NOAH HOLDINGS 2Q 2017 EARNINGS CALL EDITED TRANSCRIPT

28 August 2017 (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Second Quarter of 2017 Financial Results Conference Call. (Operator Instructions). 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. (Operator Instructions). As a reminder, this conference call is being recorded.After the close of the US market on Monday, Noah issued a press release announcing its second quarter 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'd 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 the 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 compilation of the Company's audit. In addition, 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'd now like to turn the call over to Kenny Lam, Noah's Group President.

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 CEO, 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 half of 2017, as well as discussing our core wealth management and asset management businesses. I will share the recent development of our overseas business and mid and back-office initiatives.

Then Chairlady Wang will provide an update on our business and product strategy, and share her views on the macro environment and regulatory development. After that, Shang will wrap up our prepared remarks by providing further insights into our second quarter financial performance before we take any questions you may have.

Since early 2017, volatility in the global macro environment has decreased, and by midyear, global capital markets in general appeared to have reached a more stabilized state. In China, macro-economic conditions have largely stabilized, despite persistent structural imbalance issues and unabated debt default fears. Across the financial industry, there are still challenges, especially for the asset management sector that continues to face rising regulatory cost and constrained product supply, among other issues. Against this constantly evolving macro backdrop of ebb and flow, Noah remains resilient and confident. As a leading wealth and asset management service provider in China, with over a decade of operating experience, we continue to provide outstanding comprehensive financial services to our high net worth clients, while at the same time constantly optimizing and enhancing our risk and asset management procedures to strengthen our core competitiveness.

In the first half of 2017, Noah's wealth management business distributed a total of RMB65.6 billion financial products, up 24.9% year-over-year. As of June 30, 2017, a total of AUM of our asset management business grew to RMB138.7 billion, up 37.1% from a year-ago. Furthermore, during the first half of 2017, Noah's total revenue increased 12.8% year-over-year to RMB1.42 billion. And non-GAAP net income attributable to Noah's shareholders reached RMB464 million, an increase of 12.6% from a year ago. Overall, we're pleased with our solid operational and financial performance in the first half of 2017.

With regard to our wealth management segment, as of June 30, 2017, the total number of registered clients was 164,728, up 43% year-over-year. Ongoing high-quality investor education and client service support our high client retention engagement levels. It is worth noting that approximately 30% of our clients made transactions in back-to-back quarters. And the average transaction value per active client in the second quarter was RMB7.4 million in line with the prior quarters.

Due to lower volumes of secondary products distributed in the second quarter, the total number of active clients decreased 9% year-over-year to 4,484, but relatively flat from the previous quarter. In an effort to continually meet our clients' evolving needs for high-quality products and comprehensive services, we've upgraded and expanded the portfolio of client services. Especially for ultra-high net worth clients, our black card services now include differentiated products and terms, customized financial services focusing on highly selective investment opportunities with top VC and PE funds, direct investment opportunities into emerging Silicon Valley startups, as well as family office accounting management services.

Among the many special events hosted in the second quarter for our black card clients, highlights include an exclusive luncheon with Mr. David Rubenstein, Co-CEO of Carlyle Group, and premium invitations to the Wharton Global Forum in Hong Kong of which Noah was a lead sponsor. Our efforts in this segment are paying off, as we added more than 90 new black card clients in the first half of 2017, bringing the total number to about 550, representing over RMB40 billion assets under management or advisory.

During the quarter, we continued to increase our network coverage across China and strengthen our relationship management team. As of June 30, 2017, we had 205 branches covering 76 cities compared to 199 branches covering 74 cities in the prior quarter. The number of relationship managers grew to 1,259 as of June 30, 2017, representing 15% year-over-year growth. And we continue to enjoy an exceptionally low turnover rate among our elite relationship managers. Ongoing training is vital for the success of these crucial employees. During the quarter, we launched a new training program for our elite relationship managers, which integrate the best elements of our RM training and reward systems with an interactive new learning platform to help these high-potential individuals develop into qualified private bankers.

As for our asset management segment, as of June 30, 2017, Gopher's AUM reached RMB138.7 billion, representing a year-over-year growth of 37.1%. The AUM of PE/VC was RMB72.2 billion, representing 52% of our total AUM for the quarter. Credit, real estate, and secondary market investments accounted for 29%, 11%, and 5% total AUM respectively. As the leading asset management brand in China with diversified investment strategy, Gopher has been strengthening its core investment capabilities in all asset categories along with its growing AUM. Over the years, Gopher has become more of a sophisticated active asset management platform that can leverage its years of experience and capitalize on its scale. In addition to the investment team, Gopher has set up an independent FDD team, which seeks input from external independent due diligence and fraud protection teams in consideration. This process is further enhanced through extensive onsite research and interviews. This multi-angle, multi-channel approach allows Gopher to better optimize its risk control and strengthen its prudent judgment towards potential investment targets.

