

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **CISG - Q2 2011 Cninsure Inc Earnings Conference Call**

**Event Date/Time: Aug. 30. 2011 / 1:00AM GMT**



Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

## CORPORATE PARTICIPANTS

**Oasis Qiu**

*CNInsure - Manager Investor Relations*

**Yinan Hu**

*CNInsure - Chairman and CEO*

**Peng Ge**

*CNInsure - CFO*

## CONFERENCE CALL PARTICIPANTS

**Fawne Jiang**

*Brean Murray - Analyst*

**Ellie Li**

*BNP Paribas - Analyst*

**Ben Lin**

*Morgan Stanley - Analyst*

**Joey Kwong**

*CICC - Analyst*

## PRESENTATION

**Operator**

Thank you for standing by CNInsure's 2011 Q2 earnings conference call. (Operator instructions).

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

---

**Oasis Qiu** - *CNInsure - Manager Investor Relations*

Good morning. Welcome to our Q2 earnings conference call. Our Q2 results were released earlier today and are available on our IR website as well as on Newswire.

Before we continue please know 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 20-F. WE do not undertake any obligation to update this forward looking information except as required under applicable law.

Today here with me is our Chairman and Chief Executive officer Mr Yinan Hu and Chief Financial Officer Mr Peng Ge. They will walk you through our second quarter financial and operating results and take your questions after the prepared remarks.

Now I will turn the call over to Mr Hu.

---

**Yinan Hu** - *CNInsure - Chairman and CEO*

(interpreted) Thank you for joining us on today's conference call.



Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

We are satisfied with the solid results that we have achieved amid inflation pressure and industry slowdown during this quarter with total net revenues up 32.2% year-over-year and non-GAAP net income attributable to shareholders, excluding net income from discontinued operations, non-recurring investment income, share-based compensation expenses and strategic spending on e-commerce insurance business, growing 19.5% year-over-year, which was in line with our expectations.

Each of our three major business lines maintained stable growth in the second quarter driven by strong sales and year-on-year increase in the average P&C insurance commission rate, revenues of our P&C insurance business grew 41% year-over-year and 27.7% year-over-year excluding the impact of the net fee-based revenue model.

Within our P&C insurance business unit we see the strongest growth coming from commercial property insurance and accident insurance business, representing large contributions to the revenues of our P&C insurance business unit as compared to the second quarter last year, which further refined the business mix of our P&C business unit.

In [face] of inflation pressure, our life insurance business witnessed a slowdown of revenue growth as compared to the year ago quarter, but still outpace industry average. The growth slowdown was mainly attributable to the weakened competitiveness of life insurance products amid the inflation environment as the interest rate for insurance products - particularly for the [protectional] type of insurance products is relatively lower than those sold through the banking channels. Also it was due to the high acquisition cost that imposed to the South Asian due to inflation.

However our business scale accumulated in the past five years and the strengthening embedded value of our life insurance business enabled us to embrace more and more recurring commissions which partially offset the impacts from industry-wide growth slowdown and currently we have embarked on seeking new growth models to continue growth of our life insurance business and to maintain the competitiveness of our life insurance business amid this inflation environment.

We recorded above average industry growth in our claims adjusting business in the second quarter with net revenues up 21.7% year-over-year and we also saw a modest increase in the gross margin. After [a decade of] development, the insurance claims adjusting sector in China is still in its infancy stage - a market where insurance companies tend to have more say.

In order to enhance the competitiveness in such a market, while continuing to enhance our technological expertise, we also leveraged the extensive service network of our P&C insurance segment to support (inaudible) and operations of the claims adjusting business so as to more efficiently utilize the resources and better serve our customers. We are also strengthening the interaction between our claims adjusting business and the insurance brokerage business in order to reach out directly to more corporate clients which will also help generate great synergies among different business units and reduce over-reliance on insurance companies.

We believe these efforts will contribute to keeping our claims adjusting business stay ahead of its competitors and strive for another breakthrough in its development.

As for growing our e-commerce business, we have been making steady progress. On the regulatory side we are actively communicating with relevant authorities to seek more positive regulatory support to extend (inaudible). On the product supply front, after signing the Strategic Partnership Agreement in e-commerce business with Sunshine Property and Casualty Insurance and China Pacific Property Insurance, several other insurance companies also expressed interest in partnering with us in the e-commerce business.

