and other deposits	11,285	14,532
Advances to suppliers	11,523	13,731
Interest receivables (a)	908	2,177
Advances to staff (b)	395	970
Directors and officers liability insurance premium	558	658
Claim advance on behalf of insurer	371	77
Advances to share repurchase	4,479	—
Others	117	1,939
	<u>44,967</u>	<u>78,101</u>
Less: Allowance for impairment	(590)	(590)
	<u>44,377</u>	<u>77,511</u>
Non-current portion:		
Prepayment related to investment	—	200
Advances to long-term assets	838	179
	<u>838</u>	<u>379</u>

(a) This represented accrued interest income on bank deposits.

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

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

8. Property, Plant and Equipment, net

Property, plant and equipment, net, consist of the following:

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Computer and electronic equipment	17,313	31,041
Leasehold improvements	4,958	27,238
Office furniture and equipment	2,820	10,755
Motor vehicles	2,360	2,443
Total	27,451	71,477
Less: Accumulated depreciation (1)	(17,200)	(23,016)
Property, equipment and equipment, net	10,251	48,461

- (1) Depreciation expenses for the years ended December 31, 2019, 2020 and 2021 were RMB 3,441 thousand, RMB 4,684 thousand and RMB 6,474 thousand, respectively.

No impairment for property, plant and equipment was recorded for the years ended December 31, 2019, 2020 and 2021.

9. Intangible assets, net

The intangible assets, net consisted of the following:

	As of	
	December 31, 2020	December 31, 2021
	RMB	RMB
Insurance agency license (note 4)	—	12,336
Insurance adjusting license (note 4)	—	3,067
Insurance brokerage license	—	2,647
Software and system	2,943	5,436
Domain name	580	580
Total	3,523	24,066
Less: Accumulated amortization (1)	(1,493)	(2,440)
Intangible assets, net	2,030	21,626

- (1) Amortization expenses for the years ended December 31, 2019, 2020 and 2021 was RMB 338 thousand, RMB 424 thousand and RMB 950 thousand, respectively.

No impairment for intangible assets was recorded for the years ended December 31, 2019, 2020 and 2021.

The amortization of the coming 5 years is:

	As of
	December 31, 2021
	RMB
2022	1,164
2023	1,051
2024	734
2025	445
2026	66

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

10. Long-term investments

	Equity investments measured under measurement alternative RMB	Equity Method RMB	Investment accounted for at fair value RMB	Equity investments measured under NAV practical expedient RMB	Total RMB
Balances at January 1, 2019	12,500	9,075	—	—	21,575
Additions	2,000	—	—	—	2,000
Share of earnings/(loss) of an equity investee	—	(180)	—	—	(180)
Balances at December 31, 2019	<u>14,500</u>	<u>8,895</u>	<u>—</u>	<u>—</u>	<u>23,395</u>
Balances at January 1, 2020	14,500	8,895	—	—	23,395
Additions	1,000	21,450	—	—	22,450
Share of earnings/(loss) of an equity investee	—	239	—	—	239
Reclassification	9,195	(9,195)	—	—	—
Balances at December 31, 2020	<u>24,695</u>	<u>21,389</u>	<u>—</u>	<u>—</u>	<u>46,084</u>
Balances at January 1, 2021	24,695	21,389	—	—	46,084
Additions	12,500	9,900	4,641	6,373	33,414
Share of earnings/(loss) of an equity investee	—	2,660	—	—	2,660
Fair value change	—	—	(1,339)	(2,885)	(4,224)
Realized gain/(loss)	—	—	265	—	265
Exchange adjustments	—	—	203	29	232
Impairment	(1,610)	—	—	—	(1,610)
Disposal	(890)	—	(2,930)	—	(3,820)
Balances at December 31, 2021	<u>34,695</u>	<u>33,949</u>	<u>840</u>	<u>3,517</u>	<u>73,001</u>

Equity method

As of December 31, 2019, 2020 and 2021, the Group's investments accounted for under the equity method were RMB 8,895 thousand, RMB 21,389 thousand and RMB 33,949 thousand respectively. The Group applies the equity method of accounting to account for its equity investments over which it has significant influence but does not own a majority equity interest or otherwise control.

During the year ended December 31, 2019, the Group's investment in Chuangbicheng decreased to 3.43% and no longer owns any seat on the board. However, as the Group contributed 34.87% of Chuangbicheng's revenue during the year ended December 31, 2019, the Group considered it still had significant influence over Chuangbicheng and used equity method to account for this investment. During the year ended December 31, 2020, the Group was granted redemption option in the investment in Chuangbicheng. The investment in Chuangbicheng no longer qualifies for accounting under the equity method and was then reclassified into equity investments measured under measurement alternative.

During the year ended December 31, 2020, the Group invested RMB 19,000 thousand in cash for 49.26% equity interest in a private equity fund, Nanjing Qiqian Alpha Equity Investment LLP. As the Group has significant influence over the private equity fund, the investment was accounted for using the equity method.

During the year ended December 31, 2021, the Group invested RMB 5,000 thousand in cash for 49% equity interest in a technology service company, Xiaoke, and RMB 4,900 thousand in cash for 47.62% equity interest in a private equity fund, Shanghai Dewu Chuxing Investment Management Partnership (Limited Partnership). As the Group has significant influence over these companies, the investments were accounted for using the equity method.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

Investment accounted for at fair value

The Group paid RMB2,665 thousand in cash to invest in private equity fund CCBT LANIAKEA CAPITAL FUND I L.P. in March 2021 and RMB1,976 thousand in cash in stock of Nayuki in June 2021. The Group elected the fair value option in accordance with ASC 825 to account for the investments and recognized the fair value change in its consolidated statements of comprehensive income/(loss). In May 2021, the Group sold the investment in CCBT LANIAKEA CAPITAL FUND I L.P. and recognized investment gain of RMB265 thousand. For the year ended December 31, 2021, the Group recognized a fair value loss of RMB1,339 thousand for the investment in the stock of Nayuki. No such investments during the years ended December 31, 2019 and 2020.

