

Noah Holdings – Q2 2015 Earnings Call Script

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited second quarter 2015 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 second quarter 2015 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 Ms. Jingbo Wang, Chairman and CEO of Noah. She will be speaking in Chinese and her remarks will be translated into English.

Jingbo Wang – Chairman and CEO of Noah

Thank you, operator, and thank you all for joining us. With me today are Mr. Kenny Lam, Noah's Group President, and Ms. Ching Tao, Noah's CFO. Mr. Lam will start by providing a brief overview of our financial highlights for the second quarter of 2015 and will walk through the performance of our core wealth and asset management businesses. After that, I will provide an update on the progress we are making to develop a global, open architecture product platform as well as progress with our new internet finance business. I will also review our strategic initiatives to establish an integrated financial services platform to support the sustainable growth of the company. Lastly, Ching will provide further insights into our financials and reiterate our 2015 guidance. We will be happy to take any questions at the end of our prepared remarks. Now I'll turn the call to Mr. Lam.

Kenny Lam – Group President of Noah

Thank you Chairman Wang. We are pleased to have continued the momentum from our first quarter to deliver strong results in the second quarter, with the top and bottom lines both in line with our expectations.

Net revenues in the second quarter of 2015 were US\$93.2 million, a 30.4% increase from the corresponding period in 2014 and 29.8% increase from the first quarter of 2015. On the bottom line, Non-GAAP net income was US\$30.9 million, a 25.4% increase from the corresponding period in 2014, and 37.4% from the last quarter.

In terms of our core businesses, we distributed RMB36.5 billion of wealth management products during the second quarter, representing a 100.8% increase year-over-year and 48.5% increase quarter-over-quarter. Our total registered client and total active client base also increased at an encouraging rate. Total registered clients as of the end of Q2 increased by 34.8% year-over-year to 81,939. And total active clients reached 6,101, a 72.4% increase from the corresponding period in 2014.

Noah has always been focused on improving our core competitiveness in the wealth management industry. Regardless of whether it is a bull market or a bear market, we are committed to enhancing our open, global product platform, investing heavily in our asset management team, developing our new Internet finance business, and improving our mid- and back-office information systems over the long term.

Recently, Chinese equity markets have experienced significant volatility. And our consistent principles of long-term investing and value investing have again been proved to be both effective and necessary. None of our secondary market products (except for IPO fund products) are leveraged. When selecting and recommending secondary market fund managers, we always emphasize the importance of asset allocation. As a result, we have helped our clients protect their assets and minimize losses from this round of market volatility. Later, Ms Wang will share information about our product mix as well as investment strategy.

In our traditional wealth management business, we continued to develop our online and offline network this year. By the end of the second quarter, we have 112 offices covering 64 cities. We also expanded our team of relationship managers from 834 at the end of the first quarter to 953 at the end of the second. Our team of top-performing relationship managers also continued to expand to 316, which accounts for 33.2% of all relationship managers. We believe high net worth clients continue to demand one-on-one service, and we provide services to the white collar clients through our internet finance platform. We are continuing to provide professional training to our relationship managers and invest in marketing activities to expand our client base and increase productivity.

In our wealth management business, there are two areas that we are focused on over the mid to long term:

First – we are focused on leveraging our new family office and discretionary portfolio management services to deepen customer relationships and significantly enhance the capabilities of our relationship managers;

Second – we are committed to significantly improving the transaction platform for customers and relationship managers so that it is more open, faster and more convenient.

Our family office business has witnessed rapidly growing demand for active, global asset allocation.

In July 2015, we announced cooperation with McKinley Capital Management to enable Noah to build more family office solutions with global asset allocation capabilities for our clients. In addition, we also announced strategic cooperation with UBP – one of Europe’s largest private banks and asset managers. This will enable us to expand our global capabilities in research and product design.

Now, I’d like to provide an update on Gopher Asset Management.

