

FINAL TRANSCRIPT

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CISG - Q1 2011 Cninsure Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Oasis Qui

CNinsure - IR Manager

Jessie Wen

CNinsure - IR

Yinan Hu

CNinsure - Chairman and CEO

CONFERENCE CALL PARTICIPANTS

Fawne Jiang

Brean Murray - Analyst

Bryan Yip

Rothschild - Analyst

Jun Hao Mao

CICC - Analyst

PRESENTATION

Operator

Thank you for standing by for CNinsure 2011 Q1 earnings conference call.

(Operator Instructions)

For your information, this conference call is being broadcast live over the internet. Webcast replay will be available within an hour the conference is finished. Please visit www.cninsure.net under the investor relations section.

Today's conference call is being recorded. If you have any objections you may disconnect at this time.

I would now like to turn the meeting over to your host for today's conference, Miss Oasis Qui, CNinsure Investor Relations Officer. Miss Qui, please begin.

Oasis Qui - CNinsure - IR Manager

Thank you, Bobby. Good morning. Welcome to our first quarter 2011 earnings conference call. Our earnings results were released earlier today and are available on our IR website as well as on newswire.

Before we continue please note that the discussion today will contain forward looking statements made under the Safe Harbor Provisions of the US Private Securities Litigation Reform Act of 1995. The accuracy of those statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but not limited to those outlined in our filings with the SEC, including our registration statement on Form-20F. We do not undertake any obligation to update this forward looking information except as required under applicable law.

Today the call will be hosted by our Chairman and Chief Executive Officer Mr Yinan Hu and our Chief Financial Officer Mr Peng Ge.

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I will go over the management's prepared remarks before we go into the Q&A session.

Despite a company-wide restructuring and the industry-wide slowdown of premium growth, the Company continued to deliver solid financial results in the first quarter of 2011, with total net revenues growing 28.3% year-over-year. Net income from continuing operations, which excluded the net loss attributable to non-controlling interests, grew 23.1% which is line with the management's previous guidance. Driven by our strong premium and the year-over-year increase in the average P&C commission rate, net revenues of our P&C insurance business in the first quarter grew 31.7% year-over-year, far exceeding the premium growth of the P&C insurance industry.

In addition, we further expanded corporate-to-corporate cooperation with leading P&C insurance companies and recently entered into a Memorandum Of Understanding with Tianping Auto Insurance for such cooperation.

At present one third of our P&C insurance partners have established strategic corporate-to-corporate cooperation with us. We will continue to initiate these kinds of partnerships with more insurance partners in the future, which we believe will further enhance our business scale and profitability.

Our life insurance business unit still maintained solid growth in the first quarter with revenues growing 35% year-over-year, accounting for 21.5% of the total net revenues of the Company.

Recently we established strategic partnership at headquarter level with Taiping Life Insurance - the fifth largest life insurance company in China - to work closely on distribution and development of customized insurance products.

The sale of Datong does not change our strategic focus on life insurance business in the future. In the past two years the CIRC permit gave several new regulations (inaudible) of the insurance market system in China. The China Banking Regulatory Commission on the other hand has tightened control of bancassurance to curb (inaudible) misrepresentation in the brand distribution channels. AS a result more and more insurance companies have to seek alternative ways for life insurance product distribution other than captive sales agents and banks.

We believe that professional insurance intermediaries will benefit from this new change as evidenced by the solid growth of our life insurance and a negative growth of the life insurance market in the first quarter.

In view of the low insurance penetration rate and [downsizing] in China, professional insurance intermediaries still have huge room to grow as its market share in the life insurance market was less than 2%.

Claims adjusting business recorded a moderate growth in the first quarter and contributed approximately 12% to the Company's total net revenues. We started our claims adjusting business in 2008 and have soon established our leading position in the adjusting for all insurance, marine and cargo, and property insurance by market consolidation.

Recently we were named the top 10 claims adjustor for the year 2010. We are confident that our claims adjusting business unit will be able to further solidify leading position in the claims adjusting sector in the future.

We are continuing to grow our existing business. We finalized a three year strategic plan in March to strengthen and accelerate our investment in the e-commerce insurance business in order to gain the [first mover] advantage and build up the largest online insurance [supermarket] in China.

As part of our effort to build up this platform we have initiated first round of internal user testing for a price comparison website and anticipate to launch the upgraded website in the fourth quarter of this year.