Equity investments measured under measurement alternative and NAV practical expedient

Equity investments without readily determinable fair values include investments in a private equity fund accounted for under NAV practical expedient, and investments in private companies accounted for under measurement alternative.

Investment in private equity funds over which the Group does not have the ability to exercise significant influence are accounted for under the NAV practical expedient. In March 2021, the Group paid RMB6,373 thousand in cash to invest in private investment fund of Right Time SPC. The Group does not have the ability to exercise significant influence and elect to account for the investment under the NAV practical expedient. During the year ended December 31, 2021, the Group recognized fair value loss of RMB2,885 thousand. No such investments during the years ended December 31, 2019 and 2020.

As of December 31, 2020 and 2021, the Group held investment in certain equity investments measured under measurement alternative. Impairment during the years ended December 31, 2019, 2020 and 2021 were nil, nil and RMB 1,610 thousand.

11. Short-term borrowing

	As of	
	December 31, 2020 RMB	December 31, 2021 RMB
Bank borrowings (1)	30,000	170,000
Current portion of long-term borrowings (note 15)	1,540	46,710
	31,540	216,710

- (1) The Group obtained short-term borrowings to support its operation. The borrowings bear interest 4.50% for the year ended December 31, 2020 and interest ranging from 4.30% to 5.00% for the year ended December 31, 2021.

12. Other payables and accrued expenses

Other payable and accrued expenses consist of the following:

	As of	
	December 31, 2020 RMB	December 31, 2021 RMB
Other tax payables	12,797	32,006
Other payable to suppliers	4,208	17,365
Accrued marketing expense -loyalty points	3,175	7,414
Professional fees	5,623	7,068
Advances from the insured	3,047	3,211
Interest payable	206	655
Deposits	312	625
Government housing benefit	800	—
Others	985	2,911
	31,153	71,255

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

13. Employee benefits

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension insurance, medical insurance unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. Total contributions by the Group for such employee benefits were RMB 30,248 thousand, RMB 18,924 thousand and RMB 64,238 thousand for the years ended December 31, 2019, 2020 and 2021, respectively.

14. Income taxes

Cayman Islands

The Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends to the shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiary established in Hong Kong is subject to 16.5% income tax rate on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

China

The Company's subsidiaries, consolidated VIE and subsidiary of the VIE established in the PRC are mainly subject to statutory income tax at a rate of 25%.

On April 14, 2008, relevant governmental regulatory authorities released qualification criteria, application procedures and assessment processes for "high and new technology enterprises" ("HNTE"). The HNTE will be entitled to a favorable statutory tax rate of 15%. An enterprise's qualification as a HNTE is reassessed by the relevant PRC governmental authorities every three years. On November 2, 2018, the local governments announced that Huize Technology was qualified as HNTE and was subject to a preferential statutory tax rate of 15% since then. On October 9, 2021, the Chengdu Huize was also qualified as HNTE and was subject to a preferential statutory tax rate of 15% since then. Accordingly, Huize Technology and Chengdu Huize are taxed at a rate of 15%, subject to reassessment.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

14. Income taxes (Continued)

The Enterprise Income Tax (“EIT”) Law includes a provision specifying that legal entities organized outside of the PRC will be considered resident enterprises for the PRC income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered as PRC resident enterprises if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the Group’s entities organized outside of the PRC should be treated as resident enterprises for the PRC income tax purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiary registered outside the PRC should be deemed resident enterprises, the Company and its subsidiary registered outside the PRC will be subject to the PRC income tax, at a rate of 25%.

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes. All FIEs are subject to the withholding tax from January 1, 2008. Under U.S. GAAP, undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends will be re-invested and the remittance of the dividends will be postponed indefinitely. The Group does not intend to have any of its PRC subsidiaries or VIEs distribute any undistributed profits of such subsidiaries or VIEs to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries and VIEs for their PRC operations. As of December 31, 2021, the VIEs are in accumulative loss situation, no withholding tax needs to be accrued and no unrecognized tax liabilities exist.

Composition of income tax expense

The current and deferred portions of income tax expense included in the consolidated statements of comprehensive income/(loss) during the years ended December 31, 2019, 2020 and 2021 are as follows:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Current income tax expense	37	2,234	—
Deferred income tax expense/(benefit)	20	(466)	—
Income tax expense	<u>57</u>	<u>1,768</u>	<u>—</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

14. Income taxes (Continued)

Tax Reconciliation

Reconciliation between the income tax expense computed by applying the EIT tax rate to income before income taxes and actual provision were as follows:

	For the Year Ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Profit/(Loss) before income tax	15,025	(16,524)	(107,717)
Tax expense/(benefit) at EIT tax rate of 25%	3,756	(4,131)	(26,929)
Effect of different tax rates applicable to different subsidiaries of the Group	(3,394)	490	(3,195)
Changes in valuation allowance	(24,412)	1,290	37,948
Investment income not subject to tax	(171)	(34)	(769)
Expenses not deductible for tax purposes	29,067	11,561	2,872
Research and development tax credit	(4,789)	(7,408)	(12,627)
Effect on deferred tax assets due to change in tax rates	—	—	2,700
Income tax expense	57	1,768	—

Deferred tax assets and deferred tax liabilities

The following tables sets forth the significant components of the deferred tax assets and deferred tax liabilities:

	December 31, 2020 RMB	December 31, 2021 RMB
Deferred tax assets		
Advertising expenses	—	1,105
Net accumulated losses carry forward	31,218	67,714
Depreciation and amortization	160	271
Allowance for doubtful accounts	575	940
Accrued expenses	3,153	4,171
Less: valuation allowance	(34,501)	(73,596)
Net deferred tax assets	605	605
Deferred tax liabilities		
Intangible assets	—	4,287
Gain on equity method investee	605	605
Net deferred tax liabilities	605	4,892

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

14. Income taxes (continued)*Movement of valuation allowance*

	For the years Ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Balance at the beginning of the year	57,623	33,211	34,501
Additions	2,173	7,318	37,961
Acquisition of subsidiaries	—	—	1,147
Reversals	(26,585)	(6,028)	(13)
Balance at end of the year	<u>33,211</u>	<u>34,501</u>	<u>73,596</u>

Valuation allowance is provided against deferred tax assets when the Group determines that it is more-likely-than-not that the deferred tax assets will not be utilized in the future. The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more-likely-than-not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment, and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. The statutory rate of 25%, 15% or 16.5%, depending on which entity, was applied when calculating deferred tax assets.

