

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

Individually and On Behalf of All Others Similarly Situated, <p style="text-align: right;">Plaintiff,</p> <p style="text-align: center;">v.</p> <p>FANHUA, INC, CHUNLIN WANG, and PENG GE,</p> <p style="text-align: right;">Defendants.</p>	}	Case No. <u>CLASS ACTION COMPLAINT</u> <u>JURY TRIAL DEMANDED</u>
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CLASS ACTION COMPLAINT

Plaintiff ____ (“Plaintiff”), individually and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of the Defendants’ public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Fanhua, Inc. (“Fanhua” or the “Company”), analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons other than Defendants who purchased or otherwise acquired Fanhua securities between

April 20, 2018 through August 27, 2018, both dates inclusive (the “Class Period”), seeking to recover damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, against the Company and certain of its top officials.

2. Founded in 1998, Fanhua (formerly known as “CNinsure Inc.”) is a leading independent online-to-offline financial services provider. Through its online platforms and offline sales and service network, Fanhua offers a wide variety of life and property and casualty insurance products, and provides insurance claims adjusting services.

3. On October 31, 2007, the Company listed its American depositary shares (“ADS”), each of which represents 20 ordinary shares, on the Nasdaq Global Market (“NASDAQ”). Fanhua’s ADSs trade under the symbol “FANH.”

4. Throughout the Class Period, Defendants made materially false and misleading statements regarding the Company’s business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) Fanhua engaged in improper business practices, including irregular accounting; (ii) the foregoing practices were intended to benefit Company insiders and overstated Fanhua’s financial assets and performance metrics; and (iii) as a result, Fanhua’s public statements were materially false and misleading at all relevant times.

5. On August 27, 2018, stock analyst Seligman Investments published an article that described Fanhua as a “questionable company” and detailed a history of alleged fraud within the Company, including accounting irregularities in the Company’s second quarter 2018 financial results.

6. On this news, Fanhua's ADS price fell \$2.75 per share, or 10.52%, to close at \$23.40 on August 27, 2018.

7. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

JURISDICTION AND VENUE

8. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. §240.10b-5).

9. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and Section 27 of the Exchange Act.

10. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b). Fanhua securities are traded on the NASDAQ, located within this Judicial District.

11. In connection with the acts, conduct and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

12. Plaintiff, as set forth in the attached Certification, acquired Fanhua securities at artificially inflated prices during the Class Period and were damaged upon the revelation of the alleged corrective disclosures.

13. Defendant Fanhua is incorporated in the Cayman Islands, with principal executive offices located at 27/F, Pearl River Tower, No. 15 West Zhujiang Road, Guangzhou, Guangdong 510623 People's Republic of China. Fanhua ADSs are listed on NASDAQ under the symbol "FANH".

14. Defendant Chunlin Wang ("Wang") has served at all relevant times as the Company's Chief Executive Officer.

15. Defendant Peng Ge ("Ge") has served at all relevant times as the Company's Chief Financial Officer.

16. The Defendants referenced above in ¶¶ 14-15 are sometimes referred to herein as the "Individual Defendants."

17. The Individual Defendants possessed the power and authority to control the contents of Fanhua's SEC filings, press releases, and other market communications. The Individual Defendants were provided with copies of the Company's SEC filings and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. Because of their positions with the Company, and their access to material information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public, and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements and omissions pleaded herein.

SUBSTANTIVE ALLEGATIONS

Background

18. Founded in 1998, Fanhua is a leading independent online-to-offline financial services provider. Through its online platforms and offline sales and service network, Fanhua offers a wide variety of life and property and casualty insurance products, and provides insurance claims adjusting services.

Materially False and Misleading Statements Issued During the Class Period

19. The Class Period begins on April 20, 2018, when the Company filed its annual report on Form 20-F for the fiscal year ended December 31, 2017 (the “2017 Annual Report”). In the 2017 Annual Report, the Company stated, in relevant part:

The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- *reviewing and approving all proposed related-party transactions;*
- discussing the annual audited financial statements with management and the independent auditors;
- *reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;*
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management, the independent auditors and the internal auditor; and

reporting regularly to the full board of directors.

(Emphases added.)

