NOAH HOLDINGS 1Q 2018 EARNINGS CALL EDITED TRANSCRIPT

May 29, 2018, 8:00 PM (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings First Quarter 2018 financial results conference call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be a Q&A session. During the Q&A session we ask that you please limit yourselves to two questions and one follow-up. If you would like to ask additional questions, you may re-enter the queue to do so. 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 2018 financial results which is available on the company's IR website at http://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 statement 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.

Kenny Lam – Noah Holdings Limited Group President

Thank you, Operator. I want to welcome all our investor and analyst friends to our earnings conference call today. In addition to myself, Ms. Wang Jingbo, Chairlady and CEO of Noah, our CFO Shang, will also be participating in our call today.

For today's agenda, we'll first review Noah's first quarter 2018 performance as well as the development of our core wealth and asset management businesses. Chairlady Wang will then provide her overall view on the current regulatory environment, and share the progress and updates of each product segment that we involve in. Our CFO Shang will then follow up with a more detailed discussion of Noah's first quarter financial performance. We will conclude the call with a Q&A session.

Since the beginning of 2018, the volatility of capital markets, both at home and abroad, has intensified. In China, a series of deleveraging and risk-prevention regulatory measures have been enacted. In particular, with the March 13th merger announcement of the China Banking Regulatory Commission and the China Insurance Regulatory Commission to form a combined

Banking and Insurance Regulatory Commission, and the official launch of the new "Guiding Opinions on Regulating the Asset Management Business of Financial Institutions" on April 27th, there will be a profound long-term impact on the entire financial industry in China. Overseas, the United States has entered a rate hike cycle and Sino-US trade disputes have gradually escalated to nearly the edge of a trade war. As China is at a critical phase of its economic transition, it has indeed been an eventful and volatile period.

In such a complex and intense economic environment, Noah has been steadfast in its efforts to build an open product platform and an integrated financial service platform centered on customers' needs. In the first quarter of 2018, our transaction value for financial products reached RMB27.8 billion, down 15% from the same period of last year, while our asset management business reached AUM of RMB156.9 billion, up 21% from the same period of last year. In terms of financial performance, the group's net revenues in the first quarter were RMB831 million and non-GAAP net income attributable to Noah shareholders was RMB256 million, up 16.5% and 8.1% year-over-year, respectively. We are on track to meet our mid-range of 2018 financial guidance.

We believe that our first quarter 2018 operating and financial results reflect the overall strategic adjustments we have made during the past two years. That is to say, we have not focused simply on increasing the volume of our business, but have also emphasized the quality of income by strengthening our investment capacity and increasing the proportion of co-investment and direct investment. With the intensifying regulatory situation, we still maintained a steady growth rate, and we are largely satisfied with our results.

In our wealth management segment, we continued to steadily expand our offline channels. By the end of the first quarter of 2018, we had 263 branches and sub-branches in 81 cities nationwide, increasing from 237 branches and sub-branches in 79 cities by the end of 2017; the number of relationship managers increased by 11% year-over-year to 1,386. In 2018, we will focus on expanding multiple sales channels, while continuing to optimize traditional distribution channels and empowering relationship managers. During the first quarter, we launched the new "blue label" brand in cooperation with our high-net-worth clients, and started the separately managed account model for single family office clients, with the purpose of forming deeper relationships with our customers and growing together with them.

To optimize our investment research system and strengthen support for front-line teams, in the first quarter of 2018, we upgraded our research team with the official branding of "Noah Research Workshop". The Workshop functions as a sales and marketing-oriented sell-side research operation, systematically covering fund managers in cooperation with Noah and fully integrating the entire sales process: from product due diligence, launching, to marketing roadshows. During the first quarter, the Workshop has published 76 research reports on topics including macro strategies, product research and industry dynamics. At the same time, we have also stepped up development of our online knowledge base and regional research workshops, which will provide our front-line relationship managers with even more direct and effective support.

