



泛华保险服务 | CNINSURE  
INC.

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**CNinsure Inc.**

**Analysts and Investors Day**

**Chengdu, Sichuan  
December 10, 2010**





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## Foreword

This presentation aims to clarify and explain misunderstandings relating to the following matters:

1. Scorecard System
2. Acquisition Model and Cooperation with Jingshi
3. Gross Margins
4. Profit Transfer
5. Profit Consolidation
6. Goodwill





## About CISG's Scorecard System

### The nature of the misconception of CISG's Scorecard System

- **A literal translation for “权益证” , or CNinsure’s scorecard system, should be “Certificate of Incentive Rights”. It is absolutely misleading to brand it as “Equity Incentive Shares”.**
- It is stated in some report that CNinsure’s scorecard “can be converted into CISG’s shares and that CISG is obligated to buy back equity incentive share at RMB5 at any time.” We reiterate that the information was inaccurate. The scorecard system is part of CNinsure’s internal sales agent performance evaluation program, which represents an important incentive tool for the Company to identify and retain loyal and well-performing sales agents. Its application is strictly limited to the six areas as we had stated in our conference call on December 3, 2010.
- Sales agents accumulate points for every amount of standard insurance premiums they contribute. Sales agents are ranked by number of accumulated points and accordingly obtain qualifications to exchange for one or multiple incentive rewards with the points, including gifts or one-off cash bonus presented to sales agents during the MDRT or Thank You Party organized by CNinsure or insurance companies. Most of the incentive rewards can hardly be quantified, such as a training program or MDRT and CNinsure’s business units have discretionary right to determine how many points are needed for participation in the programs. In some cases, for example, if the award is a laptop that is worth of RMB10,000, we will require that only sales agents with over 2000 accumulated points are eligible to exchange for the award. We stress here that if the laptop is sponsored by the insurer, then there’s no cost to CNinsure. If the laptop is sponsored by CNinsure we would have accounted for the cost in our financial statements. We again emphasize that the points in itself do not contain any monetary value at any other point in time and that the Company has never promised to buy back scorecards at RMB5 per point at any time.





## About CISG's Scorecard System

## The nature of the misconception of CISG's Scorecard System



Scorecard of Life  
Doc.



Scorecard of P&C  
Insurance

- In relation to some report's "finding" of a presentation promoting "equity incentive share" originated from the CISG's company server, we have conducted an investigation and found that the website was not CNinsure's official company website. Instead, it is a internet forum provided by the Company to sales agents to interact with each other, which is publicly accessible to everyone. There have been a lot of misleading and exaggerated information in the presentation. Through our investigation, we confirm that the document was a misrepresentation in the process of recruitment and that it was not an official document produced or approved by the Company.
- Conclusion: The misconception on CISG's scorecard system is obviously based on an agent recruitment material produced by certain CISG's sales agent which has misrepresented the Company's scorecard system.



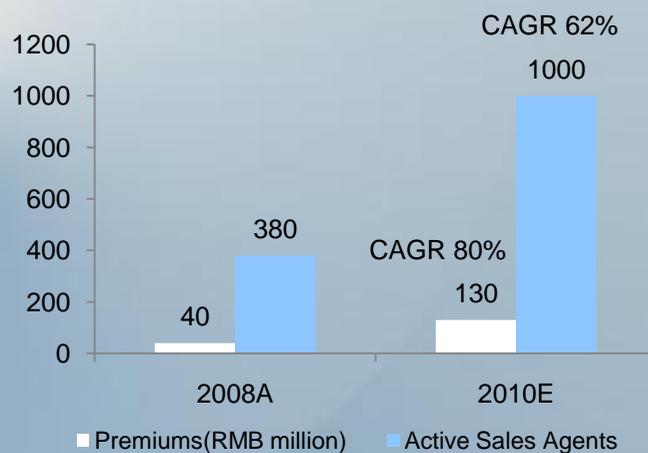
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## About CISG's Cooperation with Jingshi