A key focus in 2017 is to further explore and expand overseas distribution channels. Our grand vision is to become the provider of choice for wealth and asset management services for high net worth Chinese around the world. Pursuant to this, Noah has been accelerating its pace of international expansion. As of June 30, 2017, the group's overseas AUM reached RMB18.2 billion, an increase of 23% year-over-year. In the US, Noah US has successfully received a Registered Investment Advisor license, an insurance agency license that is able to provide mainland Chinese clients with dollar asset allocation, US insurance, children's education, and other comprehensive financial services. Additionally, Noah Hong Kong has recently established a Global Family Office to provide wealth management services for ultra-high net worth Chinese families. We also appointed our first Canada CEO, who is now helping us with the preparatory works for business launch in Canada. Going forward, as we continue to execute on this initiative, we intend to target expansion in key geographical markets where large populations of high-net-worth Chinese are already present.

With over a decade of experience in the wealth management sector, we frequently receive industry recognitions both domestically and internationally. During the second quarter, Noah won several notable awards, including China's Best Private Bank, as awarded by *Private Bank International* Magazine, and Best High Net Worth Wealth Management Institution and Best Overseas Asset Management Institutions, both recognized by *Asia Money* Magazine. And finally, we are extremely proud to report that in July, Noah became the first Chinese wealth management company to receive an investment grade rating from S&P. In its rating report, S&P recognized Noah's long-term relationship with high-net-worth clients and partnership with top fund managers, as well as prudent risk management practices.

Globally, matters of the environment, sustainability and governance, or ESG, are growing in importance. Toward this end, for the third consecutive year, we published the Noah Sustainability Report, which comprehensively outlines our initiatives to optimize corporate governance, fulfill social responsibilities and create sustainable economic, environmental and social value to the world.

At Noah, we are committed to delivering long-term value to our shareholders, as well as all our stakeholders, through meaningful contributions to our community.

Next, I'd like to briefly talk about our mid-and back-office initiatives. In the second quarter, we continued to upgrade our IT system with the initial integration of big and smart data technologies. We are simultaneously working on several fronts, such as Phase II of our proprietary transaction system, Gopher's investment management platform, credit product structuring platform and mutual funds robo-advisory system, just to name a few.

Last, but not least, in terms of talent management, we continue to proactively invest in developing the skills and abilities of our people by enhancing our incentive plans, creating personal development programs and launching a new management trainee program. In addition, we further added to our suite of senior executive managers with several key hires. Some of these include a new Chief Strategy and Talent Officer for Noah, the Global Head of Family Office and, as we mentioned before, a new CEO for Noah Canada. All of these top-tier individuals bring with them extensive industry and international experience. We're looking forward to their contributions to our organization.

With that, I will now turn the call over to Ms. Jingbo Wang, who will deliver her remarks in Chinese, followed by English translation.

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

Thank you, Kenny.

China's wealth management industry turned a new chapter in the first half of 2017 for investors, practitioners and regulators. We saw positive developments in the industry with tighter regulations and an increasing number of sophisticated investors.

The unprecedented growth pattern, constant regulatory changes and market volatility have eliminated many players out from the market. We believe the current market condition presents challenges, but also opportunities to Noah.

With China leading the world in national and individual wealth creation, we believe wealth management and asset management in China is a growing industry with enormous market potential.

We also believe that after a decade-long development, China's wealth management industry entered into its third development phase beginning at the end of 2016. The tightening regulatory landscape has advanced the industry from guaranteed repayments, and top-notch players have started focusing on growth with quality, rather than scale.

Being the market leader, Noah is also getting more mature by consistently predicting and solving problems and focusing on several key values, including understanding the market drivers to deliver services and products that surpass our clients' expectations; insisting on compliance to enhance risk control and proactive management capabilities; establishing outstanding process and operation management capabilities; maintaining growth in both revenue and cash flow.

After experiencing market adjustments in four economic cycles since our inception 12 years ago, we have gained a greater appreciation for the risks inherent in the financial markets. Learning from our inadequacies and mistakes has been crucial to the gains in efficiency and innovation achieved by our team. Whoever never makes a mistake will never make anything. In fact, the faster we recognize our own inadequacies and mistakes, the faster we can diagnose and analyze them, and the sooner we can implement improvements.

The combination of endurance and introspection is the passageway to progress. We treat every problem as an opportunity to enhance our team's capability, and we never ignore or neglect it until we ascertain the cause and solution. We believe our culture and attitude toward proactively addressing problems will enable Noah and Gopher to consistently expand its leading position in China's wealth management and asset management industry.