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(Inaudible) we will rollout an online and offline advertising campaign on various media to build the brand awareness of our e-commerce insurance platform which we believe will also greatly improve CNinsure's brand recognition among customers and establish a leading position in e-commerce insurance market.

On the regulatory side, the CIRC recently released a research report on China's insurance intermediary industry, during the 12th five year plan period, which is basically stated that it will spare no effort to promote further division of labor into the (inaudible) views of the practitioners, enhance the business scale and encourage diversification in the insurance income intermediary market. It is estimated by the report that the market share of the professional insurance intermediary industry may reach [40%] by 2014.

Meanwhile, CIRC will take the following measures for the development of the insurance intermediary including -- proactively promoting the reform of the insurance market system; encouraging the restructuring, mergers and acquisitions; fundraising through IPO by insurance intermediaries; raising entry barriers; encouraging the exploration of new distribution channels; making reform on the (inaudible) business agencies such as car dealers and the financial institutions; as well as further opening the insurance intermediary sector et cetera. We believe all these changes are favorable to CNinsure.

Ever since our inception we have been constantly changing to adapt to the new trends and capitalize on new opportunities, however our vision to become a world class comprehensive financial services group and our mission to help families to gain financial independence have never been changed.

We aim to become a leading player in every area that we tap into in order to satisfy our customers' needs for a comprehensive financial service through innovation. We will spare no effort to execute our growth strategies to achieve this goal.

Now we turn to Jessie [Wen], my colleague, to go over the prepared remarks on behalf of the CFO.

Jessie Wen - CNinsure - IR

Numbers I will refer to will be in RMB unless otherwise indicated. I am pleased to report solid results for the first quarter of 2011. Total net revenue for the first quarter 2011 were RMB313.7 million, up 28.3% from the year ago quarter.

Total operating costs and expenses for the first quarter 2011 were RMB 225 million, up 26.3% from the year ago quarter. Commissions have been suspended for the first quarter 2011, were RMB153.5 million, up 30.2% from the year ago quarter.

Selling expenses for the first quarter 2011 were RMB18.7 million, up 60.2% from the year ago quarter.

General and administrative expenses for the first quarter 2011 were RMB52.8 million, up 8.7% from the year ago quarter.

As a result of the foregoing factors, income from operation for the first quarter of 2011 was RMB88.7 million, up 33.8% from the year ago quarter.

For first quarter 2011 operating margin was 28.3% compared to 27.1% from the year ago quarter.

Interest income for the first quarter 2011 was RMB8.7 million, up 39.6% from the year ago quarter.

The effective income tax rate was 20.7% for the first quarter of 2011 compared to 25.7% for the first quarter of 2010.

Net income from continuing operations was RMB80.1 million for the first quarter of 2011, up 23.1% from the year ago quarter.

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After incorporating net income from discontinued operations of RMB157.3 million, total net income was RMB237.4 million, up 240% from the corresponding period of 2010.

Excluding net income from discontinued operations, non-recurring investment income incurred by business combination achieved in stages, and share based compensation expenses, adjusted net income attributable to the Company's shareholders was RMB81.1 million, up 36.4% from the year ago quarter.

Net margin for the continuing operations was 25.5% for the first quarter of 2011 compared to 26.6% for the first quarter of 2010.

Basic net income for ADS from continuing operations was RMB1.665 for the first quarter 2011, up 21.3% from RMB1.372 for the year ago quarter.

Fully diluted net income for ADS from continuing operations was RMB1.629 for the first quarter of 2011, up 22.6% from RMB1.328 for the year ago quarter.

Basic net income per ADS from discontinued operations was RMB3.131 for the first quarter of 2011, up 2913.7% from RMB0.104 for the year ago quarter.

Fully diluted net income per ADS from discontinued operations was RMB3.064 for the first quarter of 2011, up 2925.8% from RMB0.101 for the year ago quarter.

Basic net income per ADS was RMB4.796 for the first quarter of 2011, up 224.9% from RMB1.476 for the year ago quarter.

Fully diluted net income per ADS was RMB4.693 for the first quarter of 2011, up 228.4% from RMB1.429 for the year ago quarter.

As of 31 March 2011 the Company had RMB2.3 billion in cash and cash equivalent.

CNinsure (inaudible) net income attributable to the Company's shareholders, excluding investment income incurred by business combination achieved in stage and the estimated strategic expanding on (inaudible) to grow by approximately 18% in the second quarter of 2011, compared to the corresponding period of 2010. This forecast reflects CNinsure's current and preliminary view, which is subject to change.