As of December 31, 2019, 2020 and 2021, the Group had tax on net operating loss carryforwards of approximately RMB 30,177 thousand, RMB 31,218 thousand and RMB 67,714 thousand, respectively, which arose from the subsidiaries, VIE and the VIE's subsidiary established in PRC. As of December 31, 2019, 2020 and 2021, of the tax on net operating loss carryforwards, RMB 30,113 thousand, RMB 30,613 thousand and RMB 67,109 thousand was provided for valuation allowance respectively, while the remaining RMB 64 thousand, RMB 605 thousand and RMB 605 thousand is expected to be utilized prior to expiration considering future taxable income for respective entities. In 2019, 2020 and 2021, the net operating loss carry forward of Shenzhen Huize, Huize Technology and Chengdu Huize was provided for the addition of valuation allowance, because it was more likely than not that such deferred tax assets will not be realized based on the Group's estimates of its future taxable income.

According to the Circular of relevant governmental regulatory authorities of Taxation on Extending the Loss Carry-over Period of High-tech Enterprises and High-tech SMEs (Cai Shui [2018] No. 76), from January 1, 2018, the enterprises that have the qualifications of high-tech enterprises or high-tech SMEs will be able to make up for the losses that have not been utilized in the previous five years before the qualification year. The longest carry-over period is extended from 5 years to 10 years. As of December 31, 2021, the net operating loss carryforwards will expire during the period from 2023 to 2030, if unused.

Uncertain tax positions

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2019, 2020 and 2021. The Group did not incur any interest related to unrecognized tax benefits, did not recognize any penalties as income tax expense and also does not anticipate any significant change in unrecognized tax benefits within 12 months from December 31, 2021.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

15. Long-term borrowing

The following table summarizes the details of the Group's long-term borrowings:

Type	Maturity Date	Principal Amount	Interest Rate Per Annum	As of	
				December 31, 2020 RMB	December 31, 2021 RMB
Bank loan	May 20, 2022	20,000	4.60%	20,000	20,000
Bank loan	May 19, 2023	20,000	4.75%	20,000	20,000
Bank loan	July 19, 2022	29,400	3.85%	15,400	26,710
Total				55,400	66,710
Less: Current portion of long-term borrowings				(1,540)	(46,710)
				<u>53,860</u>	<u>20,000</u>

As of December 31, 2020 and 2021, the loans with maturity date of May 20, 2022 and May 19, 2023 were pledged by the deposits of HK Smart Choice and the loan with maturity date of July 19, 2022 was pledged by the deposits of HK Smart Choice and the credit of Huize Insurance Brokerage. Interest is payable on a monthly basis.

16. Common shares

The Company's Memorandum and Articles of Association authorizes the Company to issue up to 4,549,953,780 common shares with a par value of US\$0.00001 per shares. As of December 31, 2019, the Company has 483,310,373 shares issued and outstanding. Each common share is entitled to one vote.

On February 12, 2020, The Company completed its IPO on the Nasdaq Global Market. 5,322,453 ADSs (including 72,453 ADSs sold upon the full exercise of the underwriters' over-allotment options), representing 106,449,060 Class A common shares, were issued and sold to the public at a price of US\$10.5 per ADS.

Upon the completion of IPO, the Group divided its common shares into Class A common shares and Class B common shares. Holders of Class A common shares will be entitled to one vote per share, while holders of Class B common shares will be entitled to 15 votes per share. Each Class B common share is convertible into one Class A common share at any time by the holder thereof, while Class A common shares are not convertible into Class B common shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B common shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B common shares shall be automatically and immediately converted into an equal number of Class A common shares.

All of the 150,591,207 common shares held by Huidz Holding Limited, an entity controlled by Mr. Cunjun Ma, the chairman of our board of directors and our chief executive officer, was re-designated as Class B common shares. Upon the completion of IPO, Mr. Cunjun Ma beneficially owned an aggregate of 150,591,207 Class B common shares, which represented 76.4% of the Company's total voting power. All the issued and outstanding redeemable preferred shares and the rest of common shares converted into Class A common shares on a one-for-one basis.

The holders of common shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all other classes of shares outstanding.

In April 2020, board of directors authorized a share repurchase program under which the Company may repurchase up to US\$10 million of its outstanding ADSs over the next 12 months, subject to relevant rules under the Securities Exchange Act of 1934, as amended, and the Company's insider trading policy. As of December 31, 2021, the Company has repurchased 171,843 ADSs in total (equivalent to 3,436,860 shares) and the cost of treasury stock was RMB 9,545 thousand.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

17. Redeemable preferred shares and convertible bond

In September 2014, the Group issued 204,022,000 Series A Redeemable Preferred Shares (“Series A Redeemable Preferred Shares”) for an aggregate consideration of RMB 39,404,003. Also, the Group upgraded 87,935,500 shares to Series A Redeemable preferred shares when these shares were transferred from Series Pre-A shareholders to Series A shareholders.

In March 2016, the Group issued 185,512,580 Series B Redeemable Preferred Shares (“Series B Redeemable Preferred Shares”) for an aggregate consideration of RMB 200,000 thousand.

In July 2016, the Group issued 43,937,180 Series B+ Redeemable preferred shares (“Series B+ Redeemable Preferred Shares”) for an aggregate consideration of RMB 62,500 thousand.