Currently we are in close talks with more than 10 insurance companies to establish such cooperation.

In terms of sales and marketing, we are considering collaboration with several specialized sales channels for group insurance, travel insurance and marine and cargo insurance et cetera to diversify channels and acquire new customers. Besides, we have been various well-known online and offline advertisers for brand promotion so as to get fully prepared to build the brand awareness of our first insurance e-commerce platform in China.



Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

Since our inception we have been a capital powered and labor driven company and sales agents were the main drivers of our growth, however given the nationwide inflation we have observed a gradual increase in acquisition costs and South Asian's stronger demands to earn more money which directly led to a significant growth of our costs in G&A expenses in the second quarter.

All these financial changes have presented us with more and more pressure and we began to realize that it is imperative for us to transfer our development model from being capital powered and labor driven to be brand powered and technology driven in order to improve customer share and loyalty by enhancing our brand recognition, as well as reduce operating costs and risks through high-tech driven operations.

Initiating the e-commerce business is one of the important strategic moves for us to facilitate this transformation and [fuel] the long-term sustainable growth of the Company.

Looking ahead to the second half of this year we feel cautiously optimistic about the outlook of our business. We believe that we can find new ways to expand our business and strengthen profitability amid the inflation concerns.

In relation to the non-binding going private proposal received by the Board from the consortium composed of TBG Asia, Kingsford Resources, and CDH Inservice, we are moving along in the process. Should there be any major developments we will disclose to the public in a timely fashion. At this point we have no further information on this offer and we will not take any questions related to this. Thank you for your understanding.

Now I will turn the call over to Mr Peng Ge our CFO for the second quarter results.

---

**Peng Ge - CNInsure - CFO**

(interpreted) The numbers I will refer to will be in RMB unless otherwise indicated.

I am pleased to report solid results for the second quarter of 2011. Total net revenues for the second quarter of 2011 were RMB400.7 million, up 32.2% from the year ago quarter. Total operating costs and expenses for the second quarter 2011 were RMB296.9 million, up 39.4% from the year ago quarter.

Commissions and fees expenses for second quarter 2011 were RMB205.2 million, up 48.1% from the year ago quarter. Selling expenses for the second quarter 2011 were RMB19.3 million, up 22.4% from the year ago quarter. General and administrative expenses for the second quarter 2011 were RMB72.4 million, up 23.5% from the year ago quarter.

As a result of the foregoing sectors, income from operation for the second quarter of 2011 was RMB103.8 million, up 16.1% from the year ago quarter.

For the second quarter of 2011 operating margin was 25.9% compared to 29.7% from the year ago quarter. Interest income for the second quarter of 2011 was RMB 13.1 million, up 114.6% from the year ago quarter. The effective income tax rate was 19.5% for the second quarter of 2011 compared to 19.2% for second quarter of 2010.

Net income from continuing operations was RMB97.5 million for the second quarter of 2011 down 6.4% from the year ago quarter.

Excluding net income from discontinued operations, investment income incurred by business combination achieved in stages, net of tax, share-based compensation expenses and strategic spending on e-commerce insurance business, adjusted net income attributable to the Company's shareholders, which is a non-GAAP figure, was RMD108.1 million, up 19.5% from the year ago quarter.



Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

Net margin for the continuing operations was 24.3% for the second quarter of 2011 compared to 34.4% for the second quarter of 2010, excluding one of the investment incomes incurred by business combination achieved in stages, net of tax, adjusted net margin for the second quarter of 2010 was 27.5%.

Basic and diluted net income per ADS was RMB2.001 and RMB1.951 respectively for the second quarter of 2011, down 23% and 21.4% from RMB2.6 and RMB2.494 respectively for the year ago quarter.

Non-GAAP adjusted fully diluted net income per ADS, which excluded net income from discontinued operations, and the aforementioned investment income incurred by business combination achieved in stages, net of tax, share-based compensation expenses and strategic spending on e-commerce insurance business was RMB2.114 representing an increase of 11.2% from RMB1.901 for the corresponding period of 2010.

As of 30 June 2011 the Company had RMB2.4 billion in cash and cash equivalents.