In addition, for the first time in our company's history, in 2018, we officially launched our brand promotion campaign. Our commercials feature respectable Chinese entrepreneurs who are also Noah's business partners and clients, such as Focus Media Chairman Jiang Nanchun, NIO Automobile CEO Li Bin, Ele.me founder Mark Zhang, Star VC founder Ren Quan, and Sequoia Capital Global Executive Partner Neil Shen. Since mid-April, these commercials have been concentrated in high-end residential and office buildings in major cities across the country, as well as Shanghai and Hong Kong airports. Based on analysis of indicators such as QR code conversion rate and Baidu search index, their effectiveness has been well tracked. We have also invested significant resources in online channels such as Baidu and Toutiao. Our aim is to strengthen our brand awareness and reputation.

Next, I will briefly talk about our asset management business. As of March 31, 2018, Gopher's AUM reached RMB156.9 billion, an increase of 21% year-over-year. Within it, the AUM of private equity investments increased by 39% year-over-year to RMB91.8 billion, accounting for 59% of the total AUM. Credit, real estate, secondary market equity and other product categories respectively accounted for 27%, 8%, 4%, and 2% of total assets under management. The new products and strategies that we have been actively establishing during the recent two years have also begun to show their unique value to investors, and at the same time increasing our revenue quality in forms of growing management fee and performance- based income.

Recently, Noah and Gopher have issued a number of important industry white papers including "2018 High-End Wealth Management White Paper," "Public Market White Paper," "China PE/VC Industry White Paper" and "China PE Secondary Fund White Paper." These white papers not only help readers sort through our industry landscape, but also reflect our growing influence in the wealth management and asset management industries in China.

In terms of overseas business, our two overseas offices in Canada and Australia both held their grand opening ceremonies in the first quarter of 2018 and began to build influence in their local Chinese communities. Additionally, the Mayor of Vancouver and the Canadian Finance Minister both recently visited Noah headquarters in Shanghai. Various investor education and customer relationship events, including Visiting Noah and Noah University, have also been successfully carried out in Vancouver and Melbourne. Both branches have started business development with local customers transacting on our platform. As of the end of the first quarter, our overseas AUM reached RMB21.4 billion, a year-over-year increase of 22%. We expect Noah's overseas influence will further strengthen in the future, and the contribution of our overseas business to the Group will further increase.

Lastly, I would like to talk about the planning and progress of our technology system. "Technology-driven Noah" is our strategic positioning for the future of the Group. We believe that through technology empowerment, we will enhance our customer service experience and our relationship managers' efficiency. Driven by this goal, we are consolidating and mining the vast amount of product and customer data that we've accumulated over the past 12 years to build a unified big data platform for the Group. In 2018, we will focus on the comprehensive upgrade of our internal and external systems and Apps experience. This includes the enhancement of our information management, and building an automated and intelligent investment operation systems, as well as the pioneering exploration of innovative business support functions with artificial intelligence. We want technology to become part of Noah's DNA.

With that, I will now turn the call to Noah's Chairlady and CEO, Wang Jingbo. She will speak in Chinese, and her remarks will be followed by English interpretation.

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

Jingbo Wang: (Speaking Chinese).

(Translated). Thank you, Kenny.

On April 27, 2018, the official version of the new Asset Management Guidelines was released. We believe this new regulation effectively redefines the asset management industry in China. It clarifies that the mainstream operations of “channel + funding pool” and “implicit guarantee + maturity mismatch” models in the past were pseudo-asset management practices.

The new regulatory logic stipulates that true wealth management and asset management need to be driven by investment and research capabilities. Research capabilities provide value-add for clients, and investment capabilities are core to wealth management business. This is also in line with international standards and entirely consistent with Noah’s long-standing strategies and core competencies.

“Investment and research-driven” has become the only path for the development of the wealth management and asset management industry under the new Asset Management Guidelines. We are fully confident in the long-term healthy development of our industry in this background.

Jingbo Wang: (Speaking Chinese).

(Translated). On the other hand, under the impact of the new Asset Management Guidelines, the fundamentals of the industry have also changed, and the product strategies and strategic directions of many industry participants also need to change. Therefore, in the short term, there have been some rather significant impacts on market funding.