In July 2018, the Company issued convertible bond (“CB”) at an interest of 15% per year to certain third party investors for an aggregate principal amount of RMB 33,000 thousand. According to the contract, the CB holders have the right at its sole discretion, to convert the bond into Redeemable Preferred Shares within 20 working days after 90 days from the issuance date (this 90 days is referred to as “CB interest period”) at a conversion price of RMB1.48 per share. The 20 working-day is a conversion period. If the CB holders decide not to convert, the Company shall repay the principal and interest of the CB that has not been converted into shares within 90 days (“repayment period”). If the Company cannot repay the principal and interest in the repayment period, the 2018 CB holders have the right to convert the CB into Redeemable Preferred Shares of the Company at the price of RMB 0.74 per share during 30 working days after the repayment period. During the year ended December 31, 2018, 16,574,460 Redeemable Preferred Shares (“Series B++ Redeemable Preferred Shares”) were converted from the convertible bond with the principal amount of RMB 24,520 thousand and interest amount of RMB 907 thousand.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

17. Redeemable preferred shares and convertible bond (continued)

The Group's redeemable preferred shares activities for the years ended December 31, 2019, 2020 and 2021 are summarized below:

	Series A Shares		Series B Shares		Series B+ Shares		Series B++ Shares	
	Number of Shares	Amount (RMB)	Number of Shares	Amount (RMB)	Number of Shares	Amount (RMB)	Number of Shares	Amount (RMB)
Balances as of January 1, 2019	204,022,000	78,390	185,512,580	241,918	43,937,180	75,606	16,574,460	25,859
Redeemable Preferred Shares redemption value accretion	—	5,682	—	19,354	—	6,048	—	1,770
Balances as of December 31, 2019	204,022,000	84,072	185,512,580	261,272	43,937,180	81,654	16,574,460	27,629
Balances as of January 1, 2020	204,022,000	84,072	185,512,580	261,272	43,937,180	81,654	16,574,460	27,629
Redeemable Preferred Shares redemption value accretion	—	788	—	2,634	—	701	—	151
Conversion and re-designation of preferred shares into Class A common shares	(204,022,000)	(84,860)	(185,512,580)	(263,906)	(43,937,180)	(82,355)	(16,574,460)	(27,780)
Balances as of December 31, 2020	—	—	—	—	—	—	—	—
Balances as of December 31, 2021	—	—	—	—	—	—	—	—

The redeemable preferred shares issued by the Company carry the following rights:

Voting right and board seats

The Redeemable Preferred Shareholders shall have the right to one vote for each Redeemable Preferred Share, the same as common shareholders.

The Redeemable Preferred Shareholders are entitled to appoint a total of three directors of the Board. To constitute a quorum for the meeting of the Board, it must include the three directors appointed by Redeemable Preferred Shareholders or their entrusted proxies.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

17. Redeemable preferred shares and convertible bond (continued)

Redemption

Redemption Condition for Redeemable Preferred Shares:

The Redeemable Preferred Shares are redeemable in the event of the Company fails to complete a qualified IPO before December 31, 2020.

The redemption price of the investor of Series B+ and Series B is the investment amount of the investors plus the annual rate of return on compound interest of 8% per annum. The redemption price of the investor of Series A and Series B++ is the investment amount of the investors plus the internal rate of return of compound interest of 10% per annum.

The Group accretes changes in the redemption value over the period from the date of issuance of the Redeemable Preferred Shares to their respective earliest redemption date using the contractual interest rate. Changes in the redemption value are considered to be changes in accounting estimates. The accretion will be recorded against retained earnings, or in the absence of retained earnings, by charges against additional paid-in capital. Once additional paid-in capital has been exhausted, additional charges should be recorded by increasing the accumulated deficit.

Dividends Rights

The Redeemable Preferred Shareholders shall be entitled to receive dividend according to their actual investment ratio, the same as common shareholders.

As explained in note 16, all the redeemable preferred shares converted into Class A common shares on a one-for-one basis upon the completion of IPO.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

18. Share-based compensation

Share-based compensation was recognized in operating expenses for the years ended December 31, 2019, 2020 and 2021 as follows:

	For the year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Cost of revenue	43	410	(387)
Selling expenses	6,514	10,642	(475)
General and administrative expenses	87,980	40,820	(665)
Research and development expenses	421	381	(297)
	<u>94,958</u>	<u>52,253</u>	<u>(1,824)</u>

Share Options before 2019

During the year ended December 31, 2018, the Group granted a total of 316,360 share options which have a vesting condition of one year.

The following table sets forth the activities under the Company's share options for the years ended December 31, 2019:

	Number of options	Weighted Average exercise price	Aggregate intrinsic value RMB
Outstanding at January 1, 2019	11,096,360	0.55	—
Granted	—	—	—
Exercised	(7,420,000)	0.56	—
Forfeited	(3,676,360)	0.52	—
Outstanding at December 31, 2019	—	—	—
Exercisable at December 31, 2019	—	—	—

The weighted average grant date fair value of options granted during 2018 was RMB 1.22 per share. The total intrinsic value of options exercised during 2018 was RMB nil thousand.

Global Share Incentive Plan

In June 2019, the Company adopted a Global Share Incentive Plan (the "Global Plan"), which includes Option Plan, Restricted Shares Plan and Shares Award.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

18. Share-based compensation (continued)*Option Plan*

Under the Option Award Agreement, options which granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the Option Grant includes a condition where employees can only exercise vested options upon the occurrence of that the Company's common shares become listed securities, which substantially creates a performance condition ("IPO Condition"). Meanwhile, the Company offers their employees broker-assisted cashless exercise programs to help the employees exercise their stock options without having to use their personal funds to pay for the exercise price. The options are classified as liability-classified award. As of December 31, 2019, the Company granted 19,463,440 share options to certain of its employees. The Company finished its initial public offering in February 2020, the share-based compensation cost was recognized accordingly.