Established as a multi-boutique investment firm, Gopher Asset has continuously expanded its investment and asset management capabilities. It is now one of the most prominent players in terms of venture capital and private equity funds of funds in China, and continues to innovate. As of June 30, 2015, Gopher Asset had RMB64.4 billion assets under management, a 36.2% increase from the end of the second quarter of 2014. In terms of asset categories, real estate funds and real estate funds of funds accounted for RMB30.1 billion, private equity funds of funds accounted for RMB22 billion, and secondary market funds of funds accounted for RMB9.2 billion, and other funds of funds accounted for RMB3.1 billion. Gopher Asset Management specializes in private equity and venture capital funds of funds, real estate funds of funds, secondary market funds of funds, and alternative credit products denominated in both Renminbi and U.S. dollars.

As I’ve mentioned previously, there are a lot of synergies in the financial industry. Building on Gopher’s strong foundation and leadership in real estate, PE and secondary market products, and in tandem with our continuous investments in talent, our manager of manager fund business has continued to develop, and we are making direct investment in some projects.

In addition to our core wealth management services, we have always taken a client-centric, full service approach. This includes working with our clients to facilitate a high-quality lifestyle and good health.

For example, in the first half of 2015, Enoch Education arranged a series of events to increase customer loyalty including overseas education programs and private board of directors coaching for around 1500 attendees. In the second half of the year, we hope to provide even better education services to our clients and will launch more investor education programs.

In Mainland China and Hong Kong, we can also provide high-end insurance services, including high-end medical insurance, critical illness insurance, term life insurance and so on. Noah's trust services business is Mainland China's only wealth management organization to set up a family trust office overseas and provide the full suite of family trust services.

We are people-driven, with a long-term view and we are dedicated to fulfilling and upholding our corporate social responsibilities. We recently released the first edition of the Noah Sustainable Development Report, and we hope that more of our stakeholders will be able to better understand Noah's dedication to corporate social responsibility and creating sustainable economic, environmental and social value.

Lastly, I would like to discuss some of our mid and back-office developments. In the first quarter of 2015, we focused on developing our mid and back office platform in two areas.

First – we developed a forward-looking and efficient mid-back office platform that can service the growth of our business.

Second – we are building the capabilities of each business segment, to enable faster and more accurate execution.

The development of our core business systems, CRM, the finance system and so on are all progressing on schedule and some of the systems will be launched later this year. For example, we are already starting to see the benefits of our matrix management system which is improving our ability to implement policies and modular operations.

In the second quarter of 2015, in terms of average net revenue generated per employee, the average per capita productivity of the group's mid and back-office function increased 12.6% year-on-year. This demonstrates that our operational efficiency has not been adversely affected by the firm's expansion.

Now, I will turn the call over to Ms. Jingbo Wang, Chairman and CEO of Noah to give an update on the development of our global, open architecture product platform, product strategy for the second half of the year, progress in internet finance, and other strategic initiatives.

Jingbo Wang – Chairman and CEO of Noah

Thank you, Kenny.

Noah has grown to be a wealth management firm with outstanding asset management capabilities that serves Chinese clients around the world. Over the past ten years, we have continuously improved our core capabilities from research, to product selection to asset management capabilities. In addition, we have focused on effective investor education and communication. In times of rare, systemic volatility in the secondary markets, we are pleased that we have maintained our long term approach – protecting client assets through appropriate asset allocation and staying true to our principles of long term investing and value investing. This has helped us maintain strong, high quality relationships with our clients.

On our first quarter earnings call, we clearly stated that *“We will strengthen our monitoring of risk. Currently, there are many irrational elements in the market. We believe that wealth management should transition from product-driven to asset allocation-driven.”* Later, at the PE Investment Summit held in Shanghai at the end of May, which attracted over 1,000 high net worth clients, we stated that we would reduce exposure to secondary markets and recommended that investors transition related funds to “IPO funds”.

At the end of the second quarter, we saw “irrational activity and panic” in the domestic capital markets. After this baptism of fire, investors, practitioners and regulators have greater respect for the market. We believe that this will help the domestic asset management industry mature.

The wealth management market in China will mature from individual investors buying shares, to individuals buying fund products. Noah’s high net worth clients have already transitioned from financial product selection to comprehensive asset allocation. And we believe that discretionary portfolio management will become more and more popular among ultra-high net worth clients. We have continued to build our core competitive advantages in wealth management based on this trend.