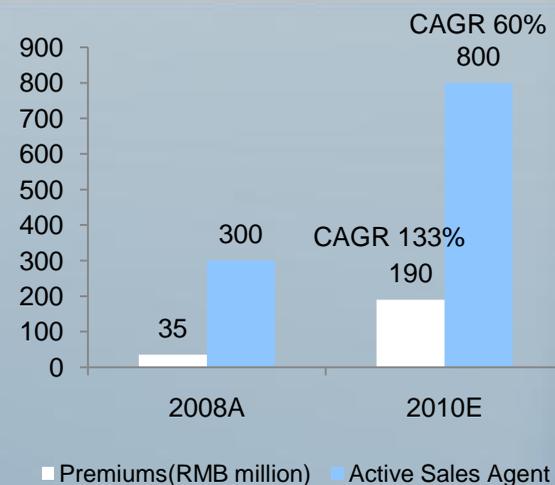
### Project Review

- CNinsure has acquired 13 companies from Chengdu Jingshi and its affiliated entity. Two have been bought back by Jingshi as they failed to meet our criteria. Most of the companies that we acquired have been performing well. But there were several agencies that did not perform to our satisfaction. For those cases, we will execute valuation adjustment mechanism in accordance with the cooperation agreement with Chengdu Jingshi.
- For illustration purpose, here below demonstrate the post-acquisition performance of the two insurance agencies that CISG acquired in 2008 from Jingshi:

Changsha Lianyi



Fuzhou Guoxin



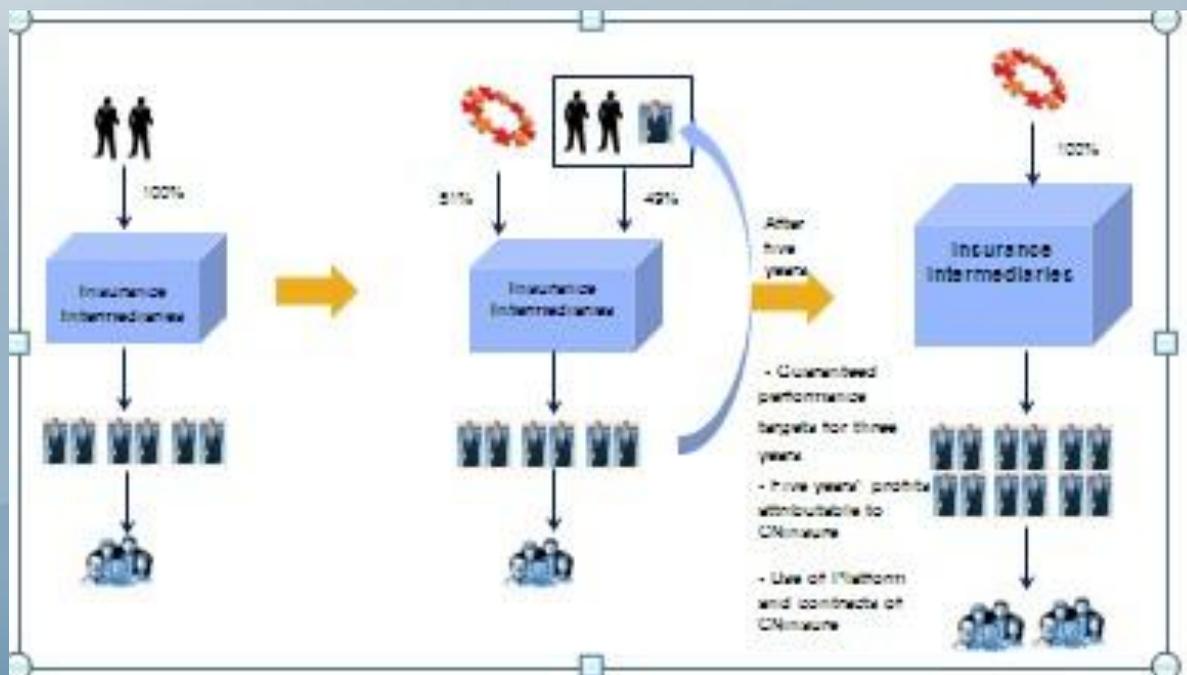


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## About CISG's Cooperation with Jingshi

### Why buying through Jingshi?

- The insurance intermediary market in China is still at its early stage of development. It is a fragmented market with over 2500+ players, most of which are quite small and not operating in a well-regulated way. Moreover, sales agent is the core asset of an insurance intermediary company. There could be many risks associated with acquiring these less mature smaller players, including potential legal risks, hidden tax or debt liability, and loss of sales agents. Therefore, in order to mitigate the risks, we decided to introduce a venture capital to incubate these potential acquisition targets before CISG got more heavily involved.
- Before partnering with Jingshi, CNinsure had tried to propose this model to other venture capitals, including our private equity shareholders, CDH and Cathay Capital. However, due to the small amount of investment involved and relatively long investment period, we cannot reach consensus with them. Following serious considerations, CNinsure decided to establish cooperation with Jingshi which was the only one at that time that had both interest and capability to carry out this model.