Next, I would like to talk about the main product categories and initiatives. The primary market has been our main competitive arena and that is where our core competency lies. By retaining the world's top performing managers who are facilitating development in technology and innovation, we are able to create value and share the benefits with our clients.

The ever-prominent "head effect" in the PE/VC market enables top performers to lead the market. As such, Noah will continue to select the best fund managers by assessing their performance over time with a focus on growth and sustainability, and as we believe the value of something is measured by the time spent to achieve it.

Noah launched VC/PE products in 2007 and started covering top managers. With 10 years of dedication and diligence in value investing, we are glad to report strong results for the first half of 2017.

According to statistics, the number of VC/PE backed public companies reached 147 in the first half of 2017 with a 55% IPO penetration rate. Among the 200 VC/PE firms and the 20 newly listed companies in China, 50% had involvement with Noah, as we covered 90% of the GPs in the top 10 VC/PE firms. In addition, Noah has established long-lasting relationships with the GPs invested in 17 IPOs during the first half of 2017.

The performance in the first half of 2017 has already reached the historical record that we achieved in the full year of 2015. Four additional companies have received CSRC approval and are currently awaiting listing, establishing a remarkable 100% passing rate.

As of June 30, 2017, Noah's GP partners have invested in 80 companies that went public successfully, with 63 through IPO, 8 through M&A, and 9 through reverse-merger.

Based on our latest quarterly results, total transaction value of VC/PE products distributed in the second quarter reached RMB8.25 billion, up 9% year-over-year. Total transaction value in the first half of 2017 reached RMB17.3 billion, accounting for 26% of total distribution of wealth management products.

As of the second quarter, Gopher's VC/PE AUM reached RMB72.2 billion, up 43% year-over-year and now representing 52% of total AUM.

We believe both the percentage and the AUM of Gopher's VC/PE products have strong growth potential. As the Gopher investment team enhances its sophistication with strengthened investment capabilities, we have expanded our product offerings from FOF to co-investment and direct investment with a goal to increase revenue and profitability. We also adopted new initiatives to cover the “dark horse” and “white horse” funds embedding co-investment strategy.

In terms of the public markets, while the US stock market has set record highs, the A-share index remained flattish, but underneath the surface, we've seen a trend towards value investing over short-term speculation becoming the mainstream among investors. The inclusion of A-share in the MSCI was a catalyst for the sustainable development of the Chinese capital markets, as more retail investors invest in the A-share market through investment funds, and professional investment methods and strategies continue to generate good risk-adjusted returns.

The modest revival of the A-share market has restored the financing function of the market, providing normalized exit opportunities for VC/PE, and thus promoting the valuation of high-quality companies. This will provide long-term benefits to those institutions that manage and raise VC/PE.

Given the above, we believe this is a golden era for equity investments, especially the high-quality VC/PE products and the public market products managed by top fund managers.

We believe the second half of the year will still be a critical time for positioning in the secondary markets by selecting top hedge fund managers and strategies to increase long-term value. With Noah and Gopher's consistent coverage, we believe our FOF strategy meets investors' needs for stable returns, while our innovative Managers-of-Managers strategy meets investors' needs for more enhanced returns.

As an upgrade to the FOF model, MOM demands even higher requirements for managers. With a 3-year record of success with institutional investors, Gopher's MOM is now open to individual investors. Gopher's MOM enables more transparency in transaction data and is more efficient and accurate in terms of performance evaluation, thereby increasing the efficiency and accuracy of portfolio management.

We also customize the lockup periods based on clients' preferences and different investment strategies to reduce the redemption pressure for the managers. Although this strategy will limit our products' short-term liquidity, it will ensure investors' returns in the mid to long-term.

As of June 30, 2017, two of Gopher's Managers-of-Managers funds have outperformed the CSI 300 Index with the biggest drawdown less than 1.7% versus 3.8% for the CSI300 Index.

In terms of overseas performance, Gopher's China Offshore Select Fund has achieved a return of 17.1% in the first 6 months this year, one of the top performers in the area. Its annualized return over the past 3 years has reached 16.6%, the highest among global FOF peers according to Barclays.

Fixed-income products are basics for individual investment portfolio. These products have been in high demand for high-net-worth clients during recent months, representing 60% of the total transaction value in the first half of 2017.

With tightened regulations and continued risk control and deleveraging, we are presented with both risks and opportunities as credit risk escalates. We believe investment strategies should progress from passive and single, non-standard assets to active and portfolio investment.

At the current stage, we believe that investing in single real estate projects, or single unsecured corporate debt, will result in higher risks for individual clients than in the past.

In terms of real estate products and investments, China's real estate market has evolved from project development-driven to property management-driven. After the roller-coaster year of 2016 with restrictions on purchase, mortgage, pricing and selling, we see 2017 as the watershed of the new era with promising new opportunities.

