

NOAH HOLDINGS 1Q 2017 EARNINGS CALL EDITED TRANSCRIPT
15 May 2017 (US EST)



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OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited first quarter of 2017 financial results conference call (Operator Instructions). As a reminder, this conference is being recorded. After the close of the US market on Monday, Noah issued a press release announcing its first quarter of 2017 financial results which is available on the Company's IR website at ir.noahwm.com. This call is also being webcast live and will be available for replay purposes on the Company's website. I would like to call your attention to the safe harbor statements in connection with today's call. The Company will make forward-looking statements including those with respect to expected future operating results and expansion of its business. Please refer to the risk factors inherent in the Company's business and that have been filed with the SEC. Actual results may be materially different from any forward-looking statements the Company makes today.

Noah Holdings Limited does not undertake any obligation to update any forward-looking statements as a result of new information, future events, or otherwise, except as required under the applicable law. The results announced today are unaudited and subject to adjustments in connection with the completion of the Company's audit. Additionally, certain non-GAAP measures will be used in our financial discussion. A reconciliation of GAAP and non-GAAP financial results can be found in the earnings press release posted on the Company's website.

I would now like to hand the call over to Kenny Lam, Noah's Group President. Mr. Lam, go ahead.

Kenny Lam – Noah Holdings Limited Group President

Thank you, Operator. Thank you, everyone, for participating in today's earnings conference call. Joining me today are Ms. Jingbo Wang, Noah's Chairlady, and Mr. Shang Chuang, Noah's CFO.

For today's agenda, I will begin by providing a brief overview of the financial highlights for the first quarter 2017, as well as discussing our core wealth management and asset management businesses. Chairlady Wang will then provide an update on the product strategy and share her views on the macro environment and industry development. After that, Shang will wrap up our remarks by providing further insights into our first quarter financial performance. Lastly, we will be happy to take any questions you may have.

The global macro environment has remained volatile since the beginning of 2017. On the regulatory front, the introduction of a series of new and more stringent PE/VC supervisory rules from the second half of 2016 has begun to reshape China's wealth management industry. Although still in rapid expansion, the industry is encountering challenges arising from greater fluctuations in the financial markets, tighter regulations and the lack of high-quality underlying assets. While it may be difficult to navigate these challenging conditions, we believe it will also help the industry mature and would present tremendous opportunities for leading, established players to consolidate their leadership position.

As a leader in China's wealth management and asset management industry today, Noah, through its diversified portfolio management and rigorous risk control capabilities, has focused solely on meeting clients' evolving needs by selecting high-quality products and building a comprehensive financial service platform serving Chinese globally. With these ongoing efforts, we have achieved strong first quarter results.

Specifically, in the first quarter of 2017, Noah's wealth management business distributed a total of RMB32.7 billion financial products, up over 31.7% year-over-year. As of March 31st, 2017, total AUM of our asset management business grew to RMB129.6 billion, up 37% from a year ago.

During the first quarter of 2017, Noah's total net revenue increased 17.5% year-over-year to RMB710 million. Non-GAAP net income attributable to Noah shareholders was RMB240 million, an increase of 10.9% from year ago, equivalent to 27.6% of the high end of our full year guidance.

We're pleased with our solid operational and financial performance in the first quarter, a strong start for the year 2017.

At the end of the first quarter, the number of total registered clients was 148,505, up 40.7% year-over-year. We're very pleased to note that a growing number of clients have deeper and more accurate understanding of risk and return characteristics for different investment products as the result of our consistent investor education effort. By providing financial products and services of superior quality, we also gain deeper trust and loyalty from our clients, reflected by the average transaction value per active client, which reached RMB7.49 million, up 49.4% year-over-year.

As clients' demand shift from product-only focus to a wide range of services, we have also been proactively building our broader service platform. In particular, for our ultra-high-net-worth clients and families, Noah's family office services not only provide global asset allocation but also a portfolio of value-added services comprising of offerings such as family trust, global insurance, tax planning and education. We are devoted to building long-lasting and meaningful relationships with clients and helping them preserve, appreciate and transfer the wealth.

We've also been enhancing our nationwide physical coverage. As of the end of the first quarter, we had 199 branches covering 74 cities, including 14 new branches and 3 new cities compared to the last quarter. We continued to expand our relationship manager teams following our optimization efforts in 2016.

