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CISG - Q4 2011 CNinsure Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Oasis Qiu *CNinsure Inc - Investor Relations Officer*

Chunlin Wang *CNinsure Inc - CEO*

Peng Ge *CNinsure Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Ellie Li *BNP Paribas - Analyst*

PRESENTATION

Operator

Thank you for standing by for CNinsure 2011 Q4 and fiscal year 2011 earnings conference call. (Operator Instructions)

For your information this conference call is now being broadcast live over the internet. Webcast replay will be available within an hour after 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 objection you may just comment at this time. I would now like to turn the meeting over to your host today, Ms Oasis Qiu, CNinsure investment relations officer.

Oasis Qiu - CNinsure Inc - Investor Relations Officer

Good morning. Welcome to our fourth quarter and fiscal year 2011 earnings conference call. Our fourth quarter earnings and fiscal year 2011 results were released earlier today and are available on our IR website as well 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 these statements may be impacted by a number of (inaudible) 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 filing with the SEC including our registration statement on form 20F. We do not undertake any obligations to update this forward looking information except as required under applicable law.

Today here with me is our chief executive officer, Mr. Chunlin Wang and chief financial officer, Mr. Peng Ge. They will walk you through our fourth quarter and fiscal year 2011 financial and operating results, answer your questions after the prepared remarks. Now I will turn the call over to Mr. Wang.

Chunlin Wang - CNinsure Inc - CEO

(interpreted) Hello, everyone. Welcome to our conference call today. Here with me we have our chief financial officer, Mr. Peng Ge. We will begin today's call with a review of our fourth quarter and fiscal year 2011 financial and operating performance followed by a briefing on our recent developments and future strategies, then we will go into the Q and A session.

During the past decade China's insurance industry has kept a rapid growth with a (inaudible) growth of over 20%. However in 2011 impacted by the high interest rate and high inflation environment recession in the [capture] market heightened regulation on bank insurance and shrinking sales agents (inaudible) China's insurance industry recorded a significant growth slow down with a negative growth up 1.3% year over year in total gross premium. In particular life insurance premiums dropped 8.6% compared to 2010 which is an unprecedented situation in the past decade.



Against this backdrop we are encouraged that we still achieved a 15.1% and 22.5% revenue growth in the fourth quarter and fiscal year 2011 respectively, far exceeding the industry average. However, increasing labor costs pressure and severe market competition has resulted in a significant rise in our per sales acquisition costs and commission costs. [Besides] in material non-cash charge for goodwill and intangible asset impairment largely attributable to a decline in the (inaudible) of the Company's [equity] as at December 31 2011 as well as other one-off non-operating expenses, also weighted heavily upon our bottom line.

As a result we have recorded RMB718.6 million and RMB299.4 million net losses, attributable to the Company's shareholders for the fourth quarter and fiscal year 2011 respectively.

Looking at our three business lines net revenues of our P&C Insurance business that meant for the fourth quarter and fiscal year 2011 grew 14% and 25.7% year over year respectively, mainly driven by the increase in commission rates and sales volume.

Our life insurance business impacted by the subdued sales in the life insurance industry recorded a negative growth in the sales of new policies in 2011 as compared to 2010. However, driven by the impressive growth of the current commission total net revenues of our life insurance business in the fourth quarter and fiscal year 2011 still grew 11.9% and 17.3% year over year respectively outperforming the market.

Net revenues from the (inaudible) adjusting settlement in the fourth quarter and fiscal year 2011 were up 17.7% and 14.1% year over year respectively. Although suffering from a lower than expected growth due to the sectors growth slowdown it still outpaced the sector, consistently extending its market share and further narrowing the gap with the top performer.

In line with the macroeconomic situations and insurance market performance in 2011 we believe China's insurance industry has come through a critical time for transformation which presents both challenges and opportunities. In order to convert the challenges and seize the opportunities during 2011 we have done a lot of work that we believe will build a good base for upcoming strategic transformation of the Company, such as strengthening our organizational structure, refining business mix and optimizing profit models across our various business units.

