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CISG - Q1 2012 CNinsure Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Oasis Qui *CNInsure Inc. - IR Manager*

Chunlin Wang *CNInsure Inc. - CEO*

Peng Ge *CNInsure Inc. - CFO*

PRESENTATION

Operator

Thank you for standing by for the CNInsure 2012 Q1 Earnings conference call. (Operator instructions) After the management's prepared remarks there will be a question and answer section. (Operator instructions) For your information, this conference call is now being broadcast live over the internet. Webcast replays will be available within an hour after the conference is finished. Please visit www.cninsure.net, under the Investor Relations section.

Today's conference is being recorded. If you have any objections then you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Ms Oasis Qui, CNInsure Investor Relations Officer.

Oasis Qui - *CNInsure Inc. - IR Manager*

Welcome to our first quarter 2012 earnings investment call. The [end results] were announced earlier today are now available on our IR website as well as on news sites. Before we continue, please note that the discussion today will contain forward document statements made under the safe harbor protection of the US Private Security Litigation Reform Act of 1995.

The accuracy of this statement is impacted by a number of [different] (inaudible) that record how actuals have differed materially from those projected and anticipated. Such [risk] but not [in Thailand], including our registration payment on (inaudible). We do not undertake any extra obligations to update (inaudible) information (inaudible).

Today, here with me is our Chief Executive Officer Mr Yanan Hu and Chief Financial Officer Mr Peng Ge. They will walk you through our first quarter 2012 financial and operating results and answer your questions after the prepared remarks.

Now I will turn the call over to Mr Wang.

Chunlin Wang - *CNInsure Inc. - CEO*

(interpreted) Dear shareholders, analysts, ladies and gentlemen, good morning. Thank you for joining us on today's conference call. Today with me we have our Chief Financial Officer Mr Peng Ge. We will begin today's call with a review of our first quarter 2012 financial and operating performance followed by a briefing on our business strategies. Then we will go to the Q&A session.

Core internet growth slowed down in 2007 due to the various macro-economic conditions. China's insurance industry was undergoing structural changes in the first quarter 2012, with a sluggish 4.7% year over year growth in total premiums written. Life insurance sector impacted by high liquidity, competition from other financial products and rising (inaudible) rates remained on the downward trend.

In facing the challenges of the insurance industry our financials were down in the first quarter (inaudible). Although we have seen growth slowdown in total net revenue, it would be our previous experience of less than 5% growth, increasing by 7.5% year over year. However consistent inflation in China, tempered by competition in the insurance industry has resulted in increasing operating costs and expenses.

Our total operating cost and expenses in the first quarter were 32.8% year on year growth, far exceeding revenue growth which weighed heavily on (technical difficulty). Now, we have net income particularly to those who are Company shareholders, for the first quarter 2012. Excluding share based competition (inaudible), the net income from the continued operations was down 27.6% from the year (inaudible) quarter.

Looking at the financial performance of our (inaudible) statements, of our (inaudible) for the third quarter grew 10.1% year over the year, mainly due to a slight increase of (inaudible) commission rate. However, operating costs on the P&C side reported a five year growth (inaudible) previous assessment which is one of the key factors leading to the decline of our net income.

The upsurge in our P&C commission costs was mainly attributable to the following (technical difficulty). First, market competition was (inaudible) and the insurance (inaudible) we have seen severe competition in all of the insurance [cells] and consequently including (inaudible) acquisition costs in the traditional channels.

In the meantime, P&C insurance companies underwriting profits have accrued a loss over the last two years, such that they were able to steadily increase commission they pay out to different channels in order to compete for premiums. As a result, we also need to increase our commission payout ratio to our agents, benchmarking the market now in order to maintain our existing market shares.

Secondly, persistent inflation in China, that drove up the cost of living, also stimulated some (technical difficulty) for higher commission ratios.

Our life insurance business was impacted by subsidies (inaudible) in insurance industry, when it declined on a new product basis and a [3% increase] in net revenues year on year in the first quarter; due to slow growth as compared to the other two businesses, net revenues of our life insurance business accounted for 19.4% of our total net value for the first quarter 2012, down from 21.5% in the year ago quarter.

Nevertheless, as we historically focus finally on distributing traditional life insurance policies with long-term payment schedules and we're committed to maintaining an above average (inaudible) ratio. This drawing back of valuable life insurance business began to contribute positively to our (inaudible). Recurring commission brought a strong [20.7%] year on year growth in the first quarter, strengthening the contribution to our (inaudible) and a gross margin of our life insurance (inaudible).

(Inaudible) business was slightly better at (inaudible) 12.2% year on year. The growth of higher margin now P&C related claims adjustment (inaudible) was particularly solid, which translated into 4 percentage point growth in gross margins and 22.7% increase in gross profits year on year.

In the first quarter, CN pushed forward with the transition by the Company (inaudible). We have been working on (inaudible) model that focuses on higher penetration into urban areas, provision of (inaudible) mentioned to customers and the adjustment as well as carrying out (inaudible) marketing.