After 2 years of adjustment and transformation, Gopher has enhanced its reputation and gained more experience with both clients and partners, and has shaped up its three core product lines, including core office building funds, real estate M&A mezzanine funds and special opportunity funds.

As of the second quarter, our AUM in this area had reached RMB15.4 billion with weighted average IRR ranging from 12% to 15%. We believe investment opportunities are emerging in this area.

With regard to our Group's future development strategy, the internet financial business is an essential part. The Fintech companies relating to wealth management, mortgage and payment have been performing well this year.

In the midst of regulatory tightening on internet finance this year, Caifupai's strategic positioning is becoming more focused, which is to use standardized products, such as mutual funds and ETF, combined with smart investment advisory technologies, to provide services for the mass affluent individuals in China.

Driven by big data, proprietary trading system and artificial intelligence, Caifupai has developed industry-leading services and products including online personal wealth management, specifically tailored services and automated investment solutions.

As of the second quarter, the number of total registered users on Caifupai reached 440,000, an increase of 35% from June 30, 2016.

Additionally, with the growing needs from our high-net-worth clients in mortgage, Noah's micro-lending subsidiary, Rongyitong, has developed a variety of products including, but not limited, to financial products, home equity loans and car financing products. We have also launched US mortgage products to cater to our high-net-worth clients' real estate needs in the US.

"Investing Intelligently" has been one of our core beliefs, and investor education is one of our principal values. In the first half of 2017, we have hosted seven Noah University events to share our concepts, processes and product details with over 1,100 clients. As the wealth management market continues to grow, we believe investor education and screening has become an important barrier to entry.

Our Enoch Education programs have also been optimizing existing courseware and developing new ones, such as angel investment, secondary market, insurance planning and investment philosophy development. These new courses have been well received by our clients, providing them with a better understanding of the market cycles, economic trends and portfolio management theories.

Moreover, we have hosted more than 10 professional investment forums with thousands of attendees, while at the same time, organizing routine education events in 11 regions in our offices across China, which have attracted over 150,000 investors in total.

Lastly, let me touch on regulations and their impact on Noah. China Securities Regulatory Commission's recent release of new rules on stock selling by major shareholders, heated discussion and raised concerns, as investors worry it might reduce liquidity and limit exit opportunities for VC/PE investments.

From VC/PE to Gopher's Fund-of-Funds and to co-and direct investments, Noah has established a 10-year track record. Our abundant experience tells us that the core to drive the return for VC/PE funds is the investee companies' high-growth potential, not any valuation premia on the secondary market, or the valuation gaps between primary and secondary markets. Excess return should rather be generated only from the consistent and authentic value creation process.

A professional investor should focus on the finding of the companies that are strategically aligned with the macro trends, and can drive the development of the society rather than try to capture short-term market growth fluctuation. This value investment concept resonates with Western investors as well, and we believe opportunism cannot create a healthy market. As such, we believe the new rules will have a positive influence on the true value players and guide the market in the right direction.

The asset management industry, on the other hand, is facing more standardized regulations to reduce arbitrage, enforce functional and transmission regulation, eliminate guaranteed repayments, enhance liquidity risk management, contain leverage and limit conduit businesses.

Noah's core principles and operations are fully aligned with these regulatory intentions, and we have pledged since day one to only distribute and manage products that are independent custodians, and never to sell products backed by "capital pools," products with guaranteed returns, and products with maturity mismatches or undue leverage.

We believe the recently announced *Measures for the Administration of the Suitability of Securities and Futures Investors* will further create a more transparent and regulated market while cultivating a group of well-educated investors and professionals. We are resolute in our belief that this market will benefit Noah in the long term and help stimulate the economy, thus creating more investment opportunities for our clients.

Furthermore, a more regulated market will underscore our strength in product selection, asset management, risk control and operations, and help us gain clients' trust and market share.

In conclusion, I would like to summarize our development strategies and drivers in four major aspects. First, in wealth management, we will shift our focus from product-driven to a comprehensive service-driven model as we expand our network internationally, and we better understand and satisfy our clients' needs while enhancing the client experience;

Second, in asset management, we will evolve from FOF to co- and direct investments to improve our investment and revenue-generating capabilities, while perfecting products to provide tailored services for institutional clients;

Third, in Fintech, we plan to serve more well-educated professionals like mass affluent individuals through standardized products and smart investment advisory, and emphasize the development of proprietary systems and data accumulation to improve the average performance of our relationship managers, while forming deeper insights to the industry through data analytics;

Fourth, we continue to execute on investor education and reinforce risk control and operation capability within compliance, and to maintain long-term sustainable growth in a fast developing sector.

As globalization progresses, there is concurrent two-way demand from onshore Chinese clients to allocate assets globally, and from overseas Chinese to invest back in China. We aim to become the top financial solution provider capitalizing on the investment needs of Chinese worldwide.