For instance on the P&C Insurance side the focus has been on forging a multi-dimensional distribution channel comprised of sub-agents, quote centre and internet sales. We are glad that key progress has been made in our ecommerce plans. On January 1 2012 we have launched our insurance comparison website to the public. In addition we have been consistently improving our agent support systems, broadening our product portfolio as well as enhancing [network] deployment to provide more support to the on ground sales operations and maintain a stable sales team.

On the life side faced with the challenges arising both from macroeconomics and the stagnant sales agents systems we have been exploring ways to revolutionize our life insurance business model. In the second half of 2011 the model has become more clear to us, that is instead of being self-agent centric the new model will be more customer centric, we will be more urban market focused and our dedicated (inaudible) comprehensive financial services and products to our customers through at least professional sales teams.

Within the claims adjusting business that meant we continue to push forward development of a comprehensive auto services platform by strengthening the cooperation between our auto insurance sales operations and auto related claims adjusting service operations. In the meanwhile we have been expanding service network and service scope of our higher margin now auto related claims adjusting business to boost the development and help (inaudible) to increase its contribution to the total claims adjusting revenues and net income.

Currently, although we still see a lot of uncertainties in light of the overwhelming global economic (inaudible) slow down with China's economic and persistent high inflation, we believe there is still great growth potential in the financial and insurance services industry which are now the key industries in China's 12th five-year plan. There are also several favorite trends including the accelerated division of labor, triggered by financial institutions' pressure to undergo structural changes and consumers awareness of financial planning with customers' consumption behaviors in respect of investment, wealth management, financial protection, shifting from being passive to being more demand driven.

In order to capitalize on the market opportunities laying ahead while the insurance industry is undergoing a structural change as we move into 2012 we will continue to implement our strategy transformation plan based on the achievements that we've made in 2011. In the meantime we plan to devote efforts to improving operational efficiency by enhancing internal synergies including encouraging administrative resources sharing



on the basis of our operating systems and using joint office buildings as well as strengthening the corporations amount of our various business units.

On the other hand we will diversify our revenue sources through new channel development and improved customer management.

Our target is to transform the Company within the next two years from a labor driven company into a brand powered and technology driven company and to achieve quality growth instead of quantity growth. As we push forward the strategy transformation we expect our top line and bottom line might see a flat or negative growth in 2012 and gradually resume gross momentum starting from 2013 during which we plan to solidify the achievements of the strategy transformation.

Hopefully by 2014 when the upgraded business models of our various business units are getting more mature top line and bottom line growth will start to accelerate and the Company will return to the trend of rapid growth in 2015.

Over the past decade one key reason that allowed the CNinsure to stay ahead of its competitors is its key sense of market challenges and opportunities and its ability to turn challenges into its growth impetus. We have full confidence that this strategy transformation will reinforce the Company's long term competitiveness and extend its leadership in the insurance market.

Thank you. Now we will turn the call over to our CFO, Mr. Ge.

Peng Ge - CNinsure Inc - CFO

(interpreted) On page 3 of the report of our financial result for the fourth quarter and fiscal year 2011. Numbers I will refer to will be in RMB or as otherwise indicated.

Total net revenue for the fourth quarter of 2011 was RMB118.6 million, up 16.1% from the year ago quarter and (inaudible) for the fiscal year 2011 were RMB1.5 billion, up 22.9% from 2010.

Total operating costs and expenses for the fourth quarter of 2011 were RMB1.4 billion, up 513.2% from the year ago quarter and [that's] for fiscal year 2011 were RMB2.3 billion, up 169.9% from 2010.

Commissions of these expenses for the fourth quarter of 2011 were RMB245.3 million, up 66.3% from the year ago quarter and (inaudible) for fiscal year 2011 were RMB796.9 million, up 47.2% from 2010.