## About Finestart Holdings Limited

During the earlier session in Chengdu Jinshi' office, the management of Chengdu Jingshi and Finestart also discussed the history, business operation, AUM and background of Finestart's investors. From the discussion, we learned that:

- Finestart does legally exist. It is a BVI-registered company that operates as an asset management company;
- Finestart provides CISG's sales agents with a facility to purchase CISG's stock;
- Finestart is an independent company that has no economic interest of any kind with CNinsure or CNinsure's management.



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## About CISG's Plans:

1. CISG's scorecard system
2. Cooperation with Jingshi and Finestart

### 1. About Scorecard System

- The Company will step up its efforts to conduct company-wide review across its four business units to curtail any recruitment mis-representation.
- “权益证” will be officially named as “内部考核积分卡” or internal evaluation scorecard to avoid any confusion. Official standard promotional materials on the scorecard system will be compiled by the Company and distributed to each of our individual sales professionals. We will make sure that the scorecard system, which we believe is one of the effective ways to retain our sales agents and improve business quality, is in full compliance with relevant regulations and laws.

### 2. About cooperation with Jingshi and Finestart

- Following serious considerations and taking shareholders' view into account, CNinsure has decided to terminate cooperation with Jingshi for future acquisitions while continuing to honor agreements related to ongoing projects. CISG has requested Jingshi and Finestart to stop conducting any activities using the brand name of “CNinsure”.



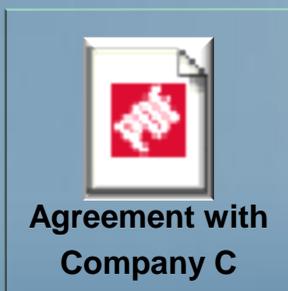


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## About Gross Margin - P&C Insurance Business (Auto Insurance)

Auto insurance commissions and gross margins  
from different major insurance partners of CISG:



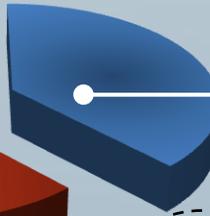
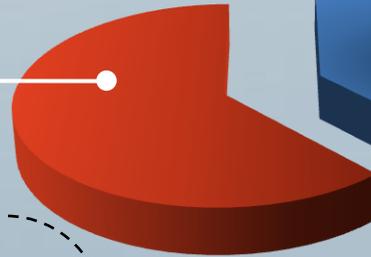
	Insurance Type	Revenue	Cost	Gross Margin
Company A	Mandatory liability Insurance	[●]%	[●]%	39.1%
	Commercial Insurance	[●]%	[●]%	
Company B	Mandatory liability Insurance	[●]%	[●]%	44.8%
	Commercial Insurance	[●]%	[●]%	
Company C	Mandatory liability Insurance	[●]%	[●]%	49.5%
	Commercial Insurance	[●]%	[●]%	



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## About Gross Margin – P&C Insurance Business (Non-auto & the overall gross margin of P&C business)



### Auto - 65% <sup>1</sup>

Auto insurance commission = sales commission + management fees + volume-based commission + quality-based commission, which is clearly stated in CISG's agreements with insurers. The overall gross margin for auto insurance is approximately 45%.

### Non-auto - 35% <sup>1</sup>

Gross margin for non-auto insurance business is typically 66%.



**Overall gross margin of P&C business :  $45% * 65% + 66% * 35% = 52.4%$**

Note: 1. In terms of revenues among CISG's total P&C insurance business



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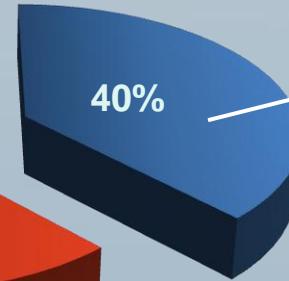
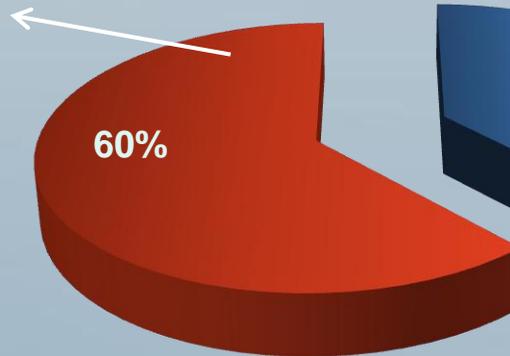
# About Gross Margin – Claims Adjusting Business