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.

As Kenny and Chairlady Wang mentioned, we are pleased with our financial results for the first half of 2017, which include our strong second quarter that I will further discuss here.

For the second quarter of 2017, net revenues were RMB707.3 million, an increase of 8.5% year-over-year, and non-GAAP attributable net income was RMB226.5 million, up 14.4% year-over-year.

One-time commissions received in the second quarter remained strong at RMB300.6 million. This is a combined result of one-time commissions from RMB33.0 billion of wealth management products distributed during the period, which increased 18.8% year-over-year, partially offset by a decreased effective commission rate due to the decrease of insurance products distributed.

We also realized recurring service fees of RMB340.1 million in the second quarter, up 9.7% from the same period last year. With the accumulation of products we previously distributed, and the consistent growth of Gopher's assets under management, the proportion of recurring service fees contributed to total revenues at the group level has been relatively stable at 45% to 50% in recent years.

Performance-based income, another important part of our revenues, amounted to RMB23.8 million in the second quarter. Thanks to our long-term commitment to alternative investments and our multi-asset strategy approach, we have realized performance-based income for 12 consecutive quarters, and we expect this trend will continue.

By segment, net revenues from our core wealth management business amounted to RMB550.6 million, up 9% year-over-year, and represented 77.8% of total revenues.

The asset management and internet financial service businesses contributed net revenues of RMB130.3 million and RMB26.4 million, respectively.

Total operating expenses in the second quarter were RMB483.1 million, an increase of 5.6% from a year ago. Excluding the impact of government subsidies, total operating expenses decreased 0.2% year-over-year, reflecting successful cost control initiatives. As a result, operating income of the second quarter increased 15.5% year-over-year to RMB224.3 million, and operating margin improved to 31.7% from 29.8% a year ago.

Non-GAAP net margin attributable to Noah shareholders for the second quarter also increased to 32% from 30.4% year-over-year.

I would like to highlight that we booked RMB23.3 million of income from equity in affiliates for the second quarter, increasing 154.4% from the corresponding period in 2016.

Gopher Asset Management, in line with industry practice, often invests 1% to 2% in funds it manages as the general partner. Since these funds are categorized as investment in affiliates on the balance sheet, the increase in the net asset value of these [co]-investments was booked under income from equity in affiliates.

On the balance sheet side, as of June 30, 2017, the Company had RMB2 billion in cash and cash equivalents, a decrease from RMB2.6 billion in the previous quarter. The decrease reflected increased cash outflows in investing activities resulting from our cash management effort in recent quarters. This was evidenced by a steady level of interest income and investment income in our income statement.

Finally, I'd like to highlight that our performance in the second quarter of 2017 reflected strong fundamentals and improved cost efficiency in our business. We remain confident 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 will be happy to take any questions. Operator?

Q&A

[Operator]

(Operator Instructions) Yuan Xue with CICC.

[Xue Yuan – CICC]

Yuan Xue: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

For the benefit of our audience, I will translate the questions from Yuan Xue of CICC. (Translated). So Yuan has two questions. The first question is I note that for our asset management business, revenue was down year-over-year because performance fee was decreased. Can the management provide guidance on Gopher's asset management performance fee going forward? My second question is regarding the latest development on LeTV.

[Shang Chuang – CFO of Noah]

Yes, so I will handle the first question and Chairlady Wang will handle the second question.

So you're right, asset management's revenue were down year-over-year because we did not recognize that much performance fees for the second quarter of 2017. If you look at our management fees, that's in line and have grown year-over-year. As for alternative assets, I think the exit and maturity of our investments are not -- it is more periodical, so we expect performance fee to be matured over the next few years.

In terms of the performances of Gopher's funds, they're actually all doing quite well. And just lastly, I'd like to remind everybody on the call that in terms of the recognition of performance fees, we're quite conservative. So we only recognize performance fee when it's realized and distributed.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. So Madam Wang would like to supplement for the first question. So if you look at Gopher's performance fee over the last few years, 2015 was a more recent peak. That was attributable to performance-based fee income that was realized for A-share related products or public markets related product. Last year, a lot of performance fee was real estate related. This year, we did not recognize as much performance fees.

In terms of our asset management strategy going forward, our strategy is to increase the overall net management fees that we're able to pick up in terms of the revenue side. We'll do that by evolving our business model, previously more Fund-of-Funds based to now Manager-of-Manager, as well as co-investment and direct investment. That will improve the quality of our asset management and also increase the fees that we're able to realize from our AUM.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes, in terms of the latest development in LeTV, I'd now like to provide some background on this particular product. This is actually a private equity/venture capital style equity investment fund. It raised around 1 billion in capital from LeTV; it raised about 600 million from one municipal government and our investors invested at the senior level.