Going forward the Company will offer quarterly guidance for total net revenues instead of net income attributable to the Company's shareholders in view of the increased uncertainty in its net income due to inflationary concerns, strategic spending on e-commerce insurance business and professional fees related to the non-binding going private proposal that the Board received on 14 May 2011.

CNInsure expects its total net revenues from continuing operations to grow by approximately 22% for the third quarter of 2011 compared to the corresponding period of 2010. This forecast reflects CNInsure's current and preliminary view, which is subject to change.

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

---

## QUESTIONS AND ANSWERS

### Operator

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

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

---

### Fawne Jiang - Brean Murray - Analyst

Good morning. Thank you for taking my question. Should question is actually regarding your life business. Just wonder what was the contribution from Datong in the second quarter of last year and what is the implied year-over-year growth for life for this quarter?

Also you mentioned that given the inflationary pressure you see a slowdown of the life business. Just wonder what options you may have to make your products more effective in the coming quarter to continue to drive the growth of the segment.

Lastly, you also mentioned that for the life business recurring commissions becomes increasing portion of your revenue, just wonder right now what percentage of your life revenue comes from the recurring commission?

---

Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

**Yinan Hu** - CNInsure - Chairman and CEO

(interpreted) The second quarter - first of all the revenues from Datong in the second quarter of last year was RMB62 million and then during this quarter the new business, new life insurance new business premiums were flattish in the second quarter, but recurring commissions, the recurring premium was increased by 47% and drives the growth of the overall life insurance business with a 14% growth.

Then the reason for the new business premium sales slowdown was mainly due to the inflational pressure and then we are going to take the [following] measures in the coming quarters to continue to drive our life insurance business - first of all we are going to work with insurance companies to custom design more new products that can better meet the market needs so that the (inaudible) from this new product can offset the inflational concerns.

Secondly, we are going to introduce some more management products in order to also drive the sales of our life insurance products.

---

**Fawne Jiang** - Brean Murray - Analyst

Thank you. My second question is actually regarding your third quarter outlook. You guided 22% year-over-year growth on the revenue, just wonder what's the implied revenue growth for each of your segments? Also, how do you see the commission (inaudible) trend going forward?

---

**Yinan Hu** - CNInsure - Chairman and CEO

(interpreted) We do see a lot of uncertainty impacting the outlook of our three business segments for the third quarter and the coming quarters. On the P&C side we think that, we believe that the industry, the P&C insurance sector will continue to grow by 20% overall and with this industry growth and also because we will continue to expand the sales of corporate, commercial P&C insurance and accident insurance, this may drive the growth of our P&C business and we think that 25% growth should be achievable.

Then in the life side, probably inflation will continue to impact on the sales of our life insurance products and it may take time for insurances companies to adjust their products to suit the inflational environment, so probably our, the sales of our new life insurance business may remain flattish in the near term, but driven by the growth of our current commissions overall we think over 10% growth should be achievable.

Then on the claims adjusting side, we will continue to collaborate with the brokerage segments and also the service network of our existing auto insurance business to see better synergies and to drive the growth of our marine and cargo and also non-(inaudible) related P&C claims adjusting business which generally produce higher growth margins. We are expecting over 20% growth for this claims adjusting business in the coming quarter.

---

**Fawne Jiang** - Brean Murray - Analyst

Thank you. Last question is actually regarding your e-commerce platform. It seems like you made RMB2.4 million investment in second quarter, plus RMB1.6 million in the first quarter - you made RMB4 million so far in the year - but I think earlier you mentioned that you may invest up to RMB100 million in the platform for 2011. Just wonder whether that is still the budget for the rest of the year. Also whether you could give us some more color regarding the progress you have made on e-commerce platform and whether you see, where do you see the potential monetization down the road?

Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

**Yinan Hu** - CNInsure - Chairman and CEO

(interpreted) Currently we are still in the stage of building the technological platform which is crucial for the success of the e-commerce business, because we are meant to build a platform that can support the business [that was] of several hundred billion RMB, so the technological content of this platform is really crucial. Therefore in the first half this year we have put a lot of focus on building this technological platform.