The number of relationship managers was 1,251 as of March 31st, 2017, representing a growth of 7% from the last quarter. For the quarter, we had zero turnover rate among our top-performing relationship managers, which, again, was the result of Noah's high-quality product platform and professional training system.

With regards to our overseas business, we believe the demand from high-net-worth clients for global asset allocation is a structural trend. By the end of first quarter, Noah's overseas AUM reached RMB17.5 billion, up 29.5% year-over-year.

Last year we began executing a new phase of our globalization strategy by establishing Noah's U.S. office and (inaudible) company.

Our focus for 2017 is to further explore and expand overseas distribution channels, and establish a relationship manager service network in key global markets where there is a large population of high-net-worth Chinese. One of our objectives is to provide comprehensive financial service to the global Chinese with opportunities to invest in China-related assets using non-RMB denominated capital.

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Next, I would like to talk about our asset management business. At the end of the first quarter, Gopher's total AUM reached RMB129.6 billion, a 37% increase year-over-year. The AUM of PE/VC was RMB69.6 billion, accounting for 53.7% of total AUM for the quarter.

Real estate products, secondary market products and other products accounted for 15.3%, 5.3% and 25.6% of total AUM, respectively.

Recently, Gopher has been recognized with several industry awards, including 2016 China Venture Top 20 Best LPs in China, the STCN Most Competitive Fund of Fund award. Additionally, Mr. Zhe Yin, CEO of Gopher, was honored with 2016 China Venture-Hurun and Top 50 Best PE Investors in China.

And finally, for the fourth consecutive year, Gopher issued the 2016 China PE/VC Industry White Paper. The publication is well regarded in the industry and underscores Gopher's influence and leading market position.

Gopher is also strengthening its institutional sales capability. Nearly 50% of investors in Gopher's Flagship Fund of Funds are institutional investors, and almost all investors of its latest real estate value-added fund are from institutions.

Next, I will briefly talk about our mid-and-back-office initiatives. Since the beginning of this year, Noah has focused on the development of a big-data management platform and data analytic capabilities. As of the end of the first quarter, our newly-established Data and Innovation Center had completed research and development for eight scenarios using big-data and new technologies, three of which have already been put in place.

The application of these innovative scenarios will enable us to tailor specific marketing and client servicing strategies for a wide variety of clients. Looking forward, Noah will continue to implement big and smart data technologies to improve service customization and user experience for our products.

Finally, we launched new versions of Noah's APPs for clients and RMs, which will provide convenient one-stop mobile services, including online sales for eligible products, payments and post-investment management services.

On investment research, we are further integrating our research functions into our core business operations. In addition to providing research coverage on macro, industry and other featured topics, our research staff will support fund managers by providing product analysis and fund ratings as an essential element of our group-level product strategy.

In our view, a strong mid-and-back-office serves as the cornerstone of our business and helps build a strong foundation for RMs to meet clients' evolving needs for comprehensive financial services.

Now I will turn the call over to Ms. Jingbo Wang. And she will speak in Chinese. Her remarks will be translated into English.

Jingbo Wang – Noah Holdings Co-founder, Chairlady & CEO

Thank you, Kenny. In the first quarter 2017, various industry developments and regulatory changes took place and created both opportunities and challenges.

According to the just-released BCG's report titled 2017 Private Banking in China, the size of China's wealth management market has reached RMB120 trillion, with about 2.1 million high-net-worth families.

We believe wealth management and asset management is a sunrise industry in China with enormous market potential, driven by multiple macro factors. Firstly, China's middle-class population is expected to reach 700 million by 2020. This huge group will drive the transformation of the Chinese economy toward a consumption and service-based economy and desire for more sophisticated wealth management services.

Secondly, China has the highest savings rate in the world. As the country's demographic dividends morph to an aged population, this trend will fuel the demand for wealth and asset management.

Additionally, along with the rise of China's middle-class, globalization and the further opening of the Chinese economy, there are concurrent two-way demands both from onshore Chinese clients to allocate assets globally, and from the overseas Chinese to invest back in China. We aim to become the top wealth management provider to serve these two key needs for all the Chinese around the world.