20. In the 2017 Annual Report, Fanhua reported total net revenues of over \$628 million and accounts receivable of over \$21 million for 2017. Additionally, the Company reported “other receivables” of over \$31 million for that same period.

21. The 2017 Annual Report contained signed certifications pursuant to the Sarbanes-Oxley Act of 2002 by the Individual Defendants, stating that “[t]he information contained in the [2017 Annual Report] fairly presents, in all material respects, the financial condition and results of operations of the Company.”

22. On May 21, 2018, the Company filed a Form 6-K announcing its financial results for the first quarter of 2018 (the “1Q18 6-K”). Appended to the 1Q18 6-K as Exhibit 99.1 was a press release which stated, in relevant part, that the Company generated over \$134 million in net revenues (a year-over-year 36.8% decline) and over \$14 million in operating income (a year-over-year 63.3% increase) for the quarter. The Company also reported accounts receivable of over \$92 million and “other receivables” of over \$101 million, as of March 31, 2018.

23. Commenting on the first quarter 2018 financial results, Defendant Wang, chairman and chief executive officer of Fanhua, stated, “***We delivered another quarter of solid results that beat our expectation***, with operating income growing by 63.3% year-over-year to RMB90.2 million, and net income attributable to shareholders increasing by 86.7% year-over-year to RMB130.2 million.” (Emphasis added.). Defendant Wang continued:

Looking ahead to the second quarter of 2018, we expect the life insurance industry will be on track for a healthier development, in view of current financial and insurance regulatory trends. But we firmly believe that the decoupling of manufacturing from distribution is an irreversible trend and the industry’s transition towards protection-oriented business is favorable for Fanhua. As such,

we expect to achieve positive growth in first year life insurance APEs and operating income of no less than RMB100 million in the second quarter of 2018.

24. On August 21, 2018, the Company filed a Form 6-K announcing its financial results for the second quarter of 2018 (the “2Q18 6-K”). Appended to the 2Q18 6-K as Exhibit 99.1 was a press release which stated, in relevant part, that the Company generated over \$146 million in net revenues (a year-over-year 3% decline) and over \$19 million in operating income (a year-over-year 77.2% increase) for the quarter. The Company also reported accounts receivable of over \$131 million and “other receivables” of over \$98 million, as of June 30, 2018.

25. Commenting on the financial results of the second quarter of 2018, Defendant Wang stated:

We are glad to report strong results in the second quarter of 2018, with operating income growing 77.2% year-over-year to RMB127.6 million, once again beating expectations, and net income attributable to shareholders growing 22.4% year-over-year to RMB171.8 million.

Total life insurance premiums reached RMB1.5 billion, up 69.8% year-over-year, outpacing the overall industry growth rate. *This was driven by the strong growth across all of the key operational metrics in our life insurance segment[.]*

* * *

Looking ahead to the second half of 2018, in light of the extremely high base in the third quarter of 2017 primarily owing to the swell of fast-return annuity and participating endowment products following the implementation of Circular No. 134, we expect to see a slight year-over-year decrease in new life insurance premiums in the third quarter of 2018. *However, we are still confident that we will be able to achieve no less than RMB100 million in operating income in the third quarter of 2018, based on expected positive growth in health insurance business and continued fast growth in renewal business during the quarter.*

Despite the regulatory restriction on the sales of short term and fast-return savings-focused life insurance products, *we remain confident in our ability to achieve positive growth in annualized life insurance premiums in 2018 and we believe the fast growth in our renewal business will continue, which will become an increasingly more important and stable source of profits for the Company. This allows us to raise our full year guidance for operating profit from 40% to no less than 50% growth year-over-year.*

(Emphases added.)

26. The statements referenced in ¶¶ 19-25 were materially false and misleading because Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) Fanhua engaged in improper business practices, including irregular accounting; (ii) the foregoing practices were intended to benefit Company insiders and overstated Fanhua’s financial assets and performance metrics; and (iii) as a result, Fanhua’s public statements were materially false and misleading at all relevant times.