Claims adjusting business related to auto insurance <sup>1</sup>

Gross margin 30%-35%

Claims adjusting business related to non-auto P&C insurance <sup>1</sup>

Gross margin 70%-75%



**Overall Gross Margin of Claims Adjusting Business: ( 30%—35% ) \*60%+ ( 70%—75% ) \*40%=46%—51%**

Cost for Claims  
Adjusting Business  
More Controllable

Cost for the claims adjusting business is primarily consisted of salary for claims adjustors who are employees compensated by base salary + bonus;

For auto insurance related claims adjusting business which is human intensive and requires less expertise, the cost/revenue ratio is approximately 65%-70%.

For marine and cargo insurance claims adjusting business which requires high expertise, the cost/revenue ratio is approximately 25%-30%.

Note: 1. In terms of revenues among CISG's total claims adjusting business

# About Gross Margin – Life Insurance Business



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Commission income received by our subsidiaries at the regional and provincial level is basically in line with the industry. Commission cost paid to our sales agents is also comparable to what insurers paid to their sales agents to make sure that the commission compensation structure is attractive enough for sales agents to join CISG. Commissions will be paid to the sales teams and each individual sales agent in cash and in full amount once sales is completed.

What sets CISG apart from its competitors is the additional bonus CISG receives from insurers under the corporate-to-corporate agreements with insurers, which enables CISG's total life commissions/standard premiums of new life insurance policies ratio to reach as high as 100%-110%. Therefore, due to the corporate-to-corporate performance bonus, CISG is able to achieve approximately 40% gross margin on top of the lower gross profits generated by its subsidiaries at the regional level.

Contract of Life Insurance



Materials related to promotion



Note: For illustration purpose, here above is the commission structure for term life insurance products with 20 years of payment schedule only. "\*" represents commission income and expense for new insurance policies and "#" represents renewal insurance policies.

	Revenue		Cost		Gross Margin for New Policies
Local Level	Sales Commission*	[●]%	Sales Bonus*	[●]%	3%-10% →
	Sales Bonus*	[●]%	Team Development Bonus*	[●]%	
	Monthly Quality-based Sales Bonus*	[●]%	Sales Team Bonus*	[●]%	
	Annual Performance Bonus	[●]%	Monthly Bonus	[●]%	
	<b>Sub-total for First-year Insurance policies*</b>	[●]%	<b>Sub-total*</b>	[●]%	
	Renewal Commission#	[●]%	Renewal Commission#	[●]%	
Headquarter Level	Renewal Service Subsidies#	[●]%			40% →
	Persistency Ratio Bonus#	[●]%			
	Quarterly bonus*	[●]%			
	Annual bonus*	[●]%			
Total	Platform service fees*	[●]%			40% →
	Promotional Campaign fees .*	[●]%	<b>First-Year Cost</b>	[●]%	

Over 40% of the gross profits for new policies derives from performance bonus under the corporate-to-corporate agreements.

Commission structure may vary from one type of product from another. Figures and items illustrated in this chart are related to commission structure for term life insurance with 20 years payment schedule only. The overall gross margin will be slightly lower due to the impact of short term life insurance policies.



# Key Factors Impacting CISG's Gross Margin

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## 1. Business Scale

As CNinsure continues to enhance its business scale, it has stronger and stronger bargaining power with the insurers, which results in higher commission rates than its competitors.

## 2. Revenue Structure

Change of revenue structure: Previously CISG derived its revenue primarily from sales commissions. As sales volume and sales quality have been further improved, insurance companies began to pay managing fees, volume-based commission, quality-base commission and platform utilization fees to CISG in addition to sales commissions. Therefore, sales commissions as a percentage of total revenue has been steadily decreasing. As costs we pay out to sales agents are marked to level of sales commission we receive from insurance companies, our gross margin is steadily improving.

## 3. Business Mix

CISG's product portfolio will be getting more and more diversified going forward. As commissions for different products may vary a lot from one to another. Commissions for one or two products may not be the appropriate metrics to reflect the true gross margins of the Company as a whole.



Why CISG's  
Gross Margin is  
Higher Than Our  
Competitors'?