Our approach to product allocation changed significantly in the second quarter compared with the first quarter. The core elements of our approach in the second quarter were:

1) In terms of the open market, we continued to transition from a boutique model to a platform model which enables our clients to purchase secondary market fund products through Noah’s online platform. We selected the best value funds and recommended them to our clients; increased IPO fund products; and reduced allocation to secondary market products. We do not offer any secondary market financing, or any leveraged secondary market products.

2) We continued to promote primary market and cross-cycle products, especially private equity funds. The aggregated value of new private equity funds in the second

quarter reached RMB9.9 billion, an 85.3% increase year-on-year and 83.5% from last quarter;

3) We enhanced our supply chain finance products, and developed fixed-income products such as real estate investment products with high quality counterparties. We also continued to improve the quality of fixed-income product assets and counterparties;

4) We strengthened the development of our overseas product platform, and continued to invest resources in the ongoing education of the client base and relationship manager team, to drive expansion of our overseas asset allocation business;

5) We also looked at asset categories that aren't as closely related to the capital markets, and we will expand our coverage and promotion of these types of products. We are confident that we will see the results of this initiative soon.

From our history, it is clear that we are not a company that is significantly impacted by cyclical volatility. On the one hand, in bull markets it is relatively difficult for us to meet investor expectations and may result in a slight reduction in our market share. However, after the Global Financial Crisis in 2008, we had extremely positive development, and we regained all of the market share that we lost during the bull market, and grew into the market leader. We are seeing a similar trend in this round of volatility.

The recent market volatility has also helped our clients and relationship managers mature. In the second quarter, we distributed RMB9.9 billion in primary market PE/VC products; we distributed RMB20.9 billion of secondary market products in the second quarter, of which IPO fund products were RMB8.2 billion.

Since the second quarter of 2014, our asset allocation related products have become increasingly popular with our clients, and in the second quarter of 2015 we saw growth of 1,234.1% year-on-year and 325.5% quarter over quarter. International asset allocation also grew 500.0% year-on-year.

We noted that a growing proportion of high net worth clients are increasing their overseas asset allocation. Noah Hong Kong's product platform provides Chinese clients with many opportunities to select outstanding overseas assets. In the second quarter, Noah Hong Kong distributed products with an aggregate value of RMB3 billion. As of the end of the second quarter, overseas cumulative AUM reached more than RMB8.5 billion, a 303.3% increase year-on-year, and a 39.2% increase from last quarter.

The capability of Noah's overseas asset management team also continues to improve. The asset types of our overseas Fund of Funds in US dollars are also gradually expanding, from VC/PE funds of funds, to hedge funds of funds, then to real estate funds of funds. Our partners include funds from world-renowned asset management

companies such as Sequoia, TPG, Carlyle and KKR, as well as some new, outstanding asset managers.

We are continually emphasizing the importance of asset allocation in wealth management, and this concept is being accepted by more and more of our high net worth clients. This recent increase in systemic risk has helped our clients to recognize its importance even more. We are organizing a series of investor education sessions and forums to help our clients better understand asset allocation strategies to take account of cycles, and geographic, asset category and currency exposure.

Now, I would like to share an update on our developments in the internet finance space during the second quarter. Noah's YuanGongBao platform, our online private banking platform targeting white collar professionals, is developing rapidly. In the second quarter, the transaction value on the platform reached RMB3.4 billion; a 56.5% increase from the first quarter. The average transaction value per client was approximately RMB 120,000, and the proportion of repeat clients was 56.6%.

YuanGongBao continues to innovate with the introduction of mutual fund sales, collateralized loan products, loans to employees, crowdfunding and other functions. This will help us bring financial product collateralized loans and independent client transfers online, and facilitate a closed loop for online transactions of all our products and services. We are very pleased to see such rapid development over a very short period of time. Yuangongbao is fully aligned with Noah's fundamental values. It is designed to leverage advances in technology and the internet to offer white collar professionals private banking services and serve as their integrated financial service platform.