China's macro economy is undergoing rapid changes as it rebalances an old, slowing economy with a new, emerging economy. While we are confident that the new economy will fuel the next stage of growth, the macro environment continues to present challenges in many areas for investors. For example, private credit products are confronted with declining returns and increased risks. While the A-share market is at a valuation trough, investors need to position themselves more selectively and patiently for investment opportunities. The real estate market has started to polarize as the urbanization process enters into the later innings. Investors should be cautious for both market risks and regulatory changes. Although with unlimited investment opportunities overseas, capital flows are limited due to policy restrictions. Investment opportunities are rampant in the PE/VC areas, which propels the new economy, but only top fund managers can generate alphas.

Given the above challenges, Noah and Gopher will continue to focus on covering and selecting the best fund managers, enhancing asset management and allocation capabilities, forming a deeper understanding of the underlying assets and improving the risk mitigation mechanism. We aim to serve our clients' needs in wealth management and asset management through excellent portfolio management and a diversified selection of high-quality products in the global market.

Next I would like to talk about the major product categories for Noah and Gopher.

Alternative equity investment is becoming mainstream. In 2016, the number of PE/VC-backed IPOs reached 174, a record-high in the last five years. From 2007 to 2016, PE/VC's penetration into Chinese IPOs increased from 39% to 60%. Many of our clients have started to benefit from the PE/VC products distributed by Noah since 2007, by way of highly successful IPOs. Among the 135 newly listed companies in China in the first quarter 2017, 50 were backed by PE/VC and 11 involved participation from Noah.

In addition, out of the 131 unicorn companies, 27 were invested by the GPs for which Noah helped with fund raising and 23 were invested indirectly by Gopher through its FOF vehicles.

With the gradual normalization of the A-share market and particularly its IPO process, we believe our high-net-worth clients will benefit further from their previous and future investments in this area.

Based on the latest quarterly results, the total transaction value of our PE/VC products distributed in the first quarter reached RMB9.1 billion, up 50% year-over-year, accounting for 28% of the total wealth management products distributed during the quarter.

With the Matthew effect becoming more prominent and fund performance more consistent in the PE/VC market, we can influence our partners in a more helpful way by both raising capital for and investing capital in their underlying funds.

Gopher has become one of the largest PE/VC FOF platforms in China by leveraging its first-mover advantage in this area and implementing rigorous GP selection and investment processes. We will strive to invest our resources in multiple areas including product development, GP coverage and investment capabilities, as well as investor relations. We will also utilize our existing industry data and talent map as a way to enhance our direct and co-investment capabilities and fortify Noah's position as a leading industry player. The mandate of Gopher's latest Flagship PE Fund of Funds is to be 50% invested in direct investments and co-investments.

The total transaction value of fixed-income products was RMB22.1 billion in the first quarter, up 37% year-over-year. We continue to innovate our product line-ups and optimize the underlying assets, which now cover diversified high-quality categories ranging from supply chain financing, consumer financing, auto financing and mezzanine financing for listed companies. We have identified and partnered with many top-tier product providers in this area.

On secondary market products, compared to the pricy real estate market and the frothy bond market, the stock market has gone through a period of acute adjustments with valuations falling into the reasonable range and investor sentiment becoming more rational.

We believe the stock market in 2017 will brew more opportunities compared to last year, and as such we recommend investors to position themselves with incremental stock exposure.

In 2017, we have been actively identifying the best fund managers, many of whom have outperformed the benchmark. In particular, Gopher's Manager-of-Managers, or MoM, products have achieved superior results with the two flagship MoM funds outperforming CSI 300 Index by 445 bps and 637 bps year-to-date respectively, and experiencing lower year-to-date draw-downs.

As a classic saying for the stock market goes, bull markets are born in despair, grow amid skepticism, and die amid euphoria. We believe the current secondary market is at the first stage, evidenced by low sentiment in the A-share market and weak transaction volumes in mutual funds, and this opens up an attractive entry point.

We distributed a total of RMB1.1 billion in secondary market products during the first quarter, and Gopher's AUM in the secondary market was RMB7.3 billion.

In spite of the year-over-year and sequential declines, we continue to attach great importance to this product segment and will further improve product offerings in preparation for the eventual market recovery.

Equipped with higher trading and account management system, Gopher's MoM products can effectively reduce the expense burden. We believe MoM still has significant room for growth in the future.

With an increasing number of companies going public, we also aim to enhance the research integration between the primary and secondary markets with in-depth industry research capabilities. These efforts will also help improve our private placement and M&A mezzanine products which have good market opportunities in our view.

In terms of the real estate products and investments, we have restructured teams and shifted focus away from providing financing for residential developments and towards financing development and operation of commercial properties.