So actually, that provides a very strong safety cushion. If there's any loss to the fund, LeTV and the city government capital bears the loss first. Now this private equity/venture capital fund invests in non-LeTV assets. In addition to the structural capital safety that we created, the LeTV listco also has a guarantee to buy back the assets of the fund, and this guarantee was publicly disclosed by listco.

Now in terms of what we're doing, we're working with the fund general partner to sell the portfolio company. Some of the portfolio companies are doing well; some are not doing as well. But we're working proactively with the general partner in selling the assets and distributing the capital back to our investors.

Now for this particular fund, most of the investors that we service, or distributed to, are institutional investors. They're very sophisticated and they understand the current situation, so not so much of a negative impact to our business. Thank you.

[Kenny Lam – Group President of Noah]

Just to reiterate, this is Kenny here. There's a lot of media coverage on this. The fund itself has not invested in anything related to LeTV, so it's actually a separate fund that is invested by LeTV, not investing into LeTV's companies.

[Operator]

Thank you. (Operator Instructions) Anurag Rajat of JPMorgan.

[Anurag Rajat – JP Morgan]

I have two quick ones. First, I think you touched upon this a little bit, but the fee rate for the wealth management seems to have been a little bit under pressure, especially the upfront rates. Can you just discuss a little more what's causing that?

And second, longer term or a little bit big-picture, how are you seeing the competitive landscape evolving, especially the wealth management? Thanks.

[Shang Chuang – CFO of Noah]

Shang Chuan: (Spoken in Chinese)

So the first question is fee rate on which business?

[Anurag Rajat – JP Morgan]

Wealth management.

[Shang Chuang – CFO of Noah]

Wealth management, right? Okay. I'm going to translate for Madam Wang and then we'll answer both questions. Thank you. (Spoken in Chinese)

So I will answer the first question regarding the effective one-time commission rate for our wealth management business. Now for the wealth management business, you're right. The effective one-time commission rate declined from 1.08% to about 0.91% year-over-year. This is primarily due to the product mix change. We distributed less insurance product in the second quarter of 2017 compared to that of a year-ago.

And overall, we feel quite comfortable in terms of the effective commission rate being in line with our long-term range of 0.8% to 1.2%. As previously mentioned to the investors, the effective commission rate will vary depending on the specific product mix that we distribute quarter-to-quarter.

[Kenny Lam – Group President of Noah]

Maybe I'll add to what Shang said first before, and Chairlady Wang will talk about the market. I think it's important to note, if you look through our financials for the last 2,3 years, the effective rate tends to fluctuate between 0.8% to 1.2% quarter-to-quarter given the mix of products. That's point one.

Point two is we do believe that last year was a unique year in terms of insurance product volume. What we've seen in the last two quarters is a stabilization of insurance volume. Early 2016 was a bit of an unsustainable volume. I think what we see now in 2017 is actually much more sustainable, so that's where we are now in terms of upfront fees.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Spoken in Chinese)

(Translated) Yes, so in terms of the wealth management landscape, I think the key going forward obviously will be compliance and regulation. The last 10 years obviously was an emerging industry. Everybody was just starting to get into the wealth management industry and there were a lot of players. Some were more compliant; some were not, but everybody was trying to grow their revenue, grab market share.

Now in the recent year or so, there has been increased regulation. Some players think it's limiting their business growth, but we actually view it more positively. We think that the increased focus on compliance and regulation will help the industry grow in a more healthy manner. And so compliance, obviously, we feel is the biggest risk in the industry and so we are quite prepared to grow in the long term.

Now if you look at the industry itself, I think we still maintain the view that, obviously, it's a very huge industry and it's growing very quickly, more than 10-15% on an annualized long-term basis. This is driven by the ongoing wealth creation in China, as well as the strong demand for investment by individuals. I think if you ask any Chinese investors, I think they're all very now accepting of the belief that investments for the long-term asset allocation are very, very important.

Now in the last 2, 3 years, we saw an emergence of, I guess, not so compliant players or peers, P2P, Ponzi schemes, etc. Now the regulation has cleaned up some of these unhealthy competition; a lot of the players were eliminated. So I think we're now at a point where the industry can really grow on a more sustainable healthy level going forward.

[Anurag Rajat – JP Morgan]

Thanks.

[Operator]

(Operator Instructions) Shao Ziqin with CITICs.

[Ziqin Shao – CITICs]

Ziqin Shao: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

Yes. For the benefit of the audience, I will translate the question from CITICs.

Now, you mentioned, or the management mentioned, that the amount of insurance distributed in the second quarter of 2017 decreased year-over-year and that affected our blended effective commission rates. Can you comment if this is an ongoing trend and what would be the likely development in terms of insurance going forward?