In the first quarter of 2018, the capital market in China experienced a state of increased volatility. Credit defaults hit new highs in terms of both the frequency and amounts, especially the defaults of equity pledge by large shareholders of public companies and public debt defaults. These problems affected the investment psyche of high-net-worth customers in the short term, and we believe we need some more time to observe and evaluate the duration and magnitude of this effect.

Jingbo Wang: (Speaking Chinese).

(Translated). We believe that the changes in the industry as a whole and the changes in investors’ mentality brought about by the new Asset Management Guidelines will require a period of adaptation.

There are three situations for companies affected by the new regulation: The first type of company has very poor asset quality with a lot of funding pool and maturity mismatch businesses in the past, and they might experience a large number of defaults under the new regulation.

The second type of company has done a small amount of funding pool business, but from the perspective of company operations, they have not established a compliance and risk management system that fully meets the regulatory requirements of the new regulation.

The third type of company is like Noah. We have no business with funding pools, maturity mismatches or implicit guarantees, thus with very little historical burden. At the same time, most of our company's previous human resource and organizational structure have been allocated in investment, research, risk management, and compliance, which is in line with the direction of the new regulation. Taking a long-term view, this is a very rare opportunity for Noah to step up and grow our business with higher quality.

However, in the short term, we also feel some pressure brought by the new regulation, especially the operating and cost pressure to build a stronger compliance and risk management team. At the same time, we need to identify qualified investors more effectively through our upgraded systems and processes, strengthen our customer risk assessment, anti-money laundering, and CRS system construction, in order to improve sales suitability precision, supervise the compliance of our relationship managers, and provide more investor education. These are the critical areas where we need to allocate more time and resources now.

In the new market environment, we have begun to spend more time with customers for in-depth communication, often times with face-to-face meetings. We organize various types of investor education activities, such as Noah University, PE seminars, public market seminars, trust seminars, among others, all aiming to provide our customers with a deeper knowledge of different asset classes and enhance their ability to understand and make sound judgments on financial products.

At the same time, we are also strengthening the day-to-day management and training programs of our relationship managers, with increasing trainings for their professional knowledge and product expertise.

Jingbo Wang: (Speaking Chinese).

(Translated). Strategically we will focus on three main issues in 2018. First, we will allocate more resources to continue upgrading and strengthening our risk management and compliance system. Second, in the wealth management segment, we will focus on core clients and family office customers, and enhance our customer experience and comprehensive service capabilities. Third, on the asset management side, we will continue to improve our investment capability and revenue quality, balancing between fund of funds and direct/co- investment strategies.

Now, let me share with you the business progress of our major product lines in the first quarter.

Jingbo Wang: (Speaking Chinese).

(Translated). In the private equity segment, we continue to focus on top GPs in the Chinese market and expand the scale and depth of cooperation with them; Our fund of funds strategy is to explore future star GPs, and to expand PE secondary market funds.

In the area of co-investment/direct investment, we focus on technology-driven, consumption upgrade, healthcare and other value-added industries and fields that high-net-worth customers are most interested in and have great growth potential. We have also made significant progress in attracting investment talents and building up our in-house direct investment teams.

In the first quarter of 2018, China's PE/VC industry as a whole experienced a “cold winter” in fundraising, with the size of raised funds decreasing by about 70% year over year. In this context, Noah’s private equity product offerings amounted to RMB6.3 billion, while the AUM of Gopher’s private equity funds continued to increase to RMB91.8 billion, up 39% year over year, and maintained a level of nearly 60% of the total AUM.

From 2017, performance-based income from our private equity products have begun to be reflected in our overall financial performance. Some of our earlier launched funds have gradually entered the exit phase of the projects. Recently, we have been able to exit a number of invested companies through M&A or successful IPOs, such as Ele.me, Mobike, and WuXi AppTec. We expect that the sustainable performance returns for both our customers and the company will continue to increase going forward.

Jingbo Wang: (Speaking Chinese).

(Translated). On the secondary market investment front, the amount of the secondary market equity products we distributed during the first quarter of 2018 reached RMB7.9 billion, accounting for more than 28% of the total transaction value, and representing a nearly 6 fold year-over-year growth. We believe that, with the new Asset Management Guidelines taking effect, public and private secondary market equity funds will become a mainstream asset class for the middle-class population in China.