# About Profit Transfer



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## Model 1 :

	Subsidiary	Headquarter	Consolidation
Net Revenue :	100	Internal Consulting and Service Fees : -	Net Revenue : 100
Commission Cost :	( 50 )		Commission Cost : ( 50 )
Internal Consulting and Service Fees :	-		
<hr/>			
Gross Profit :	50	Gross Profit : 0	Gross Profit : 50
Operating Expenses and Taxation :	( 20 )	Operating Expenses and Taxation : ( 10 )	Operating Expenses and Taxation : ( 30 )
<hr/>			
Net Income :	30	Net Income : ( 10 )	Net Income : 20

# About Profit Transfer



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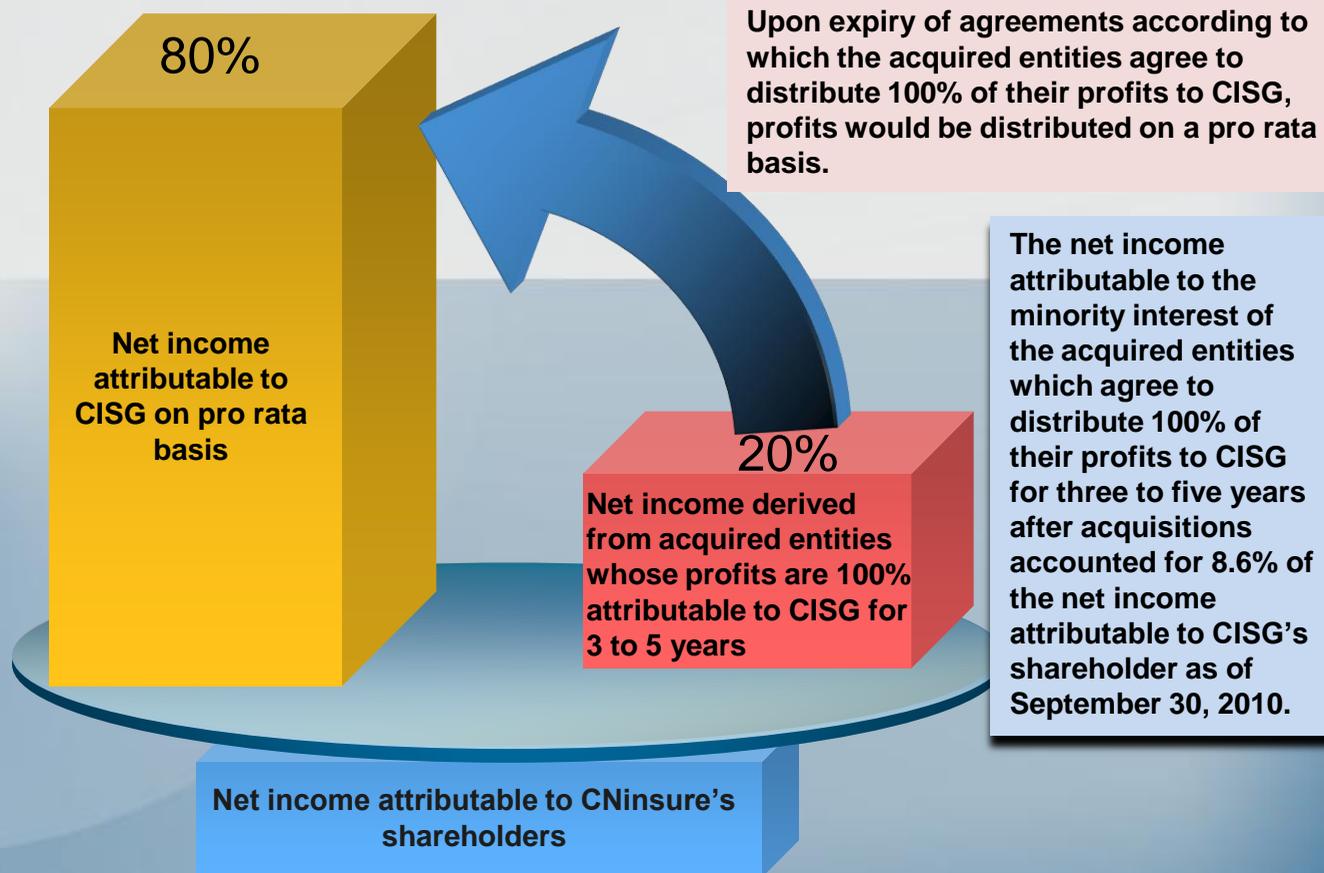
## Model 2 :