Finally, I would like to briefly talk about our understanding of the capital markets. The core of successful capital markets is the efficient allocation of capital. This helps to cultivate great businesses. The basis for capital markets to efficiently allocate capital is to maintain the financing functions of IPOs and delisting. The next level of the capital allocation system is the re-financing and M&A market. On this point, we believe the IPO market will be reopened very soon, once the domestic capital markets have stabilized, and a number of leading companies will list in China. There will be more opportunities in the primary market, and the secondary market will also experience long-term healthy development. We will continue to adhere to the principles of value investing, long-term investing and appropriate asset allocation.

After this round of market volatility investors, market players and regulators will become more mature and we believe the market will develop more sustainably. We are confident that the wealth management and asset management industries in China have a bright future.

On the internet banking front, regulators recently announced the "Guidelines on Promoting the Healthy Development of Internet Finance." This document clearly defines the scope of internet finance as a business for the first time. Most

importantly, it definitively supports the development of internet finance while emphasizing the need for risk management and standardized operations. While the internet technology has significantly improved the efficiency of financing, we have also seen that internet finance has, to some extent, accelerated the stock market crash. As many people in the internet finance industry lack experience in the finance industry and have relatively limited understanding of financial risks, we believe that internet finance companies that have significant investment and an integrated team with experience in the finance and internet industries – such as Yuangongbao – will demonstrate their competitive advantages in the future.

Appropriate investment principles, disciplined investments and processes, as well as a solid sense of value are the foundations of long-term success for financial institutions. We are consistently emphasizing self-learning, reflection and growth through every risk and crisis, to make ourselves the best, rather than expecting a better market.

Now I will turn the call over to our CFO, Ching Tao, to review our financials. Thank you.

Ching Tao – CFO of Noah

Thank you, Chairman Wang and hello everyone. To make the best use of everyone's time, I'll give a high-level overview of our Q2 results and then open the call up for questions.

As Kenny and Chairman Wang noted, Q2 was another solid quarter. Net revenues increased 30.4% year-over-year to \$93.2 million. And Q2 non-GAAP net income grew 25.4% year-over-year to \$30.9 million, both of which are largely in line with our expectations.

We distributed approximately \$5.9 billion worth of wealth management products during the quarter, more than double the figure from a year ago. In July, an abrupt regulatory policy change in China led to the suspension of new IPOs. As a result we terminated and subsequently refunded US\$1.3 billion (approximately RMB8.2 billion) IPO fund products to our clients in July. Excluding that refund, the aggregate value of wealth management products during the second quarter of 2015 was US\$4.6 billion (approximately RMB 28.3 billion), a 55.6% increase from the corresponding period in 2014.

There is a break-down of operating metrics in our wealth management business at the back of the earnings release.

Excluding the impact of the refund related to IPO products in July, the weighted average one-time commission rate for the second quarter of 2015 was 0.78% compared to 0.8% in the same period last year and 0.82% in the first quarter of this year. The minor fluctuations in the commission rate are due to shifts in our product mix.

Recurring revenues were \$40.1 million, accounting for 43% of net revenues in Q2 2015 compared to \$37.9 million in Q2 of 2014 or 53% of net revenues. The decline in recurring revenues as a percentage of net revenues was primarily due to a change in product mix in our wealth management business, and a change in the composition of asset types in our asset management business. Going forward, we still expect recurring revenues to account for around 50% of net revenues in the long term.

Our internet finance delivered impressive revenue growth, with revenues increasing 90% sequentially to \$2.8 million in the second quarter of 2015. We're pleased with the way this segment is growing and we'll continue to invest as we expect it to become an increasingly important part of the Noah offering in the long term.

We received \$15.6 million in performance based income during the second quarter related to secondary market products. Our internal estimates for performance based income are built into our full year guidance. We recognize performance based income when cash inflow can be reasonably assured.

And now on to profitability... Operating margin in Q2 was 33.5% compared to 39.6% a year ago. The decline was primarily attributable to ongoing investments in our internet finance business.

Non-GAAP net margin was 33.2% compared to 34.5% a year ago.

Our balance sheet remains very healthy. At the end of Q2 we had approximately \$410.9 million in cash, short-term investments and long-term investments, an increase of about \$31.8 million from the previous quarter.