We have also completed the construction and upgrade of our compliance management and trading system infrastructure during the past few years. Gopher's secondary market equity products, on the other hand, continue to focus on the Manager of Managers model.

In terms of product performance, 84% of Noah-selected funds achieved positive returns in 2017, with an average return of 17.9%. Gopher's Megatrend MOM fund was launched in 2017. From its inception to May 11 of this year, its cumulative return exceeded 9%, while the CSI 300 Index rose 1.46% and GEM index fell 1.63% over the same period. In the face of intensified market volatility in 2018, Gopher MOM fund’s risk metrics such as annualized volatility and maximum retracement have maintained excellent performance.

The performance of Gopher Offshore Select Hedge Fund of Funds over the last 12 and 36 months has also maintained leading position in the Barclays ranking of similar funds of funds in the past year.

Jingbo Wang: (Speaking Chinese).

(Translated). In terms of real estate funds, we have been focusing on equity investment and active management of real estate projects over the past few years. During the first quarter of 2018, Gopher real estate investments have grown RMB2.4 billion in gross size to an overall AUM of RMB11.9 billion. We think that 2018 represents a relatively good opportunity for real estate equity investment in terms of cost efficiency.

We will focus on two major investment strategies, including preferred shares and core asset acquisition, and provide value-added services to developers through post-investment management.

We are also exploring opportunities in the transformation and renovation of existing properties. At the beginning of the year, Gopher acquired two real estate properties with a total gross floor area of approximately 66,000 square meters in the Inner Ring of Shanghai. These two properties included office buildings, hotels and rental apartments. Our commercial property management will work with well-known hotel and apartment operators for the operation and management of the projects.

This is yet another core asset acquisition project by us following the success of Gopher Centre. We have a very experienced real estate investment and operations team, with all exited equity real estate funds reaching an average IRR of 12-15% while maintaining a zero-loss performance.

We believe that, in the industry and regulatory environment of 2018, our real estate funds will continue to increase their scale while maintaining the high asset quality.

Jingbo Wang: (Speaking Chinese).

(Translated). In the area of fixed-income products, we continue to focus on consumer financing, auto-financing, and real estate mortgages, and cooperate with market-leading licensed institutions with diversified underlying assets. We have been executing this strategy for three years, and see it achieve strong stickiness and risk management capability.

Our in-house risk management system has taken initial shape where the database of our counterparties are directly linked, and through which we could continuously monitor the risk performance of the underlying assets. Through big data risk control and systematic risk identification, database linkage, product structure design and asset monitoring analysis on the platform with underlying assets of different categories and different counterparties, we are able to enhance the pricing accuracy based on the credit risk of our fixed income products.

Jingbo Wang: (Speaking Chinese).

(Translated). Gopher's discretionary and family office team continues to dig deeper into the needs of “super clients” and help them invest in different multi-strategy products with different risk appetites. We also launched our Global Family Office Alliance Program in 2018 and started to manage single family office accounts with the size over RMB500 million together with our clients.

As of the end of the first quarter of 2018, we were serving 612 black card ultra-high-net-worth clients (including 378 clients investing in our multi-strategy funds), with an aggregate assets under advisory of over RMB40 billion.

At the same time, Noah's other innovative businesses also continued to advance. These include the Caifupai online wealth management platform, Rongyitong lending service and so on. Our other financial services segment realized 71% year-over-year growth in the first quarter of 2018, with operating loss decreased by 41%.

Jingbo Wang: (Speaking Chinese).

(Translated). Lastly, I would like to reiterate my views on regulation and compliance. We have seen that the regulatory requirements and compliance costs of the global financial industry have all been trending higher in recent years. I think China is also following this trend. The promulgation of the new Asset Management Guidelines has unified the regulatory standards for all asset management institutions and products and has eliminated regulatory arbitrage space.

For asset management products, both funding sources and underlying assets should be clearly reported to regulators; implicit guarantees have been prohibited and net asset value management is required. At the same time, through the integration and adjustment of regulatory agencies, the general government policy direction is that supervision will cover all financial institutions and in all aspects. License management will be clearly implemented. These measures will have a profound influence on the long-term stability and development of the financial industry in China.