Specifically, Gopher's real estate team has grown in experience and sophistication through tough years of transformation and development. Despite a decline in the overall AUM, our real estate funds are becoming structurally convergent with global real estate funds, with office building funds for core districts in key cities, commercial value-added funds, real estate M&A mezzanine funds and special opportunity funds as key components.

As a full-fledged manager in the real estate investment area, Gopher has formed an eco-system covering project investment, reconstruction, sourcing, leasing and property management. We believe we have the bandwidth to further grow our AUM in this area.

On another note, the Gopher Center which we acquired through investment funds in 2015, has achieved a better-than-expected rental occupancy rate, rental yield and asset price in less than half a year since its completion.

Since the second half of last year, Noah has been upgrading its post-investment services and successfully launched a new Black Card brand dedicated to serving ultra-high-net-worth clients and providing family office services to appreciate and transfer wealth through asset allocation.

Leveraging Sequoia's proven family office experience with its Heritage Fund, Gopher also added 16 new clients and RMB0.9 billion AUM in the first quarter to its own Heritage Fund.

Noah's innovative subsidiaries are built around the needs of our high-net-worth clients as an integral part of our evolving ecosystem of financial services. Our trust, insurance, immigration consulting, micro-lending and financial lease companies enjoyed accelerated growth in the first quarter 2017.

Noah is also a company that cares deeply about social responsibilities. The Noah Foundation, our nonprofit public welfare organization, is dedicated to helping the pursuit of the common life goals of virtue, wealth and happiness in the lives of our clients and employees. Toward this end, various events and initiatives, including those with Noah Care, Environment Care, Autism Care and Senior Care touched the lives of 5,000 participants and donors in the first quarter.

Our internet financial service business is also an essential part of our ecosystem. By exploring smart financial advisory technologies, Aciculae aims to build out a comprehensive online financial platform for the mass affluent individuals in China.

In the first quarter, we achieved strong results in online mutual fund products, standardized insurance products and ABS products, with the total transaction value climbing to RMB7.1 billion, up 273% year-over-year, with 40% coming from mutual fund distribution.

In particular, our effort to establish an online mutual fund boutique increased our ability to research and screen funds for Caifupai's clients. We completed the testing for a proprietary mutual fund trading system, which lays a solid foundation for us in light of the rapid growth in mutual fund transactions and smart wealth management.

2017 marks the 12th year since Noah's inception and the 7th year since IPO. Having experienced several market and economic cycles, we have learned the importance of respecting the market.

Looking back over the past 12 years, we faced three different types of risks and challenges. First, the risk of selected GPs missing our expectation. Second, the risk of fraudulent activities. And third, the risk of default during periods of the industry downturn.

Being part of the finance industry, we cannot avoid risks and any attempt to mask mistakes is juvenile. What we can do is to focus on better understanding the risks around us, and to learn from each and every mistake.

We believe deeply comprehending the issues and risks before overcoming them would be the best route for us to grow further and prosper. To avoid or mitigate the three risks I just mentioned, we have constantly been optimizing our risk management process with more stringent product selection criteria and better asset restructuring capabilities which has become the key focus in terms of enhancing our core competitiveness.

China's wealth management and asset management industries are facing more standardized regulations in 2017, many of these are intended to professionalize the market practices and are actually aligned with Noah's core values and principles. For example, we have pledged to only distribute and manage products that have independent custodians, never to sell products backed by capital pools with maturity mismatches or structured products with guaranteed returns or undue leverage.

We have been diligently executing on product selection and building standards and rules for asset managers. We are resolute in our belief that a more transparent and regulated market along with more mature investors and professionals will drive the healthy development of the industry.

Despite compliance cost on the rise, we adhere to the development of our core competencies in screening and selecting accredited investors and compliant managers, improving active management and innovating product development and related services.

Although we can never guarantee a certain investment return or profit for our clients, we are confident that our clients will recognize over time our diligent effort, professionalism and our 100% dedication to our products and business. To realize long-term gains alongside our clients and become the friend of time is the ultimate goal we strive to achieve.

I just came back from the Berkshire Hathaway 2017 Annual Shareholders Meeting in Omaha, and was deeply inspired by the speeches of Mr. Buffett and Mr. Munger. They mentioned that every company makes mistakes, either through an incorrect judgment on market trends or opportunities, or a misaligned incentive system. However, as the Company's management, we need to thoroughly understand the importance of our reputation and establish a culture to protect our core values, in addition to making a profit.