We posted positive operating cash flow in the second quarter of \$16.9 million.

Accounts receivable turnover was 61 days which is within reasonable range of our average AR turnover days.

Finally, I would like to reiterate our net profit guidance for 2015. We expect non-GAAP net income to be between \$90 million and \$95 million for the full year of 2015. The mid-point of this range represents year-over-year growth of about 20%. This growth rate reflects the strong fundamentals and steady profitability in our core businesses.

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

Q&A

[Soo Lee Chen – CICC (*Interpreted by Kenny Lam*)]

[Translated by Kenny] Let me just translate this for the audience. This is actually an English call. Let me just briefly go over the question. The first question is about our internet finance business. The combined loss of the internet finance business was USD 9.5million, which was actually higher than the expectation [CICC's expectation]. What is the forecast of the Internet finance business, given that Noah is investing more quickly than before? When will this business start to make profit?

The second question, overall, is about our secondary market products. We see an increase in the secondary market equity products in the second quarter, in terms of transaction value and AUM. Also as you mentioned before, the IPO fund products were refunded to the clients. Therefore, overall, the proportion of this type of product increased greatly. Could you please elaborate more on this? Like how long is the duration? Can the customer subscribe and redeem it anytime?

In addition, how much is the transaction value of the secondary market products per client? We notice that the overall transaction value per client increased. Is it because of the increase in the secondary market products?

Moreover, could you please tell us how do you pay the incentive fees to your RMs? As we can see from the financials, there is a big increase in compensation compared to the last quarter and the corresponding period of 2014. In the press release, you mentioned that it is partly contributed by the commission rate to RMs, which is driven by the change in product mix. In the past, it was a flat upfront fee. Why is there a big increase this time? I will let Chairman Wang answer and I will translate for her.

[Jingbo Wang – Chairman and CEO of Noah (*Interpreted by Kenny Lam*)]

Let me just translate what Wang just said and add to the view as well. The internet finance business is something that we like a lot. We think we have something that is very unique in the market, which is an Internet finance platform for private banking, focused on white-collar professionals. This is a segment that is not well covered in the market. It is also something that we do, so it is quite unique.

In terms of when we expect profit from this particular platform, we think that we want to continue to invest given the tremendous revenue growth this quarter. We see the trend, in terms of momentum, is continuing to be strong, so we will continue to invest. We could easily turn a profit this year if we want to, but we think that investing in this platform is actually a future for Noah.

Basically, to the secondary market products, a good part of the secondary market products as we reported around RMB8.2 million was actually returned to clients as the result of the abrupt change in the policies of the IPO launch in China.

We believe that actually shifted to the secondary market products in terms of funds of funds as well as IPO funds is actually helping the clients in this volatile market, because basically these funds would have actually gone to A-share if not for these funds so we were actually helping to protect the clients' assets. These clients' assets, we actually returned most of it to the client during this volatile market.

We are still focused on very much in the medium to long-term investing for clients. In terms of our RM incentives, we are quite unique in the market. We are probably the only one in the market whereby the commission across the products are the same. We don't promote any particular product. As a result then the RMs are not incentivized to promote any particular products except for the client's interest.

Wang actually mentioned quite a few funds and I will just summarize quite quickly that we actually manage funds of funds as well as quant fund of fund; our performance is actually now still top in the market. The IRR of the quant fund of fund is now at 20%, about 20%. Even performance of our secondary market product, or fund of fund market product, actually is still in a positive territory compared to many in the market that is now actually deep in the red.

In terms of clients' trust in us, I think we have actually increased our trust substantially over the last few months. You can see that in our performance of the funds that we manage, as well as how we have actually recommended our products, and through the way that we approach our RM incentives.

[Ching Tao – CFO of Noah]

I would just note really quickly that in our 6K, in our earnings release, page 12, we break out relationship manager compensation, so RM compensation as a percentage of net revenue is 25%. We feel that that is a suitable range and, actually, that puts us at the mid to low end of the market for our competitors. So, overall, our compensation as a percentage of net revenues is very, very reasonable. We are continuing to monitor its growth, but it is a very reasonable rate.