The Truth Begins to Emerge

27. On August 27, 2018, *Seeking Alpha* published a report on Fanhua by Seligman Investments. The report stated that “[b]ased on due diligence of [Chinese] SAIC filings and other public information, we are deeply concerned about the company’s business practices”. Specifically, the report asserted, in part:

- ***We believe the company is grossly exaggerating its number of insurance sales agents, and hence its potential for growth.*** Sales force size and growth are the company’s most critical operating metrics, highlighted in virtually every press release and conference call since their IPO. ***Our analysis suggests that the actual size of its sales channel is a mere 1/20th of the reported number.*** We find this to be deeply troubling, as it is reminiscent of allegations raised in 2010, which centered on unsustainable and questionable practices related to its sales agents. We also note risks arising from the multi-level marketing element of Fanhua’s sales force, given the regulatory scrutiny that these structures are currently facing.
- The China Insurance Regulatory Commission (CIRC), on October 1, 2017, banned certain highrisk “insurance” products, which were critical to FANH’s growth in 2017. As the company’s growth has slowed since the ban, we believe that company insiders have quickly resorted to the same self-dealing tactics that they used in 2010/2011. This behavior has become blatant in the last few weeks, and involves the co-founder selling approximately \$250mm of stock to the company – via a related party that the company initially failed to disclose, and

which it still denies is an insider or related party. We cannot recall a company transferring cash from the company's balance sheet to the founder on this scale and in one transaction.

- ***Simultaneous with the related-party transaction above, management implemented a complex incentive scheme that we believe will enable further siphoning of cash to related party entities.*** This scheme is almost identical to one that they implemented in the past. We believe that this scheme, when combined with the \$250mm related party transaction just announced with the founder, is likely to drain 91% of the company's current cash balance. We also document a history of the company making loans to insiders so that they can purchase stock, and then not paying back the loans.
- Fanhua is a roll-up that has completed numerous acquisitions, mostly of other insurance intermediaries. ***It is our belief, based upon an ongoing review of these transactions, that these acquisitions are rife with related-party abuses similar to what we have observed in various US-listed offshore companies. We document one case in particular where Fanhua announced an acquisition of a company, yet failed to disclose that it was a related party owned by the founder.*** Our review of local Chinese filings indicates that the founder of Fanhua still owns the entity years later, suggesting that it was a fictitious transaction. The chart of the "acquired" entity's ownership required tracing multiple layers of intermediate entities, leading us to believe that the structure was designed to make it extremely difficult to establish its true ownership. We believe that this example is merely the tip of the iceberg.
- ***Fanhua's recent results – both revenue and earnings – are low quality and have high risk of being a mirage. Receivables have spiked while revenues have declined.*** The growth in receivables is driven by sharp growth in "other receivables," comprised mostly of a "loan to [a] third party." ***We have discovered that this "third party" is actually a related party which is not disclosed as one,*** which we find troubling as revenues driven by transactions with undisclosed related parties were a central feature of companies that failed during the offshore reverse merger wave earlier this decade. We are also concerned about a \$50mm loan facility that Fanhua granted to a mysterious entity in the British Virgin Islands called "Sincere Fame International Limited."
- ***We also note sharp discrepancies between operating income, earnings, and operating cash flows,*** which further cause us to doubt Fanhua's reported margins and earnings. These discrepancies have accelerated in the most recent quarter. Divergences of this magnitude typically appear in the late stages of a situation, indicating difficulties in keeping reported results going, based on our experience.

28. On this news, Fanhua's ADS price fell \$2.75 per share, or 10.52%, to close at \$23.40 on August 27, 2018.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

29. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired Fanhua securities during the Class Period (the "Class"); and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

30. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Fanhua securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Fanhua or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

31. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

32. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

33. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by Defendants' acts as alleged herein;
- whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Fanhua;
- whether the Individual Defendants caused Fanhua to issue false and misleading financial statements during the Class Period;
- whether Defendants acted knowingly or recklessly in issuing false and misleading financial statements;
- whether the prices of Fanhua securities during the Class Period were artificially inflated because of the Defendants' conduct complained of herein; and
- whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

34. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

35. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- Fanhua securities are traded in an efficient market;
- the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;
- the Company traded on the NASDAQ and was covered by multiple analysts;
- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- Plaintiff and members of the Class purchased, acquired and/or sold Fanhua securities between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

36. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

37. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I

(Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants)

38. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

39. This Count is asserted against Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

40. During the Class Period, Defendants engaged in a plan, scheme, conspiracy and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon Plaintiff and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to, and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Fanhua securities; and (iii) cause Plaintiff and other members of the Class to purchase or otherwise acquire Fanhua securities and options at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

41. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of the Defendants participated directly or indirectly in the preparation and/or issuance of the quarterly and annual reports, SEC filings, press releases and other statements and documents described above, including statements made to securities analysts and the media that were designed to influence the market for Fanhua securities. Such reports, filings, releases and statements were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about Fanhua's finances and business prospects.