During the year ended 2021, the Company granted 21,631,945 share options to employees pursuant to the Global Plan.

The following table summarized the Company's activities under the Option Plan for the years ended December 31, 2019, 2020 and 2021:

	<u>Number of options</u>	<u>Weighted Average exercise price (US\$)</u>
Outstanding at January 1, 2019	—	—
Granted	19,463,440	0.1607
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2019	<u>19,463,440</u>	<u>0.1607</u>
Vested and exercisable at December 31, 2019	—	—
Outstanding at January 1, 2020	<u>19,463,440</u>	<u>0.1607</u>
Granted	—	—
Exercised	(707,396)	0.1607
Forfeited	(2,601,993)	0.1607
Outstanding at December 31, 2020	<u>16,154,051</u>	<u>0.1607</u>
Vested and exercisable at December 31, 2020	<u>5,004,126</u>	<u>0.1607</u>
Outstanding at January 1, 2021	<u>16,154,051</u>	<u>0.1607</u>
Granted	21,631,945	0.1609
Exercised	(201,040)	0.1607
Forfeited	(740,231)	0.1607
Outstanding at December 31, 2021	<u>36,844,725</u>	<u>0.1608</u>
Vested and exercisable at December 31, 2021	<u>11,884,664</u>	<u>0.1709</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

18. Share-based compensation (continued)

The following table summarizes information regarding the share options outstanding as of December 31, 2021:

	As of December 31, 2021			
	Options number	Weighted average exercise price per option US\$	Weighted average remaining contractual life (years)	Aggregate intrinsic value US\$ in thousand
Outstanding	36,844,725	0.1608	8.71	—
Exercisable	11,884,664	0.1709	7.97	—
Expected to vest	24,960,061	0.1560	9.07	—

The weighted average fair value of the options was US\$ 0.2030 and US\$ 0.0127 per option as of December 31, 2020 and 2021, respectively.

The aggregate intrinsic value is calculated as the difference between the exercise price of the options and the fair value of the underlying stock at December 31, 2021.

The fair value of the option plan was estimated on the date of each balance sheet date using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

	Weighted average	
	2020	2021
Exercise price (US\$)	0.1607	0.1608
Expected forfeiture rate (post-vesting)	8.30%	10.85%
Expected volatility	39.58%	40.57%
Expected term (in years)	8.50	8.71
Expected dividend yield	0%	0%
Risk-free interest rate	0.7782%	1.4658%

Risk-free interest rate is estimated based on the yield curve of US Treasury BVAL Curve from Bloomberg as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

18. Share-based compensation (continued)

Employees Restricted Shares Plan

Under the Employees Restricted Shares Award Agreement, restricted shares which granted to employees vest upon satisfaction of a service condition and a performance condition, which is generally satisfied over four years. The restriction will be removed along with the satisfaction of the service condition. As of December 31, 2020, the Company granted 23,809,190 restricted common shares to certain senior management through Bodyguard Holding Limited (“Bodyguard”) as a holding platform. In March 2021, the Company granted additional 320,000 restricted shares to the senior management pursuant to the Global Plan.

The following table summarized the Company’s restricted shares activities under the Employees Restricted Shares Plan for the years ended December 31, 2019, 2020 and 2021:

	<u>Options to Employees</u>	<u>Weighted Average Grant-Date Fair Value</u>
Non-vested at January 1, 2019	—	—
Granted	23,809,190	4.20
Vested	—	—
Forfeited	—	—
Non-vested at December 31, 2019	<u>23,809,190</u>	<u>—</u>
Non-vested at January 1, 2020	23,809,190	—
Granted	—	—
Vested	(7,000,739)	—
Forfeited	(3,475,844)	—
Non-vested at December 31, 2020	<u>13,332,607</u>	<u>—</u>
Non-vested at January 1, 2021	13,332,607	—
Granted	320,000	2.49
Vested	(4,925,510)	—
Forfeited	(613,553)	—
Non-vested at December 31, 2021	<u>8,113,544</u>	<u>—</u>

Restricted shares granted to employees are measured based on their grant-date fair values and recognized as compensation cost on a graded-vesting method over the requisite 2.25 to 4 years’ service period. The weighted average grant date fair value of restricted shares granted for the years ended December 31 2019, 2020 and 2021 were RMB 4.20 per share, nil and RMB 2.49 per share, respectively. As at December 31, 2019, 2020 and 2021, there were a total of RMB 27,102 thousand, RMB35,880 thousand and RMB 11,355 thousand share-based compensation expenses recognized, respectively. As of December 31, 2021, there was RMB 11,883 thousand unrecognized share-based compensation.

Shares Award

Under the Shares Award Agreement, 14,229,183 common shares were awarded to Mr. Cunjun Ma directly through an entity wholly owned by Mr. Cunjun Ma with no consideration on June 30, 2019. The fair value of the shares awarded was RMB 4.20 per share, and a total of RMB 59,778 thousand share-based compensation expense was recognized on June 30, 2019. No shares were awarded during the year ended December 31, 2020 and 2021.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

19. Operating revenue

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Brokerage income			
-Life and Health insurance business	902,596	1,166,118	2,170,767
-Property and Casualty insurance business	79,528	49,316	61,486
Brokerage income subtotal	<u>982,124</u>	<u>1,215,434</u>	<u>2,232,253</u>
Other income	11,195	4,788	12,763
Total operating revenue	<u>993,319</u>	<u>1,220,222</u>	<u>2,245,016</u>

20. Selling expense

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Salaries and employment benefits	97,000	129,327	222,428
Advertising and marketing expenses	47,927	71,472	97,945
Rental and utilities expenses	5,323	6,961	13,781
Office expenses	3,658	5,877	5,623
Travelling expenses	1,927	1,689	3,734
Business development	471	384	761
Depreciation and amortizations	289	444	680
Share-based compensation expenses	6,514	10,642	(475)
Others	1,556	3,642	6,096
Total	<u>164,665</u>	<u>230,438</u>	<u>350,573</u>