It is critical to respond quickly to mistakes and establish an effective feedback and correction system. Once issues are flagged, management must take immediate actions and make corrections. This resonates well with us as we have worked concertedly to establish a complete system to identify issues and discover and correct mistakes in a timely manner.

Continuous investor education is also the foundation for the healthy development of this industry. We believe only with more mature investors, professionals and regulators can the industry grow in the healthiest way.

Thank you. Now I will turn the call over to our CFO, Shang, to review our financial results.

Shang Chuang – CFO of Noah

Thank you Chairlady Wang, and hello, everyone. Today, I will give an overview of our first quarter 2017 financial results and then open up the call for questions.

As Kenny and Chairlady Wang both noted, we are generally pleased with our financial results for the first quarter of 2017, despite various market challenges. Net revenues were RMB713.2 million in the first quarter, up 17.5% year-over-year. Non-GAAP attributable net income was RMB237.2 million, up 10.9% year-over-year.

For our wealth management business, we distributed RMB32.7 billion worth of wealth management products in the first quarter, up 31.7% from the same period a year ago. As a result of the growth in transaction value, we received RMB344.3 million in one-time commission revenue, increasing 19.3% from a year ago.

We also realized recurring revenues of RMB326.9 million in the first quarter of 2017, up 5.7% from the same period last year. Reoccurring service fees as a share of total revenues stayed relatively stable at 45%.

We received RMB12.6 million from performance-based income during the first quarter of 2017, which was mainly contributed by the private equity products we distributed in previous periods.

Our internet financial service business achieved RMB24.8 million in net revenues in the first quarter, representing a 326.7% increase from a year ago. Operating loss was also reduced by 40.7% year-over-year to RMB31.1 million. We believe the internet financial service business will see further improvement in its operational and financial performance going forward.

Total operating expenses in the first quarter of 2017 were RMB456.3 million, compared with RMB379.8 million from a year ago. Excluding the influence of government subsidies, which vary quarter-by-quarter, operating expenses increased 9.2% year-over-year, slower than revenue growth, which reflects our effective cost control has started to play a positive role in overall financial performance.

For the first quarter, operating income increased 13% year-over-year to RMB256.8 million and operating margin was 36% compared with 37.4% for the corresponding period in 2016.

Non-GAAP net margin attributable to Noah shareholders for the first quarter was 33.3% compared with 35.2% a year ago, in line with the stable range in recent years.

On the balance sheet side, as of March 31st, 2017, the Company had RMB2.6 billion in cash and cash equivalents, a decrease from RMB2.98 billion in the previous quarter. This was mainly due to increased cash outflows in investing activities driven by our efforts to enhance our cash management and improve cash efficiency.

Finally, I would like to highlight that our performance in the first quarter of 2017 reflects the strong fundamentals and steady profitability in our core businesses, which provides us confidence in achieving our full year 2017 non-GAAP attributable net income guidance of RMB825 million to RMB860 million.

With that, Chairlady Wang, Kenny and I would be happy to take any questions. Operator?

Q&A

[Operator]

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Xue Yuan of CICC.

[Xue Yuan – CICC]

Xue Yuan: (Spoken in foreign language)

[Shang Chuang – CFO of Noah]

Mr. Shang Chuang: (Spoken in Chinese)

[Ju Juan – CICC]

Ju Juan: (Spoken in foreign language)

[Shang Chuang – CFO of Noah]

For the benefit of the audience, I will translate the question first into English, and then answer the question.

(Translated) So the question is, we noted or I noted the transaction value has increased to over RMB 30 billion in the first quarter 2017, but the number of active client has slightly declined in the quarter.

Can you explain what is the reason for these changes?

So the changes in these two metric, I think is primarily because of the product mix. So if you note for the first quarter of 2017, the amount of private equity in terms of percentage of overall transaction value as well as absolute value increased. Now, private equity has more of a capacity constraint for top-tier GPs.

So our strategy is to primarily allocate these resources to existing clients or larger clients. And so that will limit the number of clients that we can serve for that particular quarter.

And so I think that is the primary reason why you're seeing that transaction value year over year increase, but active clients slightly lower.