[Matthew Larson - Morgan Stanley]

With the pullback in Noah's stock and the announcement of up to a \$50 million share purchase program, I was wondering if any of those shares have been purchased yet, or what the plans are going forward regarding that announcement.

[Ching Tao – CFO of Noah]

Hi, it's Ching. We announced the intention to do a share repurchase program of up to USD 50 million, I believe it was on 8 July. We are still currently in the black-out period. The trading window opens on Thursday, August 6, so we have not executed any share repurchase yet.

[Matthew Larson- Morgan Stanley]

Got you. Okay. Thank you very much.

[Sam Dubinsky - Carlson Capital]

In the press release there were a lot of footnotes regarding the \$1.3 billion in proceeds that needed to be funded to customers from the cancelled IPOs. Just to be clear, did you adjust the revenue and EPS in Q2 to factor in the IPO cancellations, or will there need to be adjustments to Q3 earnings, as a lot of the refunds occurred in July?

[Ching Tao – CFO of Noah]

We adjusted revenues, so we booked zero revenue from that because we refunded.

[Sam Dubinsky- Carlson Capital]

Okay. Great. Then the IPO proceeds that you returned, just to be clear, did those IPOs already price and trade in the public markets or did these companies fail to go public?

[Ching Tao – CFO of Noah]

This was a fund that was looking for IPO allocations and IPO type products, and so we dismantled and unwound, terminated the fund product.

[Sam Dubinsky- Carlson Capital]

Did clients lose money in that fund, like was it trading or was it pre-trading?

[Ching Tao – CFO of Noah]

No, clients did not lose money.

[Sam Dubinsky- Carlson Capital]

Okay. What I'm trying to figure out is, just the way maybe it's a government thing or maybe it's how things work in China, but I'm trying to figure out, you're not obligated to make the customers whole if there's a loss or a government mandate?

[Ching Tao – CFO of Noah]

Right. We are not obligated to make customers whole, so we bear no financial or legal liability. The risk we bear is reputational for selling these products. We take that very seriously. That is why I would actually say as soon as the CSRC changed its

policy we reacted very quickly and terminated, unwound the fund, and returned all of the principal to investors so the clients did not lose money.

[Kenny Lam – Group President of Noah]

One more point. In the market you see in China that we are a few that actually returned the money to clients in the IPO funds. There are a few that actually -- because they are not obligated to do that. We believe that that is actually right and our values is long-term investment for our clients, so we decided that we should return that to the client.

[Sam Dubinsky- Carlson Capital]

Okay, great. And could you go into more detail on the performance that you are generating in Q2? How I should think about that going forward.

[Ching Tao – CFO of Noah]

As I mentioned, we will recognize performance-based income when the cash flow is very reasonably assured. So in that sense, we don't really do accruals on a forward basis and don't really project for it. But I did mention that we have a reasonable conservative estimate for that in our guidance.

[Sam Dubinsky- Carlson Capital]

Okay. Is the Q2 run rate -- sorry --

[Ching Tao – CFO of Noah]

No, go ahead -- I can't comment on the run rate because there is extreme volatility in the performance-based income quarter-over-quarter. We recognize the performance-based income at the end of every quarter.

Our PE and DC products, we only recognize carry income or revenue upon cash settlement, termination of the fund. For secondary market products, we recognize the carry when the cash inflow can be reasonably assured. So there's very little adjustments, for example, to secondary market products, performance-based income.

Write-ups and write-downs. Yes.

[Sam Dubinsky- Carlson Capital]

And then on the AUM and Gopher, can you maybe discuss how much of that was new funds raised versus performance, and how we think about that in Q3?

[Ching Tao – CFO of Noah]

I think Gopher AUM is continuing to grow very well. We disclosed the details in the 6K. We're continuing to see new fund, new products come out for Q3.

[Sam Dubinsky- Carlson Capital]

Okay. My last question, just relationship management. Relationship managers increased quarter-over-quarter. How should we model OpEx going forward with the higher relationship managers? Is Q2 the baseline or does it fluctuate with sales?