42. By virtue of their positions at Fanhua , Defendants had actual knowledge of the materially false and misleading statements and material omissions alleged herein and intended thereby to deceive Plaintiff and the other members of the Class, or, in the alternative, Defendants

acted with reckless disregard for the truth in that they failed or refused to ascertain and disclose such facts as would reveal the materially false and misleading nature of the statements made, although such facts were readily available to Defendants. Said acts and omissions of Defendants were committed willfully or with reckless disregard for the truth. In addition, each Defendant knew or recklessly disregarded that material facts were being misrepresented or omitted as described above.

43. Information showing that Defendants acted knowingly or with reckless disregard for the truth is peculiarly within Defendants' knowledge and control. As the senior managers and/or directors of Fanhua, the Individual Defendants had knowledge of the details of Fanhua's internal affairs.

44. The Individual Defendants are liable both directly and indirectly for the wrongs complained of herein. Because of their positions of control and authority, the Individual Defendants were able to and did, directly or indirectly, control the content of the statements of Fanhua. As officers and/or directors of a publicly-held company, the Individual Defendants had a duty to disseminate timely, accurate, and truthful information with respect to Fanhua's businesses, operations, future financial condition and future prospects. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of Fanhua securities was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning Fanhua's business and financial condition which were concealed by Defendants, Plaintiff and the other members of the Class purchased or otherwise acquired Fanhua securities at artificially inflated prices and relied upon the price of the securities, the integrity of the market for the securities and/or upon statements disseminated by Defendants, and were damaged thereby.

45. During the Class Period, Fanhua securities were traded on an active and efficient market. Plaintiff and the other members of the Class, relying on the materially false and misleading statements described herein, which the Defendants made, issued or caused to be disseminated, or relying upon the integrity of the market, purchased or otherwise acquired shares of Fanhua securities at prices artificially inflated by Defendants' wrongful conduct. Had Plaintiff and the other members of the Class known the truth, they would not have purchased or otherwise acquired said securities, or would not have purchased or otherwise acquired them at the inflated prices that were paid. At the time of the purchases and/or acquisitions by Plaintiff and the Class, the true value of Fanhua securities was substantially lower than the prices paid by Plaintiff and the other members of the Class. The market price of Fanhua securities declined sharply upon public disclosure of the facts alleged herein to the injury of Plaintiff and Class members.

46. By reason of the conduct alleged herein, Defendants knowingly or recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

47. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases, acquisitions and sales of the Company's securities during the Class Period, upon the disclosure that the Company had been disseminating misrepresented financial statements to the investing public.

COUNT II

(Violations of Section 20(a) of the Exchange Act Against The Individual Defendants)

48. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

49. During the Class Period, the Individual Defendants participated in the operation and management of Fanhua, and conducted and participated, directly and indirectly, in the conduct of Fanhua's business affairs. Because of their senior positions, they knew the adverse non-public information about Fanhua's false financial statements.

50. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Fanhua's financial condition and results of operations, and to correct promptly any public statements issued by Fanhua which had become materially false or misleading.

51. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which Fanhua disseminated in the marketplace during the Class Period concerning Fanhua's results of operations. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Fanhua to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were "controlling persons" of Fanhua within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Fanhua securities.

52. Each of the Individual Defendants, therefore, acted as a controlling person of Fanhua. By reason of their senior management positions and/or being directors of Fanhua, each

of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, Fanhua to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of Fanhua and possessed the power to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

53. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by Fanhua.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against Defendants as follows:

- A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;
- B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;
- C. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and
- D. Awarding such other and further relief as this Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.