	Subsidiary	Headquarter	Consolidation
Net Revenue :	100	Internal Consulting and Service Fees : 20	Net Revenue : 100
Commission Costs :	( 50 )		Commission Costs : ( 50 )
Internal Consulting and Service Fees :	( 20 )		
<hr/>			
Gross Profit :	30	Gross Profit : 20	Gross Profit : 50
Operating Expenses and Taxation :	( 20 )	Operating Expenses and Taxation : ( 10 )	Operating & Expenses and Taxation : ( 30 )
<hr/>			
Net Income :	10	Net Income : 10	Net Income : 20



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## About Profit Consolidation



# Comparison of Acquisition Model ---Return on Investment



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## About Profit Consolidation — Acquisition model



Comparison of acquisition model

### Model A

- 1. Acquire 51% with a valuation of 10 times PE based on next year's projected net income;
- 2. Net income distributed according to actual shareholding structure;
- 3. CNinsure is obligated to acquire the remaining stakes five years later with a valuation of 10 times PE based on the projected net income for Year 6.

### Model B

- 1. Acquire 51% with a valuation of 10 times PE based on next year's projected net income;
- 2. 100% of the net income distributed to CNinsure for five years;
- 3. CNinsure will not acquire the remaining stake.

### Model C

- 1. Acquire 51% with a valuation of 10 times PE based on next year's projected net income;
- 2. 100% of the net income attributable to CNinsure for five years;
- 3. CNinsure will acquire the remaining stakes five years later with a valuation of 10 times PE based on the projected net income for Year 6.

10-year ROI

86%

106%

79%

Model B seems to be the best model for CISG in terms of ROI, under which CISG acquires 51% and enjoys 100% profits for the first 5 years after acquisition.



Note: A discount rate of 15%, which was the actual ROI for the Company in 2009, is adopted for the above analysis.



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## About Goodwill

### Goodwill

Goodwill is an asset that could produce future economic benefits but cannot be separately recognized in acquisitions.

The Company engages Marsh (Beijing) Risk Consulting Co., Ltd to evaluate the fair value of the acquired companies and perform test on goodwill impairment.

Reporting unit shall not amortize its goodwill but perform goodwill impairment test on an annual basis. As of date, no signs have been found for any potential goodwill impairment loss.

All the acquisition evaluation and goodwill impairment test should be reviewed and approved by our independent auditor.