Before moving to the Q&A session I would like to make (inaudible) private proposal that the Board received on 14 May 2011. At this stage we do not have any additional information beyond what is published in our earlier press releases, therefore this call will solely focus on discussing the results and operations of the Company. We do not answer any questions related to the proposal, and please refrain from asking any questions related to this matter. Thank you for your understanding.

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

QUESTIONS AND ANSWERS

Operator

Thank you ladies and gentlemen. (Operator Instructions).

Our first question is Fawne Jiang from Brean Murray. Please go ahead.

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Fawne Jiang - Brean Murray - Analyst

Good morning. My first question is actually regarding your second quarter guidance. You guided to 18% year-over-year growth. Just wonder what's the implied growth for each of your segments perspectively [sic] on the revenue side?

Yinan Hu - CNinsure - Chairman and CEO

(interpreted) The guidance that we provided for the second quarter is actually in line with the budget that we have made for the whole year that we provided to the market at the beginning of this year, and we are expecting our P&C and claims adjusting business to grow 20% respectively and life insurance business over 30% for the whole year.

Fawne Jiang - Brean Murray - Analyst

Thank you. A follow-up question regarding that - I notice that your P&C grew over 30% in the first quarter. What's the key driver for - actually it's the best quarter in past year - I just wonder what the key driver is for year-over-year growth. Also wonder what's the current P&C commission rate right now?

Yinan Hu - CNinsure - Chairman and CEO

(interpreted) There are three drivers for the growth. First of all, our commission rate has been improved to 17.8% in the first quarter. Secondly, it was driven by our self-capability that we have built over the past few years, and our P&C business has been on a sound [track] for growth. Then thirdly, we have seen some strategic shift in insurance in companies, especially the small and medium size insurance companies, which is reflected in the fact that they have been constructing their self-network in order to focus more of their resources on their key competency, including the research and development product, as well as asset management.

But we have to say that probably the good results of our P&C insurance growth may not be sustainable. We do feel some pressures from telemarketing, that being aggressively promoted by insurance companies, and some pressures on our costs due to the competition. And this pressure may be more fully reflected starting in the second quarter of this year.

Fawne Jiang - Brean Murray - Analyst

Thank you. Actually, for comparison purposes, what is the commission rate, P&C commission rate, for first quarter 2010?

Oasis Qui - CNinsure - IR Manager

16.8%.

Fawne Jiang - Brean Murray - Analyst

Sorry?

Oasis Qui - CNinsure - IR Manager

16.8%.

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Fawne Jiang - Brean Murray - Analyst

Okay, 16.8%. Alright, last question is actually regarding the Datong business contribution to the second quarter of last year. It seems like for the first quarter last year Datong contributed over 40% of your life insurance revenue. Just wonder what's the size of the Datong contribution for second quarter?

Oasis Qui - CNinsure - IR Manager

Sorry, could you please repeat that question?

Fawne Jiang - Brean Murray - Analyst

(spoken in foreign language)

Oasis Qui - CNinsure - IR Manager

Hold on please. We are checking.

Yinan Hu - CNinsure - Chairman and CEO

(interpreted) The sale of Datong contributed 17% of our total revenues in the second quarter of last year.

Fawne Jiang - Brean Murray - Analyst

Got it. That's very helpful. I'll jump back to the queue.

Operator

(Operator Instructions). Our next question is Fawne Jiang from Brean Murray. Please go ahead.

Fawne Jiang - Brean Murray - Analyst

Thank you for taking my follow-up questions. My next question is actually regarding your e-commerce business. Just wonder what's the investment for first quarter - if you have incurred any investments for the platform in the quarter?

Yinan Hu - CNinsure - Chairman and CEO

(interpreted) Our e-commerce platform is still at the research and development stage. So the expenses incurred by this investment is mainly related to the salary and also the research and development expenses regarding this platform, and total amount is about RMB1.6 million.

Fawne Jiang - Brean Murray - Analyst

You mentioned that you are going to invest around RMB100 million in 2011 to build up e-commerce platform. Just wonder what's the approximate allocation for the next three quarters?



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Yinan Hu - *CNinsure - Chairman and CEO*

(interpreted) We expect to put the platform, put the website, comparison website into operation in the third quarter of this year, and the spending, majority of the spending will be on advertising, starting from the third quarter and then the fourth quarter. Right now we are still in the process of finalizing the marketing campaign program and therefore for the second quarter we don't really see the investment will be huge. It may be still a very small amount.