Selling expenses for the fourth quarter of 2011 were RMB19.9 million, up 10.2% from the year ago quarter and (inaudible) fiscal year 2011 were RMB77.8 million, up 29.6% from 2010.

General and administrative expenses for the fourth quarter 2011 were RMB129.8 million, up 104.5% from the year ago quarter and (inaudible) for fiscal year 2011 was RMB333.3 million, up 42.7% from 2010. The increase was primarily due to the following three factors.

Firstly, the increase in share based compensation expenses associated with the (inaudible) option in April 2011 and the cancellation of options in November 2011. Secondly, the increase in amortization and intangible assets largely as a result of the acquisitions we've made in 2011.

And thirdly, one-off financial advisor and legal fees incurred in relation to the non-binding going private proposal which the Company received on May 12 - May 14 2011 and was withdrawn on September 15, 2011.

Impairment loss on intangible assets and goodwill for the fourth quarter 2011 were RMB1 billion, which reflected a material decline in the fair value of the Company, as at December 31 2011; and the expected adverse impact of the overall economic uncertainties in China; growth slowdown within Chinese insurance market; and the Company's strategic business transaction on its earnings slowdown in the next two to three years.



As a result of the foregoing factors, operating loss from operations for the fourth quarter 2011 was RMB1 billion, compared to the income from operation of RMB130.2 million for the corresponding period of 2010. And as for the fiscal year 2011 we were RMB748.8 million, compared to the income from operation of RMB394.5 million for the corresponding period of 2010.

Non-GAAP operating income excluding share-based compensation expenses and impairment loss was RMB73.2 million, down from RMB140 million for the - down 48% from RMB140 million from the year ago quarter. And that for fiscal year 2011 was RMB375.8 million down 10.8% from 2010.

Non-GAAP operating margin was 17.5% for the fourth quarter of 2011, compared to 38.7% for the corresponding period of 2010. For the fiscal year 2011 non-GAAP operating margin was 24.8% compared to 34.1% for 2010.

Interest income for the fourth quarter of 2011 was RMB16.6 million, up 129.8% from the year ago quarter. And that for fiscal year 2011 was RMB52 million up 94.4% from 2010.

Income tax expenses for the fourth quarter of 2011 were RMB18.6 million, compared to RMB24.8 million in the corresponding period of 2010. And that for fiscal year 2011 was RMB84 million compared to RMB89.1 million in fiscal year 2010.

Net loss to the Company's shareholders was RMB720 million for the fourth quarter of 2011, compared to net income attributable to the Company's shareholders of RMB126.5 million for the year ago quarter. Net loss attributable to the Company's shareholders for fiscal year 2011 were RMB299.4 million compared to net income attributable to the Company's shareholders of RMB422.3 million in fiscal year 2010.

For the fourth quarter of 2011 non-GAAP net income attributable to the Company's shareholders excluding (1) net income from discontinued operations; (2) investment income incurred by business combination achieved in stage, net of tax; (3) refunds from the selling shareholder of certain affiliated subsidiaries, net of tax; (4) share-based compensation expenses; (5) goodwill and intangible asset impairment loss attributable to the Company net of tax was RMB76 million down 41% from the year ago quarter.

Non-GAAP net margin was 18.2% for the fourth quarter of 2011, compared to 35.4% for the year ago quarter.

For fiscal year 2011 non-GAAP net income attributable to the Company's shareholders, excluding (1) net income from discontinued operations; (2) investment income incurred by business combination achieved in stage, net of tax; (3) share-based compensation expenses; (4) goodwill and intangible asset impairment losses attributable to the Company, net of tax; (5) one-off cash bonus granted to one of the Company's affiliated subsidiaries by the Shenzhen municipal government, net of tax and; (6) refunds from the selling shareholder of certain acquired subsidiaries, net of tax, was RMB367.6 million, down 4.7% from 2010.

Non-GAAP net margin for fiscal year 2011 was 24.2% as compared to 31.3% for 2010.