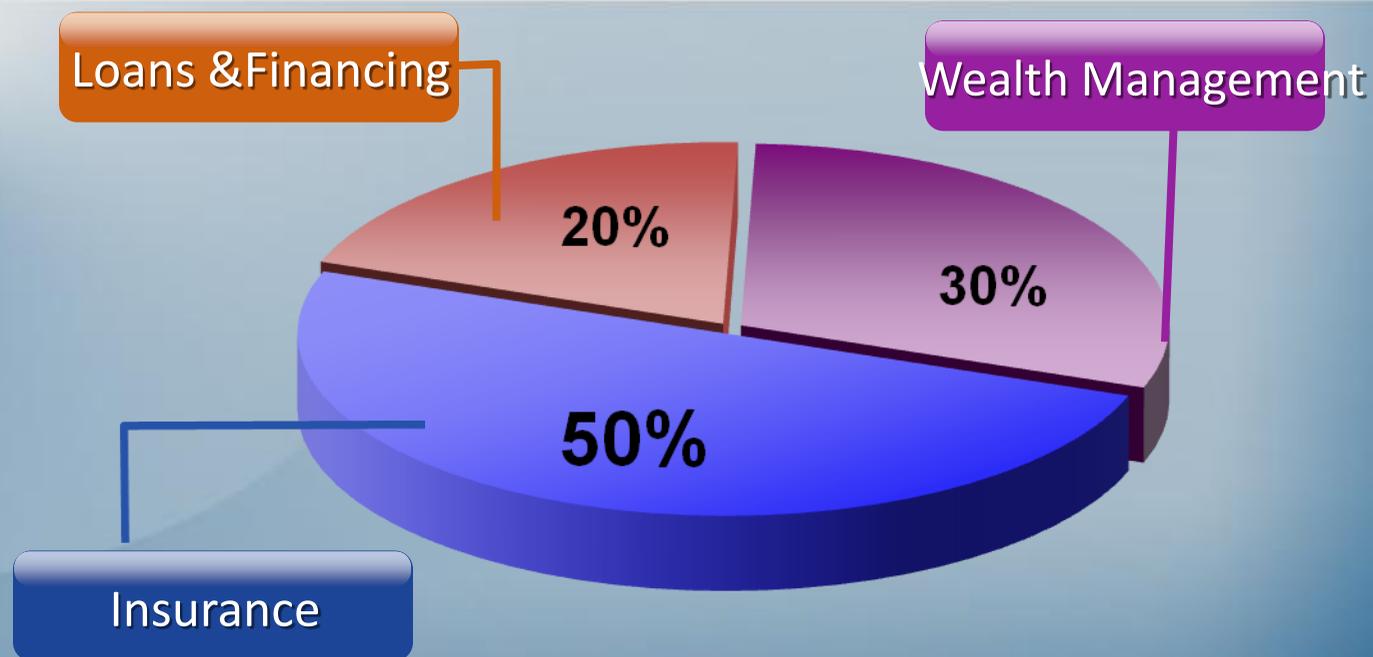




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## About CISG's Strategies — Ten-year Plan

- **Our vision: to become first class financial services company in China to satisfy diversified needs of our customers. Insurance, loans & financing and wealth management will be our three core businesses in the future, each contributing 50%, 20% and 30%, respectively, to our total net income.**





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## About CISG's Strategies — Share Buyback

- On December 3, 2010, the Company announced USD100 million Share Buyback Program
  - Why Share Buyback?
    - On July 15, 2010, the number of short interest amounts 439,000, accounting for 0.63% of the Company's outstanding shares;
    - On October 29, 2010, the number of short interest amounts 3.23 million, accounting for 7.37% of the Company's outstanding shares;
    - On November 15, 2010, the number of short interest amounts 4.22million, accounting for 8.34%% of the Company's outstanding shares;
- To protect the interest of our shareholders, the Board approved the Share Buyback Program.
- Share buyback may have certain impact on the Company's strategic deployment in the short term. If the Company really sees potential impact, the Company will consider raising additional capital through other vehicles to facilitate the achievement of its strategic goals.



## About Us — The Board

**CNinsure has a well-designed governance structure which satisfies SEC's requirements for US listed companies. The Board is consisted of:**

- **Founder of the Company**
- **Partner of a prestigious private equity firm**
- **University professor of Finance**
- **Former chairman of CIRC, the regulatory body of China's insurance industry**
- **Financial executives of leading financial enterprises**



**Mr. Yanan Hu**, Chairman and CEO, Founder, master of economics from Southwestern University of Economics and Finance



**Mr. Qiuping Lai**, Director and Founder of the Company



**Dr. Shangzhi Wu**  
Chairman and Partner of CDH China since 2005



**Mr. Mengbo Yin**  
Dean of School of Finance of Southwestern University of Economics and Finance



**Mr. Yongwei Ma**  
Director of China Life, former chairman of CIRC and former chairman and president of former China Insurance Group Company and former PICC



**Mr. Allen Lueth**, Vice president of finance and strategy of Zuellig Pharma China. Former CFO and CEO for the Taiwan operations, and the representative for China of GE Capital



**Mr. Stephen Markscheid**  
chief executive officer of Synergiz BioScience, Inc. Former senior executives of GE Capital, Boston Consulting Group, Chase Manhattan Bank and First National Bank of Chicago





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## About Us — The Management

- The management consists of the founders and the backbones of the Company who have been staying with CNinsure since its establishment. CNinsure is our sole business they have engaged in. We are deeply devoted to the Company;
- To date, CNinsure has more than 4,000 employees, nearly 50,000 sales agents and over one million customers. The management has strong sense of responsibility to continue to develop the Company;
- The management is confident with the growth prospects of the insurance intermediary industry and aims to develop CNinsure into a world class financial service company. It is the management's mission to maintain the strong growth of the Company in the future;
- The management reiterate that they will not sell any shares within the next 180 days;
- The management will never do anything to harm the Company. Nor will we allow anyone to do so.



**Mr. Yinan Hu**  
Chairman and  
CEO



**Mr. Qiuping Lai**  
President



**Mr. Peng Ge**  
CFO



**Mr. Chunlin Wang**  
Vice President and Head  
of P&C Business Unit



**Mr. Fred Jin**  
CIO, COO & Head of Life  
Insurance Business Unit





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**Thank You**