Now, I note that investment-linked insurance in China has been increasing the last few quarters. So can you help us bridge the development at the Company and the observation I'm seeing from the domestic market? Thank you.

Yes, so I'll just provide some color in terms of our insurance business. Now, in the last year and a half, I think we saw a strong robust growth in terms of our insurance business, specifically in Hong Kong. I think there is more than a normal demand for the last year and half, and so we've really capitalized on that opportunity.

Now, in terms of our insurance volume now, our insurance revenue makes up roughly about 10% of our total revenue for the second quarter. That is down from around 15% last year. We feel that for high net worth individuals, insurance is obviously a very important part of its overall asset allocation. The Chinese investor continues to be under-invested in insurance, so we feel like insurance is a business that will continue to grow and develop and used as a very efficient tool by our clients.

But I think we're seeing the demand normalizing, but going forward, I think we expect insurance activities or business to be around similar levels that we're seeing in the second quarter, both offshore as well as onshore. So the insurance industry as a whole is growing. I think there was just a very outsized demand specifically last year.

[Kenny Lam – Group President of Noah]

Yes, and I want to add to what Shang just said. I think the important word is we are now normalizing to a sustainable level. If you compare our insurance proportion of the revenue to the second quarter of 2016, I don't think it's actually a useful benchmark because if you look back to early last year, it was quite a bit of an unhealthy surge in terms of insurance sales. What we see now in the second quarter of this year is much more sustainable. That's point one.

Point two is we have basically successfully transformed our front-line team to be a real asset allocation team, meaning that they not only talk about investment, but also insurance as an asset class for asset allocation. So that's proved in the last 6 quarters where we have quite strong insurance volume. So simply put, I think the second quarter proportion is just much more sustainable.

[Ziqin Shao – CITICs]

Thank you.

[Operator]

(Operator Instructions) Katherine Lei with JPMorgan.

[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 JPMorgan. If the management team can give us the latest update on Huishan Dairy. We note that the company or the fund manager was taking legal proceedings to freeze assets. What is the latest development in terms of that particular product? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Spoken in Chinese)

(Translated) Yes, so a couple of updates -- so in terms of the legal proceedings we have taken as a fund manager for the particular fund of Huishan Dairy, we have frozen assets for the Chairman in PRC, that includes company equity as well as real estate he personally owned. In terms of our injunction in Hong Kong, unfortunately that was canceled, but we are proceeding to liquidate his assets in the PRC.

Now in terms of Huishan Dairy, the listco, it is still ongoing discussion on the restructuring. I think there has been some progress. In terms of our particular fund, it is categorized as special debt, i.e., it's debt that's covered within the listco scope and is the debt that will not be converted into equity.

So now the proposal that we've received suggests for us to extend the debt into a 5-year debt that will, with principal and interest being paid back over that 5-year period. Obviously, we feel like there are room for better terms and so we are negotiating with Huishan, as well as other debt holders. And so we're working very hard on the situation and we've kept our investors updated on the progress. Thank you.

[Operator]

(Operator Instructions) Yusen Wang with Rosefinch.

[Yusen Wang – Rosefinch]

Yusen Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

For the benefit of the audience, I will translate the question from Yusen Wang of Rosefinch. So the first question is regarding two metrics. The first one is active clients. I note that it declined year-over-year and at the same time, I note that average transaction value per client increased in the second quarter of 2017 year-over-year. Can you comment on what is the strategy that the Company is adopting in terms of these two metrics? And is there a strategy to move up in terms of the client segmentation?

The second question is regarding problematic products over the years, and more recently, LeTV and Huishan. I note that from time-to-time, there will be problematic products, but I would like to get some color on what is the impact to client demand on our business.

I will answer the first question and Madam Wang will answer the second question. Now you're right, active clients for the second quarter was down around 9% year-over-year. Our active clients are roughly about 4,500. Now, a decrease from a year ago was because in the second quarter of 2016, our secondary market equity product was much stronger. We distributed about 28 billion of secondary market equity products in the second quarter of 2016, representing about 10% of overall transaction of product mix.

Now, the secondary market equity product often tends to attract a lot more client participation. So the decrease in active clients for the second quarter of 2017 was because we do not do as much secondary market equity product. We only did about a billion, representing about 3.4% of overall product mix, so that's the reason.

Now, in terms of average transaction value per client, I think our strategy on a going-forward basis or long-term basis obviously, is to increase that. That reflects the stickiness of our clients and also the deepening of client wallet share; also improving in terms of client segmentation that you mentioned.