[Kenny Lam – Group President of Noah]

And then I also want to add a point. This is Kenny here. That this may be seasonal. As Shang explained, depending on the product structure, the active clients for a particular quarter may fluctuate a bit. So for this particular quarter, with the private equity being an important part of the product structure, the active client for that particular quarter is lower. But the per value client has increased substantially.

Operator?

[Operator]

Anurag Rajat of JP Morgan.

[Anurag Rajat – JP Morgan]

I have two quick ones. One, we see strong pickup that you mention in the average transaction value per client. You see that as a sustainable thing or is that going to trend down back to the previous level?

And the second one is -- I think I might have missed it. But can you give us the overseas AUM once again, please? Thanks.

[Shang Chuang – CFO of Noah]

Sure. So for the first question I think is related to the answer for the previous question. So we're seeing that average transaction value per client go up this quarter meaningfully.

I think there are two reasons for this change. One is product mix, private equity versus other product category has higher minimum start. And the typical minimum start for a private equity is anywhere between RMB10 million to RMB20 million.

Second, I think this also reflects our continued effort in terms of deepening pie and wallet share. So providing various products and services to better engage our client. So I think in the long term, our goal obviously is to expand pie and wallet share. But on a quarter-to-quarter, you'll see some volatility given the product mix that we actually distribute.

In terms of the second question, the second question is related to the AUM for our offshore business. The amount of offshore business we did, our AUM for at the end of the first quarter -- let me get that. One second. -- RMB175 billion (口误 17.5B), at the end of the first -- roughly about \$2.5 billion.

[Anurag Rajat – JP Morgan]

Okay. Thank you.

[Operator]

(Operator Instructions) Katherine Lei of JP Morgan.

[Katherine Lei – JP Morgan]

Katherine Lei: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. For the benefit of the audience, I will translate the question from Katherine of JP Morgan.

(Translated) Thank you for having the Q&A session. I would like to ask about [Huishan] Dairy. I understand it's undergoing legal proceedings. If you can provide to the extent you can the latest update regarding the situation. Thank you.

So as many of you may have noticed from the media report, last year we distributed a product which is a credit product, a private credit product to Huishan Dairy with various guarantees and collateral. Now, the product had reach the original expected maturity date, but we have extended the product and communicated to our client, regarding the latest situation.

Now, as the asset manager for that particular fund, we have taken legal action to freeze the assets of the various guarantors. And based on the amount of assets that we have freeze given the legal proceeding, we are in the process of retrieving principal and the interest for this particular fund.

At the same time we have been in constant dialogue with our primary regulator, which is CSRC, on the development of this particular case.

[Operator]

[Ming Bau] of [Venetta Capital].

[Ming Bau – Venetta Capital]

So my question is about the Huishan Dairy case. Just want to know if your customers, your clients, speak badly about the case. I mean both the client that directly by the product and some other clients that they haven't bought a product but maybe heard about the story. Just want to know what does the company think about the ongoing relationship with your client or do they understand this is normal and the ratio -- that that ratio still very low or just want to [better] framework that. Thank you.

[Shang Chuang – CFO of Noah]

So I guess to perhaps first put some perspective in terms of the concentration of this particular product. So this product is roughly about RMB500 million. For the full year 2016, we distributed over RMB60 billion in fixed income or private credit-like nature product.

So this as a percentage of the overall volume we did last year was very small.

And for this particular product, the clients are all sophisticated investor. And so based on our communication with these investors, I think they note the situation and they have agreed for the extension of the fund to work on the legal proceeding to retrieve the principal and interest.

In terms of the clients who have not participated in this particular product, I think the overall culture of the (inaudible) quite open and transparent about the various challenges and mistakes that we may have made over the last 10, 12 years that we have been in business. And I think we continue to learn and improve ourself.

And I think for both wealth management and asset management industry, I think many of the investors agree that the experience that you accumulate over time is a valuable asset, and I think we continue to strive to be better than the day before.

I will pause there to see if Madam Wang or Kenny has any further comments to add.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. So Madam Wang would like to add a couple of points.

(Translated) I think in guarding to the Huishan Dairy situation, I think there are obviously negative aspect to it, but there's also some positive characteristics to this event.

So first of all, I think we were quite pleasantly pleased to see that for many of the investors that were involved in this particular product, clients in China are becoming more mature, and I think that is a good development going forward.

And also, I think from these type of events industry participants, the regulators, as well as investors, have an increased better understanding of risk.