Fawne Jiang - *Brean Murray - Analyst*

Thank you. That's helpful. My next question is actually regarding your claims adjusting business. It seems like the growth for first quarter was relatively slow - it was 5%. You actually guided second Q year-over-year growth to be 20%. Just wonder, you know, what's the reason for the slow growth in first quarter and why we do expect acceleration of growth in second quarter as well as for the full year?

Yinan Hu - *CNinsure - Chairman and CEO*

(interpreted) There is some seasonality in the claims adjusting business. The first quarter is generally in the lowest season and according to our full year budget for the claims adjusting business it is true indeed that the first year - the first quarter result was slightly lower than our estimate, but we expect that the growth of the claims adjusting in the next quarters, in the following quarters will make up for that slowdown.

Fawne Jiang - *Brean Murray - Analyst*

Thank you. I have one more question. I understand that you're not planning to discuss the go private deal on the call. Actually I'm just checking on some facts. I just wonder, does the TPG have any holdings of CNinsure as of now?

Oasis Qui - *CNinsure - IR Manager*

As far as Mr Hu knows, TPG doesn't have any holdings in CNinsure right now.

Fawne Jiang - *Brean Murray - Analyst*

Got you. That's very helpful. That's all my questions. Thanks for taking the questions.

Operator

(Operator Instructions). Our next question is [Bryan Yip] from Rothschild. Please go ahead.

Bryan Yip - *Rothschild - Analyst*

My question is, I think most or all of the outstanding options [are out of] money. Any plans to issue new options at this moment?

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Yinan Hu - *CNinsure - Chairman and CEO*

(interpreted) According to our plans, generally after the completion of the assessment of KPI results for the previous year we will roll down a new option grant at the early beginning of the year, and we have already granted a new option which has been disclosed in our earnings release.

Bryan Yip - *Rothschild - Analyst*

Okay, thank you. I have one more question. It's more of a general feeling - can you give - so how is the salary trend like, or the salary increase you have been putting into your forecasting this year? Thank you.

Yinan Hu - *CNinsure - Chairman and CEO*

(interpreted) In general in China we are seeing a 10% increase in salary level, and that means in China, and in CNinsure we also feel the same pressure and we are expecting there may be 15% increase in salary.

Bryan Yip - *Rothschild - Analyst*

Thank you.

Operator

(Operator Instructions). Our next question is [Jun Hao Mao] CICC. Please go ahead.

Jun Hao Mao - *CICC - Analyst*

(spoken in foreign language)

Oasis Qui - *CNinsure - IR Manager*

The question is from Mr Mao from CICC regarding our commission rate. There was an improvement in our commission in the first quarter. What is your expectation for the second half of this year?

Yinan Hu - *CNinsure - Chairman and CEO*

(interpreted) It is right that our commission rate in the first quarter has improved year-over-year and we expect it to trend up slightly in following quarters, but again we are also feeling some pressures from the market and then probably the payout ratio to sales agents may have to go up as well, and therefore the cost for the commission cost may be faster than the fee for our commission rate and therefore the growth margin for our P&C business may be pressured in the coming quarters.

On the life side, as a country we are expecting the commission rate that CNinsure receives may grow faster than the speed that we pay into our sales agents and there's a chance for the growth margin for our life business to improve.

As for the claims adjusting business, seeing as all the claims adjuster professionals are CNinsure's employees, we do have the salary increase pressures, but we have already factored all these increases in our budget.

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Operator

Mr Mao, do you have any follow-up questions?

Jun Hao Mao - CICC - Analyst

(spoken in foreign language)

Yinan Hu - CNinsure - Chairman and CEO

(spoken in foreign language)

Oasis Qui - CNinsure - IR Manager

So the question is about whether or not we can expect there will be a significant increase in the commission rate for the auto insurance in the second and third quarter.

The answer is that we expect the commission rate to be stable and also there is a chance for it to slightly improve, but probably the improvement, I mean the pace for the improvement not be as fast as we expect. It will be a gradual process.

Operator

(Operator Instructions).

Oasis Qui - CNinsure - IR Manager

Hi. Bobby. If there is no more questions you can end the call directly.

Operator

Okay. Since there are no further questions from the floor, we will now begin closing comments.

Thank you for your participation in CNinsure conference. There will be a webcast replay within an hour. Please visit CNinsure IR website at www.cninsure.net under the investor relations section.

Thank you all for attending. You may disconnect now. Goodbye.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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