Basic net loss per ADS was RMB14.336 for the fourth quarter of 2011, compared to basic net income per ADS of RMB2.514 for the year ago quarter. For fiscal year 2011 basic net loss per ADS was RMB5.971, compared to basic net loss per ADS of RMB8.816 in fiscal year 2010.

Non-GAAP basic net income per ADS was RMB1.517 for the fourth quarter of 2011, down 40.8% from RMB2.561 for the year ago quarter. Non-GAAP basic net income per ADS for the full year was RMB7.332, down 8.9% from 2010.

As of December 31 2011 the Company had RMB2.2 billion of cash and cash equivalents.

CNinsure expects its total net revenues to grow by less than 5% for the first quarter of 2012, compared to the corresponding period of 2011. This forecast reflects CNinsure's current view, which is subject to change.

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). Our first question is (inaudible) please go ahead.

Unidentified Participant

Hi, good evening. Actually I have two questions for Mr. Wang. And the first question is and you know does the Management have a plan to privatize the Company if the stock price is going further down?

And my second question is regarding to the class actions and how confident are you to defend the Company successfully and why? Thank you.

Unidentified Company Representative

(Inaudible) will take this question.

Unidentified Company Representative

(interpreted) Regarding your first question, I think there is no straight yes or no answer to right now and - but the Management's thought is that under the current economic uncertainty on (inaudible), the Management would like to focus their attention on business operations and hopefully it should bring the Company back to rapid growth track to give a good return to our shareholders.

As for the lawsuit itself, so far there is no substantial progress because as far as we know there - the law firms in this lawsuit are still in the process of conducting the (inaudible) and it hasn't been decided yet. And as for whether or not we are able to conduct a defense for the Company and executives, we think that we're quite confident because the point that you raise in the first - in the preliminary compliance is quite found-less.

Unidentified Participant

Thank you.

Unidentified Company Representative

Thanks.

Operator

The next question is (inaudible), please go ahead.

Unidentified Participant

(spoken in Chinese)

Chunlin Wang - CNinsure Inc - CEO

(spoken in Chinese)



Unidentified Participant

This is from (inaudible) and he has two questions, the first question is regarding these reasons or regulations to allow foreign investors to use third party compulsory insurance products. We believe the foreign investor company will be more involved in the - our P&C insurance sales. However because they lack network, insurance sales network is it possible that they might use professional insurance intermediary like (inaudible), is that a good opportunity for CNinsure? What's the management's view about this?

And then secondly the - the second question is regarding the goodwill and intangible impairment loss. Apart from the decline in (inaudible) in stock price, is there any other reasons behind the goodwill and intangible asset impairment?

And if you look at the outlook in 2013 and - 2012 and 2013 is there any further possibility of further impairments?

Peng Ge - CNinsure Inc - CFO

(interpreted) Starting five years ago the management had foreseen that there will be a salaried division of labor between the insurance carriers and the insurance distributors and also according to this CNinsure has made a strategy deployment. We've seen at the opening of the compulsory third party liability auto insurance market to foreign investing companies is definitely a sustainable trend for CNinsure and we believe that it will allow CNinsure to establish partnerships not just narrowly with small medium sized P&C insurance companies, but also with more large sized insurance companies.

As a matter of fact, recently several foreign insurance companies have been in close talks with CNinsure about the calculation in the service, using CNinsure service network as well as self network.

We expect that the CRC may continue a better control over issuing new licenses to foreign investment companies so that may mean that foreign insurance companies may still have more strong reliance on third party.

We think that as foreign investment company has been newly entered into China's market, they won't take a very aggressive approach to do the (inaudible) insurance business. This kind of business will require a very good product to start from a very good service platform, so I think they will be very cautious in expanding in the Chinese market.

So I think the most significant contributions or the best effect of the sustainable trends may happen after two years.