And so I would like to also add that the clients who bought this particular product, that they're all sophisticated investors. So they knew before they invested that this particular product is investing in a credit product [for Huishan]. And so they, based on their judgment, decided to buy the product.

So most of the clients were not caught off the [pride]. Obviously there are various clients who were quite worried in the beginning. But we continue to communicate with them regarding the actions that we have taken as an asset manager. And so far the clients are quite patient.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. (Translated) So from this event, I think we continue to focus on underlying due diligence of the underlying assets, as well as our capability as an asset manager to do restructuring and debt restructuring.

[Operator]

(Operator Instructions) Looks like we do have another follow-up question coming from Ming Bau of Venetta Capital.

[Ming Bau – Venetta Capital]

Yes. I just wanted to thank for management reply. And I just wanted to confirm that I see that the forecast remains, just want to know that [VC share] will not -- the influence of these [pays to the difference] is actually minor, and we'll still keep the forecast, right? Thank you.

[Shang Chuang – CFO of Noah]

Yes. So to answer your question directly, we are maintaining our full year 2017 non-GAAP net income guidance of RMB825 million to RMB850 million. This remains unchanged.

Also, I would like to add for this particular Huishan Dairy event, there is no direct impact to our balance sheet and income statement. We, as an asset manager for this particular fund product, we are working as hard as we can to help the clients retrieve the principal interest. But it does not -- the outcome of this particular case does not have any direct impact to our balance sheet and income statement. Thank you.

[Kenny Lam – Group President of Noah]

I want to add just three points to what Chairlady Wang and Shang just said. I think first of all, we actually treat this as quite a [path to/positive] development in terms of industry maturity. It helps clients to understand further the risk of the industry. It also helps us to build further client education. So that's one.

Two is, it also helps us improve, further refine our risk systems. I've always said that Noah has been improving on our risk system for the last 13 years. It's also continuous profit. So I think this incident actually helped us a lot in to refining our internal process.

Lastly, I want to reiterate what Shang just said, which is it has no direct impact on our balance sheet and we remain confident in our guidance for the year.

[Operator]

(Operator Instructions) We do have another question. It is another follow-up question from Ming Bau of Venetta Capital.

[Ming Bau – Venetta Capital]

If I may, I want to hear about the competitive environment right now. So what do Noah think is biggest competitors in the business right now? I remember Madam Wang once said that she couldn't find any of the competitor which is in the same level or the same kind of understanding of this industry.

So I just want to know whether that maybe attitude changed? So are there any other strong competitors coming in? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. (Translated) So whether it's the wealth management industry or the asset management industry, obviously, it's a fast-growing industry, whether in the past, now, or future, I think they will both continue to be highly competitive.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

(Translated) In terms of impact to us, I think the last two year, particularly 2016 and 2017, with more rollout introduction of regulation for both the wealth management asset management industry, we're seeing a lot of non-healthy competition being weeded out. So this obviously benefits established players like ourself.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

(Translated) In terms of large financial institutions such as banks and security, we're also feeling that they are now paying more attention and putting more resources in these two industry.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

(Translated) So Noah has been in the industry now for 12 years and we have learned quite a lot in the -- accumulated a lot of experiences over the years. My personal observation is that since 2016, these industries are becoming more advanced and more mature. It's not just about telling stories, but it's about demonstrating and furthering strengthening your competitive advantage.

And so I think that's what we'll continue to focus on, of our core businesses, both in wealth management and asset management industry.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. (Translated) So as I mentioned in my prepared remarks, I think in the future, ongoing investor education, client selection, as well as compliance, will be important factors going forward.

And so our strategy or our focus is to continue to select the high-quality client. It's not just about servicing every Joe, Dick, and Harry, but how do we select the sophisticated client to serve them on our platform better.

[Jingbo Wang – Chairlady and CEO of Noah]

Ms. Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

(Translated) So this also applies to the way we expand our relationship manager or sales force. With the background of increasing compliance costs and risk, I think is very important to expand your relationship manager with quality, i.e., that they better understand client needs. They are able to execute investor education, client selection, and it's not just about adding salespeople to increase your overall transaction value. But how do we help our relationship manager and sales force improve say efficiency and do it in a compliant matter. Thank you.

[Operator]

(Operator Instructions) At this time, I am showing no further questions. So this concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

[Shang Chuang – CFO of Noah]

So thank you, everyone, for joining our call this evening. And we hope to speak to you again in the next quarter. Thank you.

[Operator]

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.