For Noah, the key words for 2018 are adherence to compliance and risk management to the highest standards. In 2017, we completed system upgrades in areas such as investor suitability matchup and risk quantification.

In 2018, we will conduct a thorough review and improvement plan for the Group's internal risk management processes and operating systems. We will detect systematic loopholes by walkthrough tests, and gradually optimize our risk modeling and comprehensive quantitative risk management system. We strive to use the most stringent standards to achieve continuous improvement for our entire operations.

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

Shang Chuang – CFO of Noah

Thank you Chairlady Wang and hello everyone.

For the first quarter of 2018 we achieved solid results and are on track to meet our full year guidance.

Net revenues in the first quarter increased 16.5% year-over-year to RMB830.9 million driven by strong recurring revenue and performance-based income. Recurring revenues reached RMB398 million up 21.7% as we continue to focus on scale and quality of the assets we manage.

We achieved performance-based income of RMB59.7 million, up more than three-fold year-over-year. This demonstrates our efforts to generate investment returns consistently for our clients despite market volatilities.

Revenues from one-time commissions were down 7.7% to RMB317.9 million due to lower transaction value this quarter offset by higher effective one-time commission rate. With on-going market volatilities, we intend to engage our clients with diversified product offerings and focus on both growth and quality.

By segment, net revenues from our wealth management business were RMB594.2 million, up 5.7% year-over-year, and contributing over 70% of total revenues. Our asset management revenues were up 53.8% this quarter reaching RMB194.3 million. Our other financial services business segment achieved RMB42.4 million in net revenues in the first quarter, representing a large 71.0% increase versus last year, primarily due to the growth of our lending services. We anticipate this business segment will break even on quarterly basis this year as we continue to focus on revenue growth.

Total operating expenses were RMB556.4 million, up 21.9% year-over-year, due to an increase in marketing expenses and lower government subsidies this quarter. We believe the comprehensive brand promotion campaign we launched this year will allow us to strengthen existing client relationships and improve new client acquisitions going forward.

Total compensation costs were RMB360.7 million, up 5.9% year-over-year. Excluding government subsidies which can vary quarter-to-quarter, operating margin was 32.5% this quarter compared to 31.3% last year. This reflects our continued efforts on cost management.

Before commenting on our net income, I would like to discuss a recently adopted accounting standard. On January 1, 2018, the Company adopted ASU 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities.

This new accounting standard requires that equity investments, except for those accounted for under the equity method or those that result in consolidation, be measured at fair value (i.e. marked-to-market), with subsequent changes in fair value recognized in net income. The accounting standard also includes a transition requirement on presentation that requires the amounts reported in accumulated other comprehensive income for equity securities that exist as of the date of adoption previously classified as available-for-sale to be reclassified to retained earnings. This adjustment had no overall impact on shareholders' equity.

However since these net unrealized gains are now included within retained earnings, they will not appear as realized gains on the Income Statement when sold.

When evaluating the Company’s operating performance, management reviews non-GAAP financial measures. Noah’s Non-GAAP financial measures are its corresponding GAAP financial measures excluding the effects of all forms of share-based compensation, fair value changes of equity securities (unrealized) and adjusting for sale of equity securities.

For the first quarter of 2018, we adjusted out the cost for share-based compensation in the amount of RMB22.7 million as well as income for unrealized fair value change of equity securities in the amount of RMB34.8 million in our Non-GAAP attributable net income. No adjustments for sale of equity securities were included in the first quarter 2018 results. Detailed reconciliation of GAAP to Non-GAAP results is included in our results announcement press release.

For the first quarter we achieved non-GAAP net income attributable to Noah shareholders of RMB256.4 million, an increase of 8.1% year-over-year. Non-GAAP net margin was 30.9% compared to 33.3% last year.

Turning to our balance sheet. As of March 31, 2018, the Company had RMB2.2 billion in cash and cash equivalents, up from RMB1.9 billion in the previous quarter. For the first quarter we generated RMB344.6 million of operating cash flow, reflecting our strong financial health and cash generative business model.