During the first quarter much of the efforts were concentrated on laying the groundwork for implementing the model, including streamlining internal organizational structure of the [Life unit], encouraging sales agents to seek professional development, promoting the concept of being customer oriented instead of sales agent oriented. In the meantime, we have been actively working with the insurance companies on product innovation and launched two new products that target our medium to high-end customers. On the claims adjustment side, we endeavored to strengthen our China (inaudible) adjustor team and enhanced efforts to develop (inaudible) P&C claims adjusting business in order to optimize the business quality and model of our current adjusting standards. On the P&C side, in order to maintain the long-term healthy development of our business, we cut back some lower value-added operations that are (inaudible).

After over one year of development of our e-commerce option, we've been trial running of the (inaudible) our overall e-commerce strategy has been clearer. Given the fact that the [B2B] market environment is immature and individual sales agents will manage an important distribution of power in the next few years, we take more of a (inaudible) and prudence than over-launching market campaigns and advertising to promote (inaudible), in that we will focus on the B2B model, aimed at helping sales agents to earn more money by improving their operation of efficiency, reducing costs and diversify their revenue.



Alongside of that, we plan to build up the B2B model at the employees (inaudible) which targets consolidating the ancillary insurance intermediate channel. Up to now we have completed hardware model selections and testing for our mobile integrated system led B2B platform and entered a key optimization stage in terms of the (inaudible) value.

We have finished the study on the cooperation model, which we see as (inaudible) in China] and started to initiate the implementation process. Our B2B insurance compared to (inaudible) was launched on the first day of this year and we have been focusing on adding more products and optimizing customer experience on the website during the first quarter.

[Although] there's a lot of intermittent global economic growth cutbacks, with the release from a long term (technical difficulty), trend of urbanization in China, ageing population, increasing awareness of insurance and financial planning and non-consumers will continue to drive the growth of insurance and financial services industry.

We are strongly committed to the (inaudible) of the Company to prepare ourselves to emerge in a stronger position and return to higher growth after the adjustment period. Now I will turn the floor over to Mr Peng Ge, CFO, to discuss the first quarter with you.

Peng Ge - CNInsure Inc. - CFO

(interpreted) The Company's first quarter results for the quarter of 2012. The numbers I will refer to are in renminbi otherwise indicate. Total net revenue for the first quarter of 2012 was RMB337.3 million, up 7.5% from the year ago quarter. Total operating costs and expenses for the first quarter 2012 were RMB298.7 million, up 32.8% from the year ago quarter.

Commissions and fees expenses for the first quarter of 2012 were RMB213.5 million, up 39.1% from the year ago quarter. Selling expenses for the first quarter of 2012 were RMB18.7 million, up 0.1% from the year ago quarter. General and administrative expenses for first quarter 2012 were RMB66.5 million, up 25.9% from the year ago quarter.

As a result of the proposed [tax], income from operations for the first quarter 2012 was RMB38.7 million, down 56.4% from the year ago quarter. Interest income for the first quarter of 2012 was RMB22.5 million, up 158.8% from the year ago quarter. Executive income tax rate was 22.1% for the first quarter of 2012 compared to 20.7% for the first quarter of 2011.

Net income from continuing operations was RMB52.8 million for the first quarter of 2012, down 34.1% from the year ago quarter. Net income attributable to the Company's shareholders was RMB54.6 million for the first quarter of 2012, decreasing 77.3% from the corresponding period of 2011.

Excluding net income combined (technical difficulty) operations and consumer based [mission] expenses non-GAAP net income attributable to the Company's shareholders was RMB58.7 million, decreasing 27.6% from the year ago quarter. Non-GAAP net margin was 17.4% for the first quarter of 2012 compared to 25.9% for the (technical difficulty) 2011.

Basic and diluted income per ADS was RMB1.09 and RMB1.08 respectively for the first quarter of 2012, down 77.3% (inaudible) from RMB4.8 and RMB4.69 respectively for the year ago quarter. Non-GAAP-adjusted basic diluted net income per ADS which excluded net income from discontinued operations and share based compensation expenses was RMB1.17 and RMB1.16 respectively, confirming a decrease of 27.6% and 26.4% from RMB1.62 and RMB1.58 for the year ago quarter.

As of 31 March 2012 the Company had RMB2.3 billion in cash and cash equivalents. CNInsure expects its total net revenue from continuing operations has increased by less than 8% for the second quarter of 2012 compared to the corresponding period of 2011. The forecast (inaudible) which is subject to change.



Oasis Qui - CNInsure Inc. - IR Manager

Now our CEO, Mr Wang and our CFO, Mr Ge will open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin our question and answer session. (Operator instructions).

Thank you, there are currently no questions. I'll now begin our closing script.

Oasis Qui - CNInsure Inc. - IR Manager

Thank you for participating in the conference call. If you have any questions please feel free to contact us. Thank you.

Operator

Thank you for your participation in CNInsure's conference. There will be a webcast we'll play within an hour. Please visit CNInsure at our website at www.cninsure.net under the investor relations section. Thank you all for attending, you may now disconnect. Goodbye.

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