Both Kenny and Madam Wang, in their prepared remarks, highlighted one of our more recent client segmentation strategy of focusing on ultra-high net worth, what we call black card clients. Now, for average transaction value metrics on a quarter-to-quarter basis, there may be some variance because of the product mix. For example, private equity typically has higher minimum starts than fixed income or public market. And so if we do more private equity product, then that metric will go up and vice versa. But on a long-term basis, we have seen average transaction value go up as we implement our strategy.

And one last point I would like to add on this particular question is Kenny mentioned that in the second quarter, we saw 30% client repurchasing on a quarter-to-quarter basis. That will also improve our average transaction value per client on an annualized basis. So a client would buy four or five times throughout a year and so that will help with that metric. So as you note, typically, our annual average transaction value is much higher than quarter numbers and so that is in line with our strategy.

[Kenny Lam – Group President of Noah]

I will -- just one more point around the black card client. I think you're right, our strategy is now to highly segment our clients and provide even more unique services for the highest end. And so we -- I mentioned in my remarks about the black card clients were up around 95 to about 550 on that segment, which is the highest end of our client base.

And then we're also opening a new Global Family Office in Hong Kong that is serving large families. I think when you look at the market, it's now gearing towards a highly segmented market whereas the highest end will get the most unique services. And that's where we're gaining a lot of traction and a lot of loyalty.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Spoken in Chinese)

[Shang Chuang – CFO of Noah]

(Translated) Yes, so regarding the second question, for problematic products such as LeTV and Huishan, what is the impact on our clients? Generally, I think I view it quite positively. It helps our client better understand a rift in the market and for them to understand that guaranteed returns or guaranteed repayments are not sustainable. It helps us in terms of our investor education efforts.

I think, as you pointed out, I think as you get larger in the industry, it's normal to meet problematic products from time to time. Over the last 12, 13 years, we have cumulatively distributed nearly RMB500 billion of product. Now problematic products represent less than 1% of that RMB500 billion. So I think generally, clients note that our risk management and our product selection are quite strong compared to peers in the market.

I feel this year, the LeTV and Huishan is almost like a stress-testing on our business. From our results in the first quarter and second quarter, you can see that it hasn't negatively impacted our business. So I'd say generally, we have passed the stress-testing.

Now going forward, a couple of things that we'll continue to do -- one, obviously we'll continue to focus on compliance. We're one of the few players in the market that has not -- do not operate or has ever operated a capital pool. Second, we will continue to insist on investor education. And three, obviously, we will not make any of our products' hole. I think when a client, a Huishan client, asked me whether I will make the product hole, I said we will handle it using market processes such as restructuring; and obviously, we'll fulfill our fund manager fiduciary duty.

And I think our efforts have been appreciated by international organizations. The last 2, 3 months, we've worked with Standard & Poor's and they have given us an investment grade rating. And I think that it also reflects our efforts in terms of helping the market develop in a more mature and healthy manner.

I guess some comparison I would make -- I think for a wealth management and asset management company, as you develop in the long term, there are certainly problems you deal with, just like jade. I don't think -- very high-priced jade, obviously, will still have some impurity. If jade is completely clean, then it's probably fake or a Ponzi scheme. And so as the industry becomes more regulated and more mature, I think it will -- the water will become more pure after the rainstorm.

And so, in the market, there are still obviously very large institutions, some banks, some trusts, that are very hesitant to break the concept of a guaranteed return or repayment. But we think that's inevitable for that concept to be completely taken down. And so the fact that we have passed our stress-testing shows the competitive dynamics that we've developed over the years. Thank you.

[Kenny Lam – Group President of Noah]

I think I'll add a bit more from the industry experience I've gained from serving clients in my previous life, both domestically and globally. The issue with Chinese wealth management so far has been really two. One is implied guarantees. Two is in many players being not compliant with the regulation, particularly what Chairlady Wang mentioned, about capital pooled assets.

And so the two products, the so-called problematic products, have really helped us and helped the industry understand that, one, there's really no implied guarantee and we're not going to provide any implied guarantee. And two, it's actually allowed us to really look at the industry in a healthy way in using market methods to restructure.

I think I want to emphasize one more point, which is if you look at the products we've issued so far, Chairlady Wang mentioned RMB500 billion, under 1% being problematic. We actually review our products on a weekly basis with a red, yellow, green light; and so far, of the close to 1,000 products we've issued so far in the last 13 years, under 10 products are rated in the red and yellow column. And so we're still extremely stringent in our risk practices in the whole environment.

[Yusen Wang – Rosefinch]

Yusen Wang: (Spoken in Chinese)

[Operator]

Thank you. (Operator Instructions) All right. As there are no more questions at the present time, I would like to return the call to Kenny Lam for any closing comments.

[Kenny Lam – Group President of Noah]

Well, thank you all. And if you have questions, please direct all the questions to IR. We will respond promptly. Thanks very much.

[Shang Chuang – CFO of Noah]

Thank you.

[Operator]

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