The recognition of a goodwill and intangible asset impairment is the result of a combination of several factors rather than one. First of all, it's because there's a big difference between the fair value of the Company and the net book value in the Company. For the end of this year, the net book value of CNinsure is RMB3 billion while the fair value, the total (inaudible) of the Company is RMB2 billion, so there's a big difference.

The second reason has something to do with the growth rate of the Company in the coming years. As Mr. Wang has mentioned, the macro situation as well as the inactive growth in the insurance market, and we expect that this stagnant growth in the insurance market may persist in the coming several years and also the upcoming two years is a crucial time for the Company to continue pushing forward its strategy transformation so this will also weigh upon the Company's earnings and revenues for the next two years. We expect the growth to slow down. That's one of the key reasons.

Based on the above judgments we have retained an independent appraisal to conduct an annual testing on the goodwill impairment and based on the preliminary results that would come up with this goodwill and intangible asset impaired loss. The Management has been quite conservative and we have really kept the interest of the shareholders in mind, so we expect that for the next two years there will not be any significant goodwill and intangible asset impairment loss.



Operator

The next question is Ellie Li from BNP. Please go ahead.

Ellie Li - BNP Paribas - Analyst

(interpreted) This is Ellie Li from BNP. She asked three questions. The first question is regarding the commission rates and the P&C commission trend in the fourth quarter. The second question is that there is an amount of RMB300 million which is amount due from related party, so what kind of transaction is this amount about? The third question is about how CNinsure's eCommerce platform is developing and what's our budget for the eCommerce platform for the next year?

Chunlin Wang - CNinsure Inc - CEO

(interpreted) The CEO, Mr. Wang, would like to take your first questions regarding the trends, the P&C commission rate trends. In the past three years, insurance companies, the underwriting profits of the insurance companies have improved significantly and, as a result, in 2011 we have had seen an increase in the commission rate. We expect that for the next two years, in 2012 and 2013, there will be continued improvement in the commission rates by like 5% to 10%.

Typically, our commission rate has increased by 10% in 2011. In 2012 we have seen that our (inaudible) competition and management company has been intensified so that will drive the continued increase of commission. Typical for CNinsure we have actually become one of the major sales channels for a lot of insurance companies.

Your question regarding the progress in our (inaudible) website, based on our observation although the insurance companies, they do have a very strong interest and a very strong awareness of the importance of online sales, however, technically it's kind of still not quite mature.

Our (inaudible) website (inaudible) I believe it is one of the best eCommerce transaction platforms technically speaking, however, a lot of the (inaudible) companies still kind of lag behind. Therefore, there are still some uncertainties regarding our future advertising and marketing standing and probably will still be more conservative and very cautious in case of the risk that may arise from the massive scale of advertising investment.

The biggest risk will be if the insurance company's eCommerce technologies are not big enough and that may have a very bad impact on the shopping experience of our customers and also will damage our brand. So therefore we would like to evaluate the situation very carefully and make sure there's no risk before we start the massive scale of advertising marketing.

So 2013 we will be more cautious on the development of the B2C platform, i.e. the price comparison website, while the B2B platform will become one of our major directions for development.

I want to assure our shareholders that we will make very careful evaluations and will be responsible for shareholders' money to make sure that the investment can really bring a good return.

Your next question will be taken by our CFO.

Peng Ge - CNinsure Inc - CFO

(interpreted) The amount due from related party is for a related party of CNinsure which is the China Financial Services Group in which CNinsure own about 20% equity interest.



The reason is that CFSG is primarily engaged in the distribution of consumer financial services and products as well as (inaudible) loans business and they have recently been granted a license to do small amount loans business and they need a registered capital to set up the small amount loan company. So that's why we provide them these loans and the term for this loan is one year and they will pay interest for that.

This Company, in the past two years, they have been growing very fast and in view of the booming demands of financial services and products in China's market, we believe that this company will have a very good, a very promising outlook so that's why we decided to support their development.

Thank you.

Operator

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

Editor

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