In summary, our first quarter results demonstrated the strength of our business and our emphasis on revenue quality. I would like to reiterate our full year non-GAAP attributable net income guidance of RMB1.0-1.05 billion, representing a growth of 16.7% to 22.6% compared to 2017.

With that, let's open up the call for questions. Operator?

Q&A

[Operator]

Thank you. We will now begin the question-and-answer session.

(Operator Instructions) Haifeng Cao with Nomura.

[Haifeng Cao – Nomura]

I'm Haifeng from Nomura and I have two questions actually. Firstly, I noticed that actually, for the wealth management business, the fixed-income transaction value decreased by roughly 40% in the first quarter; and the private equity transaction value also decreased by roughly 30% year-over-year. I wonder the reason of these decreases and the outlook for the rest of the year. This is the first question.

And secondly, understanding you are spending more on the marketing this year, which also explains some decline in the op margins. Can you give us more color on the marketing campaign so far this year across China? Thank you very much.

[Shang Chuang – CFO of Noah]

Okay, sure. So thank you. I will comment on the first question regarding the transaction value for fixed income products as well as private equity.

As Madam Wang mentioned in her prepared remarks, I think [since the] beginning of this year, we saw for the overall private equity venture capital market, fund raising has been difficult compared to 2017 and 2016.

The overall market for the first quarter, fund raising was down 70%, but we still managed to raise over RMB6 billion of private equity product year-over-year, down around 30% as you mentioned. This reflects our strength in this business and also reflects our strong long-term strategic relationship with the top GPs in the market.

I think as we continue to develop the private equity market in China, we will see that the top GPs to gain most of the AUM, as well as vast majority of the returns. So we will continue to focus on a strategy of working with the leading GPs, investing in break-out new GPs, as well expanding our proportion of co-investment and direct investment.

Regarding the fixed income volume, as we see the tightening regulation, we're starting to see a short-term funding impact to the market. And as a result, there has been notable defaults with public company debt or equity pledges by a large shareholder. The increasing default in the short term is affecting the clients' appetite, or the clients are now a bit cautious and now considering much longer before investing in new fixed income product.

But we think this impact is short term in nature, and we think the overall regulatory development is certainly on the right track for a healthy long-term development in the market, as it is containing unnecessary systematic risk.

On the second question, I'll pass to Kenny to comment on the marketing campaign.

But on the margin side, I think for the first quarter, we were generally satisfied with the operating margin. Operating margin, excluding government subsidy, which can vary quarter-to-quarter, is actually up, so it reflects our continued focus on cost optimization and cost management.

[Kenny Lam – Group President of Noah]

It's Kenny here. On the marketing campaign, as I mentioned in my talk just now, basically, it's our first time ever to invest in such a broad campaign. We believe that with the new environment, it is a good time to begin building brand awareness and it's quite targeted.

The campaign is actually focused on two areas. One is with focused media with targeted residential buildings. And two is in very select airports, so Shanghai and Hong Kong [airports] particularly where we have placed commercials. And the advertisements are actually focused on showcasing our clients or leading business entrepreneurs that are willing to represent us actually without a fee. So that's one point.

Two is the impact has been quite enormous. We've actually gotten a ten-fold increase through our client hotline, and we are working through those inquiries. And we are seeing accelerating conversion rates from those inquiries. I can't share the exact numbers now, as we are basically going through these increases.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Speaking Chinese).

(Translated). Yes, Madam Wang would like to supplement on the question regarding the fixed income volume. She would like to add that as mentioned, the beginning of this year, we saw the official rollout of the asset management plan. The spirit of the asset management plan is to dismantle the practice of explicit or implicit guarantees in the market, and this is having a profound effect on the overall industry.

And so what we noted was the overall volume for our fixed income product in the industry was down. Given this context, we are very particularly focused on quality, and we continue to roll out and distribute high-quality fixed income product as opposed to certain peers in the market. They are offering pseudo-equity products; in reality, they are debts related to, for example, the real estate industry. So I think it's quite critical that in this transitional period, we continue to focus on quality.

Jingbo Wang: (Speaking Chinese).