21. General and administrative expenses

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Salaries and employment benefits	35,547	51,457	87,321
Rental and utilities expenses	1,468	2,332	33,486
Professional service expenses	13,343	20,075	31,868
Office expenses	3,058	3,811	8,532
Bank charges	7,380	7,849	7,955
Directors and Officers Liability Insurance premium	—	6,127	7,798
VAT Surcharge	3,423	3,845	6,954
Depreciation and amortizations	1,538	1,875	2,195
Travelling expenses	2,682	1,648	1,675
Bad debt expense	626	1,218	1,445
Share-based compensation expenses	87,980	40,820	(665)
Other	4,771	9,150	9,055
Total	<u>161,816</u>	<u>150,207</u>	<u>197,619</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

22. Investment income/(loss)

Investment income for the year ended December 31, 2020 was dividends received from equity investment. Investment loss for the year ended December 31, 2021 consists of (i) a loss from fair value change of RMB1,339 thousand and a realized gain of RMB265 thousand related to the investments accounted for at fair value; (ii) impairment loss related to equity investments measured under measurement alternative of RMB1,610 thousand; (iii) dividends received from equity investments of RMB241 thousand; and (iv) a loss from fair value change of RMB2,885 thousand related to equity investments measured under NAV practical expedient.

23. Net loss per share

Basic net loss per share and diluted net loss per share have been calculated in accordance with ASC 260 on computation of earnings per share for the years ended December 31, 2019, 2020 and 2021 as follows:

	For the Year Ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Numerator:			
Net profit/(loss)	14,968	(18,292)	(107,717)
Less: Net profit/(loss) attributable to non-controlling interests	66	—	(51)
Net profit/(loss) attributable to common shares and redeemable preferred shares	14,902	(18,292)	(107,666)
Redeemable Preferred Shares redemption value accretion	(32,854)	(4,274)	—
Allocation to redeemable preferred shareholders	(7,431)	1,074	—
Net loss attributable to common shareholders-Basic and diluted	<u>(25,383)</u>	<u>(21,492)</u>	<u>(107,666)</u>
Denominator:			
Denominator for basic loss per share weighted-average common shares outstanding	452,445,068	963,817,614	1,021,861,206
Dilutive effect of restricted shares	—	—	—
Dilutive effect of share options	—	—	—
Denominator for diluted loss per share weighted-average common shares outstanding	452,445,068	963,817,614	1,021,861,206
Basic and diluted loss per share	<u>(0.06)</u>	<u>(0.02)</u>	<u>(0.11)</u>

The potentially dilutive securities that were not included in the calculation of above dilutive net loss per share in the years presented where their inclusion would be anti-diluted include restricted shares of 1,789,534 and 4,054,623 for the years ended December 31, 2020 and 2021, respectively, and share options of 4,114,655 shares and nil shares for the year ended December 31, 2020 and 2021, on a weighted average basis.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

24. Lease

The following table presents balances reported in the consolidated balance sheets related to the Group's leases:

	As of December 31, 2020 RMB	As of December 31, 2021 RMB
Operating lease right-of-use assets	267,352	247,819
Operating lease liabilities	264,869	264,069

Lease expenses for these leases are recognized on a straight-line basis over the lease term. For short-term leases over which the Group has elected not to apply the recognition requirements of ASC 842, the Group has recognized the lease payments as expenses on a straight-line basis over the lease term. For the year ended December 31, 2019, total rental expenses under all operating leases were RMB 6,941 thousand. For the years ended December 31, 2020 and 2021, total lease cost comprised of the following:

	For the Year Ended December 31,	
	2020 RMB	2021 RMB
Operating lease cost	8,293	46,102
Short term lease cost	622	385
Total lease cost	8,915	46,487

The following table presents the maturity of the Group's operating lease liabilities as of December 31, 2021:

	As of December 31, 2021 RMB
2022	28,261
2023	26,639
2024	34,196
2025	35,268
2026	37,400
Thereafter	173,102
Total operating lease payments (undiscounted)	334,866
Less: Imputed interest	(70,797)
Total operating lease liabilities (discounted)	264,069

As of December 31, 2021, the Group has no significant lease contract that has been entered into but not yet commenced.

Supplemental cash flow information related to the operating leases was as follow (in thousands):

	For the Year Ended December 31,	
	2020 RMB	2021 RMB
Cash paid for amounts included in operating lease liabilities	11,383	27,360

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

25. Commitments and contingencies

The Group had investment commitments of RMB 31,000 thousand as of December 31, 2020 and RMB 55,546 thousand as of December 31, 2021.

26. Parent company only condensed financial information

The condensed financial information of the Company has been prepared in accordance with SEC Regulation S-X Rule 5-04 and Rule 12-04, using the same accounting policies as set out in the Group's consolidated financial statements, except that the Company uses the equity method to account for investments in its subsidiaries and VIE.

The subsidiaries did not pay any dividend to the Company for the years presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements are not the general-purpose financial statements of the reporting entity and should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company did not have significant capital and other commitments or guarantees as of December 31, 2021. The subsidiaries did not pay any dividend to the Company for the years presented.

The Condensed Financial Information of the Parent Company for the year ended December 31, 2020 has been revised to correct an immaterial error related to presentation of cash flows of amount due from subsidiary. Such cash flow was previously presented in error as cash flows from operating activities of the Parent Company and has been revised to cash flows from investing activities of the Parent Company. The impact of the above presentation error was not material to the previously issued financial statements taken as a whole.