Right now it is substantially completed - I mean the framework - and we have already initiated several runs of internal testing and we are expected to conduct another two runs of internal testing in September and then we will be open for internal trial use to our sales agents and our existing customers in October. After that we will launch it officially to the public. Then there will be a large amount of advertising spending following the official launching of this platform.

When we make the budget we actually think that probably RMB20 million will be used to build this platform and then RMB18 million will be used for advertising and marketing.

Right now we also see a lot of changes happening in this industry so we may need to be more prudent and more concise when making this marketing and advertising [signs] to make sure there will be a balanced return on investment.

We will start this advertising spending in the fourth quarter of this year and as for whether or not we will fully use all this earmarked budget it will depend on the effects, the result of this initial round of investments.

If there are better (inaudible) where we assign the initial [investment we] may adopt more prudent measures to use this.

---

**Fawne Jiang** - Brean Murray - Analyst

Thank you for the information, that is my questions. Thank you.

---

**Yinan Hu** - CNInsure - Chairman and CEO

(spoken in Chinese)

---

**Operator**

The next question is from Ellie Li from BNP Paribas please go ahead.

---

**Ellie Li** - BNP Paribas - Analyst

(interpreted) There are three questions - the first question is regarding the commission rate for our P&C business. When she looks at the numbers of our Life Insurance business I think the growth is mainly driven by the current commissions. Since that commission rate of Life Insurance business has decreased, now has a modest decrease, why has the audit by the P&C insurance commission rate has increased? So what is the current level of P&C insurance commission rate in the second quarter? Also what is the sustainable commission level that management can foresee?

Also when we rent out these e-commerce platforms in the second half or early next year what will be the commission payout ratios for the business that was done through these e-commerce platforms. The second question was regarding a regulations issue by the Shenzhen China Insurance Commissions Bureau, which required in the three major P&C insurance companies including Ping An, PICC and Taiping to stop doing agency business through professional intermediaries on the P&C side for three months. What is the impact for CNinsure?

Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

The third question is regarding M&A strategies. There was no M&A activity during the second quarter so what is management's M&A strategies? Whether there are any changes to the M&A strategy that is used to support CNinsure's business expansion, the strategy for this year and also for next year, -- the coming two years?

**Yinan Hu** - CNInsure - Chairman and CEO

(interpreted) For the P&C commission payout ratio in the second quarter we have seen a 40% increase in the P&C commission income. Of these commissions half of them went to sales agents. Probably for the next quarter we will continue to see pressures in the commission payout ratio to sales agents for the traditional business. We expect that probably 60% of the commission income will have to be paid to those agents. That is why we are so determined to build the e-commerce insurance business in order to reduce the cost pressure.

Based on our current model for the e-commerce business, the commission's payout ratio for sales agents is less one third percent, it is one third of the commission's payout ratio to sales agents for the traditional business.

As for the second question there is indeed a new regulation issued by the Shenzhen Bureau of the CIRC that stops - requiring the three major insurance companies to stop doing agency business with professional intermediary companies on the P&C side. But we expect the impact should be very limited because our agency in Shenzhen the contributions from this company were only 0.45% in the second quarter. The revenues coming from the three major insurance companies, only accounts for 16% this particular agency. So we think the impact should be very limited.

For (inaudible) there was no M&A activities in the first half of this year and it was mainly because amid the inflation environment. Both our P&C and the life segments have been doing a lot of research to find a new growth model and new growth points to drive the continued growth of the business. Once we finalize this transformation to this growth model we will continue to execute these M&A strategies to expand our business.

For our P&C distribution network there are still over 20 provinces that we have no market percent. This is the same case for our life insurance network. Therefore we will continue to add to the M&A activities expanding to the new geographical markets starting in the third quarter and fourth quarters. Ellie, thank you.

**Ellie Li** - BNP Paribas - Analyst

(spoken in Chinese)

**Operator**

The next question is Ben Lin from Morgan Stanley. Please go ahead.

**Ben Lin** - Morgan Stanley - Analyst

(interpreted) There are two questions from Ben. The first question is that given the new policy that was just issued by the Shenzhen Bureau of CIRC what is the attitude of the CIRC towards the development of the professional intermediary market? Will this policy in Shenzhen be extended to other regions as well?