[Ching Tao – CFO of Noah]

Q2 is a little bit, I would say, on the high side, but overall I would comment, going back to my earlier comment, RM compensation as a percentage of net revenues is running in the 22% to 25% range. We feel that's very suitable for us and we're actively monitoring that number.

That actually puts us at the mid to low end of overall RM compensation compared to our competitors. We feel it is very appropriate. We're continuing to grow the RM team but the focus is on our RM productivity, meaning there gaining greater share of wallet.

[Kenny Lam – Group President of Noah]

Let me add to that. Relationship managers' number now is 953. We expect that number to increase slightly over the next half year. We want to make sure that we have enough of a quality relationship manager base for next year's growth, so a lot of our RMs actually go through trainings before they really become client advisors. We don't expect that to fluctuate a lot.

Definitely the number of RMs are not dependent on the type of products and the volume we sell. We are planning for a bit of longer-term. You see that our RM numbers are quite steady and we expect that number to increase more by end of year, but it would definitely not decline.

[Sam Dubinsky- Carlson Capital]

Okay. Thank you very much.

[David Lee - DM Harmony Fund]

As you mentioned, the Chinese regulators are now producing guidelines on the Internet finance industry. Now the regulators are curbing Internet payments. It is also expected that online payments, there is going to be a limit on the daily amount to like 5,000 yuan. I was wondering how might that affect Noah's Internet finance Yuan Gong Bao. As there's more regulations, would that have a big impact on your revenues going forward?

[Jingbo Wang – Chairman and CEO of Noah (*Interpreted by Kenny Lam*)]

Let me just translate, and you should also be aware that we actually have a payment company within Noah that actually connects directly to the People Bank of China. The People Bank of China, as a result, all of our payments are actually done in a closed loop and the new directive on the cap on the 5,000 does not affect us at all.

The policy that was actually being consulted now is really not related to transactions of our kind; it's really related to digital wallet, whereby the transfer to digital wallet is within RMB5,000. What we do at Yuan Gong Bao, which is a direct transfer between the banks, given that we actually have our own payment capabilities and our own payment company, we're not affected at all by that directive.

[Kelly Lee - Harmony Fund (*Interpreted by Kenny Lam*)]

I have two questions. As asked previously, the first one is about performance. We are concerned about the impact on the secondary market products from the Chinese market volatility. How much will it affect Noah's performance? Also, will it affect your PE funds products too? If the PE/VC products were issued when the valuation is high, as the primary funds has to exit in the secondary market, will this affect Noah's performance when exit if it was priced at a high-end?

The second question is about Ju Pai. It just went public. How much competition do you see from Ju Pai?

[Jingbo Wang – Chairman and CEO of Noah (*Interpreted by Kenny Lam*)]

Three points. One is, we actually in this market we are able to have more bargaining power in terms of selecting the right PE managers. Given that we started our PE fund distribution business and PE funds of fund business quite early, we started in 2008, we have seen many cycles. In terms of just selecting the best managers, we were able to in this market particularly to find the best managers.

In fact, actually, we have been looking quite in a robust way and some of the managers that we see we believe that actually are not up to par and we haven't actually distributed their products or actually lowered the volume. That is point one.

Point two is actually many of our products is long-term. Many of the PE and VC products are actually 10 to 12 year in duration, so it is quite long in cycle. We believe that these products will see through the cycles and will not be affected by a lot of the volatility in the market.

Third, actually, in this market, we were in the secondary market, we were selling products. Sorry, we were selling shares of the companies we invested in. So we captured a lot of the upside of the market in the second quarter. We weren't buying actively in this market. So in terms of performance, we're actually, we have

performed quite well given at the height of the market we were selling securities of these invested companies.

The second question was around the listing of Jiu Pai. We think that, well, we don't see a lot of competition from Jiu Pai. They have a very different approach to products. They are heavily focused on real estate, and particularly in the third and fourth tier cities. We don't subscribe to that philosophy and we don't currently see a lot of competition in the market from them.

[Kenny Lam – Group President of Noah]

Thank you all for the time. Please continue to send questions to our IR team if you have any follow-up after this call. Appreciate it.