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (All amounts in thousands, except share data, or otherwise noted)

26. Parent company only condensed financial information (continued)

Balance sheet

	As of December 31,		
	2020	2021	
	RMB	RMB	USD\$ Note 2(f)
Assets			
Cash and cash equivalent	187,217	16,291	2,556
Contract assets	216	—	—
Amount due from related parties	189	106	17
Prepaid expense and other receivables	131,895	291,666	45,770
Long-term investments	179,059	76,030	11,931
Total assets	<u>498,576</u>	<u>384,093</u>	<u>60,274</u>
Liabilities and Shareholders' equity			
Other payables and accrued expenses	14,836	17,892	2,808
Contract liabilities	—	4,555	715
Payroll and welfare payable	15,057	1,582	248
Total liabilities	<u>29,893</u>	<u>24,029</u>	<u>3,771</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

26. Parent company only condensed financial information (continued)

Balance sheet(continued)

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$ Note 2(f)
Shareholders' equity			
Class A common shares (US\$0.00001 par value; 7,000,000,000 shares authorized as of December 31, 2020 and 2021, respectively; 894,456,046 shares issued as of December 31, 2020 and 2021, respectively; 888,506,366 shares and 886,166,726 shares outstanding as of December 31, 2020 and 2021, respectively)	62	62	10
Class B common shares (US\$0.00001 par value; 800,000,000 shares authorized as of December 31, 2020 and 2021, respectively; 150,591,207 shares issued and outstanding as of December 31, 2020 and 2021, respectively)	10	10	2
Treasury stock (896,180 shares and 3,436,860 shares as of December 31, 2020 and December 31, 2021, respectively)	(2,063)	(9,545)	(1,498)
Additional paid-in capital	884,920	896,772	140,723
Accumulated other comprehensive loss	(21,972)	(27,295)	(4,283)
Accumulated deficit	(392,274)	(499,940)	(78,451)
Total shareholders' equity	<u>468,683</u>	<u>360,064</u>	<u>56,503</u>
Total liabilities and shareholders' equity	<u>498,576</u>	<u>384,093</u>	<u>60,274</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

26. Parent company only condensed financial information (continued)

Statement of Comprehensive Income/(Loss)

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	USDS Note 2(f)
Operating revenue				
Other income	—	228	1,269	199
Total operating revenue	<u>—</u>	<u>228</u>	<u>1,269</u>	<u>199</u>
Operating cost and expenses				
General and administrative expenses	(521)	(4,611)	(5,994)	(942)
Operating loss	<u>(521)</u>	<u>(4,383)</u>	<u>(4,725)</u>	<u>(743)</u>
Other expense				
Interest income	—	11	4	1
Unrealized exchange (loss)/income	(97)	421	—	—
Loss before income tax, and share of loss of subsidiaries and VIEs	<u>(618)</u>	<u>(3,951)</u>	<u>(4,721)</u>	<u>(742)</u>
Share of income/(loss) of subsidiaries and VIEs	15,520	(14,341)	(102,945)	(16,154)
Net profit/(loss)	<u>14,902</u>	<u>(18,292)</u>	<u>(107,666)</u>	<u>(16,896)</u>
Redeemable preferred shares redemption value accretion	(32,854)	(4,274)	—	—
Allocation to redeemable preferred shares	(7,431)	1,074	—	—
Net loss attributable to common shareholders	<u>(25,383)</u>	<u>(21,492)</u>	<u>(107,666)</u>	<u>(16,896)</u>
Net profit/(loss)	<u>14,902</u>	<u>(18,292)</u>	<u>(107,666)</u>	<u>(16,896)</u>
Foreign currency translation adjustment, net of tax	119	(22,386)	(5,323)	(835)
Total comprehensive income/(loss)	<u>15,021</u>	<u>(40,678)</u>	<u>(112,989)</u>	<u>(17,731)</u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

26. Parent company only condensed financial information (continued)

Statement of cash flows

	Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB USD\$	
Cash flows from operating activities:				
Net profit/(loss)	14,902	(18,292)	(107,666)	(16,896)
Adjustments to reconcile net profit/(loss) to net cash used in operating activities:				
Unrealized exchange income/(loss)	97	(421)	—	—
Share of (income)/loss of subsidiaries and VIEs	(15,520)	14,341	102,945	16,154
Interest income	—	(11)	—	—
	<u>(521)</u>	<u>(4,383)</u>	<u>(4,721)</u>	<u>(742)</u>
Changes in operating assets and liabilities:				
Increase/(decrease) in other payables and accrued expenses	1,343	(1,340)	(4,730)	(742)
Increase/(decrease) in contract liabilities	—	—	4,555	715
(Increase)/decrease in prepaid expense and other receivables	(59)	—	21	3
(Increase)/decrease in other assets	(763)	—	—	—
(Increase)/decrease in account receivables and contract assets	—	(216)	216	34
(Increase)/decrease in amount due from related parties	—	(189)	83	13
Net cash used in operating activities	<u>—</u>	<u>(6,128)</u>	<u>(4,576)</u>	<u>(719)</u>
Cash flows from investing activities:				
Investments in subsidiaries and consolidated VIEs	—	(245)	(247)	(39)
Payments of inter-company balances	—	(139,123)	(161,216)	(25,298)
Net cash used in investing activities	<u>—</u>	<u>(139,368)</u>	<u>(161,463)</u>	<u>(25,337)</u>
Cash flows from financing activities:				
Proceeds from issuance of common shares and redeemable preferred shares	62	—	—	—
Proceeds from initial public offering, net of issuance costs	—	340,479	—	—
Proceeds from exercise of options	—	503	497	78
Repurchase of Class A common shares	—	(2,063)	(3,003)	(471)
Net cash provided by/(used in) financing activities	<u>62</u>	<u>338,919</u>	<u>(2,506)</u>	<u>(393)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>—</u>	<u>(6,268)</u>	<u>(2,381)</u>	<u>(374)</u>
Net increase/(decrease) in cash and cash equivalents and restricted cash	<u>62</u>	<u>187,155</u>	<u>(170,926)</u>	<u>(26,823)</u>
Total cash and cash equivalents and restricted cash at beginning of year	—	62	187,217	29,378
Total cash and cash equivalents and restricted cash at end of year	<u><u>62</u></u>	<u><u>187,217</u></u>	<u><u>16,291</u></u>	<u><u>2,555</u></u>