Then the second question is that the Company still has RMB2.4 billion in cash and cash equivalents in the second quarter. How are you going to spend this money? How much is the actual free cash flow and how much will be earmarked for M&A activities and also the e commerce business?

Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

**Yinan Hu** - CNInsure - Chairman and CEO

(interpreted) First of all for the development of the overall insurance industry it has to find new forces to drive the healthy development of the insurance market. The insurance professional intermediary is an important new force of it. The CIRC has been adopting a very positive and supportive attitude to develop along the profession into intermediary sector in the past two years. Also yes indeed there are some irregularities in the professional intermediaries' market and that was a problem that has been happening in the past ten years. Because some small insurance intermediary companies [had] lack of capital and they need to find the means to survive in the market.

But we do agree that it is necessary for the CIRC to adopt some measures to regulate the market and we believe that the measures are actually positive to the larger insurance intermediaries and particularly for those that are already quite well regulated. So we are optimistic about the overall outlook and development trend of this sector. Even though these measures for instance the Shenzhen, the policy in Shenzhen may have some impact in the near term even to CNinsure, although it is limited. For the longer term we believe it is positive.

For the expenditure for the coming quarters, right now both the industry and the Company are undergoing a transformation in development models. We are still building the e-commerce platform in an effort to drive the traditional business growth as well as the growth of the claims adjusted business. For the life insurance business we are going to introduce wealth management products to drive the sales of our traditional life insurance products.

During this period when we finalize the new growth models we will announce our new strategy plans in the fourth quarter. We will continue to adopt a balanced view of both M&A and the organic growth to expand our business.

**Ben Lin** - Morgan Stanley - Analyst

(spoken in Chinese)

**Operator**

The next question is Joey Kwong from CICC, please go ahead.

**Joey Kwong** - CICC - Analyst

(interpreted) Could you please elaborate with more details regarding your e-commerce business? You already covered the progress in the construction of the e-commerce business. Is there any further information regarding the progress with the plans for the agreements with the insurance companies? Can you be successful to put their products on your platform to provide one-stop solutions to your customers?

**Yinan Hu** - CNInsure - Chairman and CEO

(interpreted) Yes, I think the interconnection between the insurers e-commerce platform with the business systems of the insurance companies is very crucial. Also it is crucial for us to get the support from our product suppliers. Since our platform is quite different from the existing e-commerce platform. For their platform, the main purpose is [to serve as] a marketing channel while our platform will serve as the operating channel.

For the partnership with the insurance companies right now we have already done partnerships with Sunshine Property and Casualty Insurance Company. We have already completed the interconnection between our platform and their business system.

Aug. 30. 2011 / 1:00AM, CISG - Q2 2011 Cninsure Inc Earnings Conference Call

Our ground sales force, our sales agents are already doing insurance business through our platforms on a trial basis. Which already produced more than RMB100,000 (inaudible) each month.

Then we have also signed a partnership on the e-commerce business with China Pacific and we are in the process of facilitating the interconnection between the systems of both parties, which we expect will be completed very soon. We will also start the testing of the business channels very soon.

For rolling out our e-commerce business there will be several stages. The first stage is to build the chronological platforms and the core of this first stage is actually to facilitate the interconnection of our platform and the product suppliers' business systems. Then the second stage will be to enable our sales agents, our ground sales force to complete transactions to our platforms, and to move our existing ground sales, existing traditional business online.

Right now for Xanxi we have already completed two stages. Then the third stage will be to launch this platform of this showing to the public and enable our customers to be able to buy insurance products online. We are going to launch this in the fourth quarter.

You wonder what's the attitude of the other major insurance companies like the Ping An, have they shown and strong interest in partnering with us? Because this is crucial for us to make sure to have a price comparison by side, can offer (inaudible) solutions to customers.

(Inaudible) Ping An is currently a kind of wait and see attitude right now, which is understandable. Because they want to see actual results before they make the final decision. We are (inaudible) with them and they have responded quite positively. Thank you.

---

#### Operator

There are currently no questions. Thank you for your participation in CNinsure's conference call. There will be a webcast replay within an hour. Please visit CNinsure's IR website that is [www.cninsure.net](http://www.cninsure.net) under the investor relations section. Thank you all for attending, you may now disconnect. 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.

---

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.