(Translated). And also in the market, we are seeing some of our peers focusing on structured or derivative financial products tied to the economic benefits of real estate-related products. I think these type of pseudo-products, or these types of products are gaining the attraction of regulatory. And I think going forward, we will see fixed income products become more and more regulated so it is increasingly important to be compliant.

Jingbo Wang: (Speaking Chinese).

(Translated). Yes, so for venture capital and private equity, again, I think the fund raising since the beginning of the year was difficult, but we focused on our relationship with top GPs. For many of the top GPs in China, we are one of their top LPs, if not the largest LP. And I think this is a much differentiated competitive advantage.

For individual client, I think for long-term investment, particularly in equity or private equity, I think it's understandable that they need to think further before making new commitments, given increasing interest rate environment expectation and slowing economic growth. But we think for the long term, through venture capital and private equity, we can help our individual clients allocate and benefit from the development of the new economy in China.

[Haifeng Cao – Nomura]

Thank you very much. It's very helpful. Thank you.

[Operator]

(Operator Instructions) Kate Lin with Last Word.

[Kate Lin – Last Word Media]

I have two questions on Noah. So I know in March, the Melbourne and Vancouver offices were open, and I want to know about what is going on there. Is it mainly attracting Chinese offshore clients? So how is it going there? And would there be other plans to open other oversea offices in 2018?

And another question would be I know Hong Kong regulator has fined Noah for some KYC issues. So I wonder if the management has some insights into how to foster this kind of control, and how to foster the confidence from clients as well. Thank you.

[Kenny Lam – Group President of Noah]

Great. Well, thanks so much for the question. I think it's a very spot-on question. First question around the new locations of Noah in Vancouver and Melbourne, we opened both offices fully earlier this year in the first quarter. The results have been overwhelming. We believe that not only a lot of clients now have strong connections between China and Canada, and China and Australia, but also domestic clients are also quite interested in our services.

I think most of the comments were that we have quite a broad and unique product base, and our understanding of China is something that is attractive not only to Chinese communities in Vancouver and Melbourne, but also to domestic investors. One example is we're actually working with a few leading family offices that are domestic in Canada and domestic in Australia that are interested in investing back to China. So I think they're progressing well. We can't share specific numbers yet because they're just really starting, but they're highly promising.

In terms of opening new offices, I think we're quite cautious. We're not here to try to be in every global location. We're currently in the U.S., in New York, in Silicon Valley. They're mostly investment teams. We're in Hong Kong and Taiwan. We're also now in Vancouver and Melbourne.

The next potential location is Singapore. We think that there are increasing high needs to look at our potential investment teams in Singapore, and Southeast Asian Chinese are also interested in investing back to China. So that could be the potential next location we're exploring.

In terms of your second question about the Hong Kong SFC fine, I think it's -- let me just kind of make a few key points for everyone here. One is the issues identified are related to certain deficiencies in the KYC and the product risk rating approach we took in 2014 to 2016. So the issues were identified for years between 2014 and 2016. That was 2.5 years ago.

The issues related were actually -- the background was that we've actually gone through several rounds of review of our own KYC and product risk rating. But there were discussions with the SFC on what the exact right methodology was for KYC and product risk rating. While we believe that we have done everything we can, we also are learning how the Hong Kong SFC approaches KYC and product risk rating. As a result, I think there was a fine for the period that I talked about, about the KYC and product risk rating approaches.

And so as you can see the notice, all of the issues have been corrected, and so basically, as of mid-2016, all of the issues that we've seen or been identified have been corrected and confirmed. So that's basically point one.

Point two is for all of these identified issues, there was not one single client complaint. So basically, it was a regular SFC checkup. We've had the licenses in Hong Kong for about 6 years now and therefore, SFC was conducting its regular checkup and provided us with guidance on those specific issues. I think that's basically it. If there are more questions, we're happy to answer.

Kenny Lam: [inaudible]

Kenny Lam: Sorry, the last point is on client confidence, I think as I mentioned, regarding to client complaints, so there were absolutely no client complaints during this period. I think we are basically helping to explain to clients the issues were 2.5 years ago. They have all been rectified, and so right now basically, there are no such issues anymore for all of our new products.

[Operator]

(Operator Instructions) The next question comes from Sam Dubinsky with Carlson Capital.