HUIZE HOLDING LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except share data, or otherwise noted)

27. Restricted net asset

Relevant PRC laws and regulations permit payments of dividends by the Group's entities incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's entities in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Company's entities incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion as calculated under U.S. GAAP amounted to RMB nil as of December 31, 2019, 2020 and 2021 as the Company is in accumulative loss situation. There are no differences between U.S. GAAP and PRC accounting standards in connection with the reported net assets of the legally owned subsidiaries in the PRC and the VIE. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders. In addition, restricted cash and insurance premium receivables of the VIE and its subsidiaries can only be used to settle relevant obligations of the VIE and its subsidiaries. Except for the above, there is no other restriction on use of proceeds generated by the Group's subsidiaries and VIE to satisfy any obligations of the Company. Furthermore, cash transfers from the Company's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

For the year ended December 31, 2021, the Company performed a test on the restricted net assets of subsidiaries and VIE in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that the restricted net assets do not exceed 25% of the consolidated net assets of the Company as of December 31, 2021 and the condensed financial information of the Company are not required to be presented.

28. Subsequent events

The Company evaluated its subsequent events through April 27, 2022, the date on which these financial statements were issued. Except for the below transaction, there is no material events or transactions needing recognition or disclosure found.

In December 2021, the Group entered into an agreement to acquire 100% equity interest in Shanghai Senhao Insurance Agency Co., Ltd., an insurance agency company. The acquisition has been finished in March 2022. The Group has assessed and concluded that the acquisition is a non-recognized subsequent event given the acquisition is completed in 2022.

Principal Subsidiaries and Affiliated Entities of The Registrant

Subsidiaries

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
Smart Choice Ventures Limited	British Virgin Islands
Hong Kong Smart Choice Ventures Limited	Hong Kong
Huize Global (HK) Limited	Hong Kong
Huize Hong Kong Insurance Broker Limited	Hong Kong
Zhixuan International Management Consulting (Shenzhen) Co., Ltd.	PRC

Consolidated affiliated entities and their subsidiaries

<u>Name of Consolidated affiliated entities and their subsidiaries</u>	<u>Jurisdiction of Incorporation</u>
Shenzhen Huiye Tianze Investment Holding Co., Ltd.	PRC
Huize Insurance Brokerage Co., Ltd.	PRC
Shenzhen Huize Shidai Co., Ltd.	PRC
Hefei Huize Internet Technology Co., Ltd.	PRC
Huize (Chengdu) Internet Technology Co., Ltd.	PRC
Shenzhen Zhixuan Wealth Investment Management Co., Ltd.	PRC

Certification by the Principal Executive Officer**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Cunjun Ma, certify that:

1. I have reviewed this annual report on Form 20-F of Huize Holding Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) 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)) 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 the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2022

By: /s/ Cunjun Ma
Name: Cunjun Ma
Title: Chairman of the Board of Directors and Chief Executive Officer

Certification by the Principal Financial Officer**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ronald Tam, certify that:

1. I have reviewed this annual report on Form 20-F of Huize Holding Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) 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)) 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 the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2022

By: /s/ Ronald Tam

Name: Ronald Tam

Title: Co-Chief Financial Officer

Certification by the Principal Financial Officer**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Minghan Xiao, certify that:

1. I have reviewed this annual report on Form 20-F of Huize Holding Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) 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)) 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 the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2022

By: /s/ Minghan Xiao

Name: Minghan Xiao

Title: Co-Chief Financial Officer

Certification by the Principal Executive Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Huize Holding Limited (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cunjun Ma, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

By: /s/ Cunjun Ma
Name: Cunjun Ma
Title: Chairman of the Board of Directors
and Chief Executive Officer

Certification by the Principal Financial Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Huize Holding Limited (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Tam, Co-Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

By: /s/ Ronald Tam
Name: Ronald Tam
Title: Co-Chief Financial Officer

Certification by the Principal Financial Officer**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Huize Holding Limited (the “Company”) on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Minghan Xiao, Co-Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

By: /s/ Minghan Xiao

Name: Minghan Xiao

Title: Co-Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-238148) of Huize Holding Limited of our report dated April 27, 2022 relating to the financial statements, which appears in Huize Holding Limited's Annual Report on Form 20-F for the year ended December 31, 2021.

/s/ PricewaterhouseCoopers Zhong Tian LLP
PricewaterhouseCoopers Zhong Tian LLP
Shenzhen, the People's Republic of China

April 27, 2022

通商律師事務所**COMMERCE & FINANCE LAW OFFICES**

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April 27, 2022

Huize Holding Limited

49/F, Building T1
Qianhai Financial Centre, Linhai Avenue
Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen 518000
The People's Republic of China

Re: Consent of Commerce & Finance Law Offices

We hereby consent to the use of our firm name and summaries of our firm's opinions under the headings "ITEM 3. Key Information—Permissions Required from the PRC Authorities for Our Operations", "ITEM 4. Information on the Company—C. Organizational Structure" and "ITEM 10. Additional Information—E. Taxation—People's Republic of China Taxation" in the annual report on Form 20-F of Huize Holding Limited (the "Company") for the Company's fiscal year ended December 31, 2021 to be filed with the U.S. Securities and Exchange Commission (the "SEC") in the month of April, 2022 (the "Form 20-F"), and we further consent to the incorporation by reference of the summary of our opinions under these headings into the Company's registration statement on Form S-8 (File No. 333-238148) that was filed on May 11, 2020.

We also hereby consent to the filing of this consent letter as an exhibit to the Form 20-F.

In giving such consent, we do not thereby admit that we fall within the category of the person whose consent is required under Section 7 of the U.S. Securities Act of 1933, as amended, or the regulation promulgated thereunder.

[No Text Below]

Yours sincerely,

/s/ Commerce & Finance Law Offices**Commerce & Finance Law Offices**