[Sam Dubinsky – Carlson Capital]

Just a quick one. I believe your pro forma net income was up 8%, but your guide is roughly 20% for the midpoint. How do you bridge in other quarters to that 20% number? Do you need a recovery in fixed income or private equity products, or how do you think about that? And then I have a follow-up.

[Shang Chuang – CFO of Noah]

Okay, sure. This is Shang. So over the years, our results are not evenly split between the quarters. I think there are two reasons for that. One is generally, clients demand [has] seasonality. Also the overall economic environment in China has been changing dynamically. So I think for the full year, we're still very confident in meeting our non-GAAP net income guidance.

Number two, over the years, we have also been focusing on the quality of the assets we manage, i.e., the fees that we are able to earn, as well as the performance-based income that we were able to realize. And for 2018, there is quite a bit of performance-based income that we are expecting in the second half. So we think the first quarter results -- I think we're still on track to meet our full year guidance and we continue to focus on executing our strategies.

[Sam Dubinsky – Carlson Capital]

Okay. And then just in terms of that Hong Kong issue, I'm glad it's rectified, but just curious. I believe there were some statements in there that you may have to redeem the funds, or I don't know if there are any losses there. But regardless of loss or not, are you obligated to buy these assets back, or how do you deal with that type of risk and how do you think about that?

[Kenny Lam – Group President of Noah]

So just to give a bit more details, right, we have been asked -- the affected client [number], as announced in that statement, was 757. The vast majority of the products that are affected were actually in profit. So either they are liquid products that have an NAV that that is actually above the 1.0 value, or they are long-duration products that actually have a profitable net value as of the latest numbers.

The SFC has actually asked -- gave us quite a lot of leeway to deal with this. One is we need to notify them and tell them that they do have the right to redeem these products, but we do have a 3-month period to help them transfer the products. So Noah doesn't have an immediate obligation to take these products back.

And as you can imagine, these are mostly profitable products, and the clients' intention to redeem may be low, but they do have the right to redeem. If they do want to elect to redeem, our obligation first is to help them transfer that product to a third party. So our obligation is not immediately to buy [back] those products. After that transfer, if there is a loss, our obligation is to make [product] values back to 1.0. So we're not here to provide any type of implicit guarantee.

But that only happens after three steps. One is they elect to redeem, which we think is unlikely, given that most of the --actually, the vast majority of products are actually in profit. Two, if they do elect to redeem, our first role is to help them transfer. And [three], if they're unsuccessful in transfer, then we have to help them redeem those products and basically, give them at 1.0 [value]. That's the obligation.

We have actually-- our CFO has actually looked into this. All of these obligations are below the material threshold in terms of our obligations, meaning that the actual loss is actually below the 1% of our total profit.

[Shang Chuang – CFO of Noah]

Yes, this is Shang. So just let me summarize two points. In terms of [the] impact on P&L, we expect the impact to be around 1% of our expected non-GAAP net income guidance. So it's not going to be a big hit to our profitability this year.

Second, in terms of the balance sheet, as Kenny mentioned, I think most -- the vast majority of the transactions that were identified, the products clients still hold have -- unrealized profits. So we expect that clients will continue to choose to hold these products.

[Sam Dubinsky – Carlson Capital]

Okay. Thank you very much.

[Operator]

Okay. Seeing no further questions in the queue, I'd like to hand the conference back over to Kenny Lam for any closing remarks.

[Kenny Lam – Group President of Noah]

Why don't we wait for another minute or two and see if there's maybe one or two more questions? If not, we can close the call.

[Operator]

Okay. I'll stand by. (Operator Instructions)

[Kenny Lam – Group President of Noah]

Okay. If there are no more questions, we'll close the call. Is that okay, Operator?

[Operator]

Yes, that's good.

[Kenny Lam – Group President of Noah]

Okay. Well, thank you all for taking the time to listen to our remarks and ask questions. Of course, we will be ready to take any questions after this call. Please reach out to our Investor Relations. I think we've also set up quite a few one-on-one discussions with any of the analysts that would like to set up these meetings. Thank you so much again.

[Operator]

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