

China Financial Leasing Industry Report, 2009-2010

June/2010

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2. Policy & Economic Environment of China Financial Leasing

2.1 Policy Environment

In March, 2007, the newly revised Measures for the Administration of Financial Leasing Companies began enforcement, allowing the qualified financial institutions to set up or join share with financial leasing companies. Afterwards, Industrial and Commercial Bank of China, China Construction Bank, Bank of Communications, China Minsheng Banking Corp., Ltd, and China Merchants Bank attempted to set up financial leasing companies.

In Nov.2007, the first financial leasing company, i.e. ICBC Financial Leasing Co., Ltd operated officially, and then CCB Financial Leasing Co., Ltd, Bank of Communications Finance Leasing Co., Ltd, CMB Financial Leasing Co., Ltd and Minsheng Financial Leasing Co., Ltd formally went into operation successively.

Due to various causes, the financial leasing law which was once anticipated to be issued in 2008 still has not been publicized yet. The issuance of the Financial Leasing Law will be a significant turning point for Chinese financial leasing industry, and all parties are expecting the Law to be enforced as soon as possible.

At the same time, the business of commercial banks to carry pilot work of financial leasing progresses steadily, and non-banking financial leasing companies have realized strategic transformation through reorganizations. After experiencing the four stages of early start-up, rapid growth, rectification, and development & problems, the financial leasing industry of China gets increasingly standardized and develops more healthily.

Under the backdrop of the implementation of loose monetary policy and active fiscal policy in China in 2009, Chinese financial leasing companies which are confronted with complex operating environment took advantage of its real assets financing based leasing service and continued to perfect product and service system, maintaining the stability of leasing asset quality on the basis of the doubled asset scale of the whole industry.

Standardizing Financial Leasing Transaction and Application Range of Relevant Laws

Year	Issuing Authority	Law & Regulation
1996	The Supreme People's Court of the People's Republic of China	Regulations on Several Problems about the Examination of Financial Leasing Contract Dispute
1999	The Decree of the President of the People's Republic of China	Contract Law

Source: ResearchInChina

Regulations of Financial Leasing Industry

Year	Issuing Authority	Law & Regulation
2001	The Ministry of Foreign Trade	The Interim Measures on the Administration of Examination and Approval of Lease Companies with Foreign Investment
2005	The Ministry of Commerce	The Measures for the Administration of Foreign-funded Lease Industry
2006	Ministry of Housing and Urban-Rural Development of the People's Republic of China	Management Measures concerning Construction Engineering Machinery Leasing Industry
2007	China Banking Regulatory Commission	The Measures for the Administration of Finance Leasing Companies

Source: ResearchInChina

Financial leasing taxation schemes have not been formulated into the systematic laws and regulation, and they are just individually adjusted, mainly as follows:

On Jul.7, 2000, State Administration of Taxation issued the Notice of the Problems concerning Financial Leasing Turnover Tax Levy.

On Nov.15, 2000, State Administration of Taxation issued the Supplemental Notice of the Problems concerning Financial Leasing Turnover Tax Levy.

On Jan.15, 2003, the Ministry of Finance and State Administration of Taxation jointly issued the Notice of Several Problems concerning Business Tax Policy.

On Oct.22, 2004, the Ministry of Commerce and State Administration jointly issued the Notice of Several Problems concerning Undertaking Financial Leasing Business.

2.2 Economic Environment

In developed countries, financial leasing is a sort of well-developed financial instrument only next to banking credit currently. More than one third of global investments in 2009 were done by means of financial leasing. In modern financial industry, leasing is as important as bank, insurance, trust, and securities.

Chinese leasing industry has a development history of more than three decades. Since the year of 1980 when China International Trust and Investment Corporation undertook the first financial leasing business in China, the leasing business evolved into its initial stage till 1983. With the administrative interference of the State, Sino-foreign funded leasing companies have addressed a great deal of liabilities, and now some companies are considering how to seek new growth in current economic environment.

Leasing penetration ratio of financial leasing industry in North America and Western Europe: the leasing transaction accounts for 10%-30% of GDP in general, while that of China was less than 3%.

The urban fixed asset investments in China totaled RMB14.8 trillion in 2008 and RMB19.4 trillion in 2009 (a 30.5% rise from a year earlier), and the figure in 2010 is expected to surpass RMB20 trillion. The steady growth of fixed asset investments in China drives the rapid development of the related industries; in particular the increasing demand for fixed equipment will enable financial leasing to be brought into full play.

When the economy is in the stage of robust development, the enterprises are urgently in need of capital, which can be satisfied by financial leasing; and when the economy is in depression, financial leasing can perform the promotion function so as to stimulate consumption and sluggish market demand. In a word, corporate fundraising can bring opportunities to financial leasing industry no matter where the market goes.

3. Operation of China Financial Leasing Industry

3.2 Scale

Leasing companies of China are classified two categories: the first one refers to foreign leasing companies and domestically-funded leasing companies approved by the Ministry of Commerce, which focus largely on operating leasing business and have begun to accept financial leasing business in recent years; the second one is financial leasing companies approved and established by the CBRC, belonging to specialized financial institutions.

In 2008, China Development Bank lavished RMB ** billion to become a shareholder of Shenzhen Financial Leasing Company and jointly founded CLC. In terms of registered capital, CLC has become the largest financial leasing company across China, with 90% stock being hold by China Development Bank.

12 Financial Leasing Companies Supervised by CBRC, 2009

Companies	Location of Headquarters
ICBC Leasing	Tianjin
China Huarong Financial Leasing Co.,Ltd	Hangzhou
CCB Financial Leasing Corporation	Beijing
Mingsheng Financial Leasing Co.,Ltd	Tianjin
Jiangsu Financial Leasing Co.,Ltd	Nanjing
Bank of Communiions Financial Leasing Co.,Ltd	Shanghai
CLC	Shenzhen
CMB Financial Leasing Co., LTD	Shanghai
China Foreign Trade Financial Leasing Co., Ltd	Beijing
Shanxi Financial Leasing Co.,Ltd	Taiyuan
Hebei Financial Leasing Co., Ltd	Shijiazhuang
Xinjiang Great Wall Financial & Leasing Co., Ltd	Urumqi

Source: Financial Leasing Research Society, China Finance Society

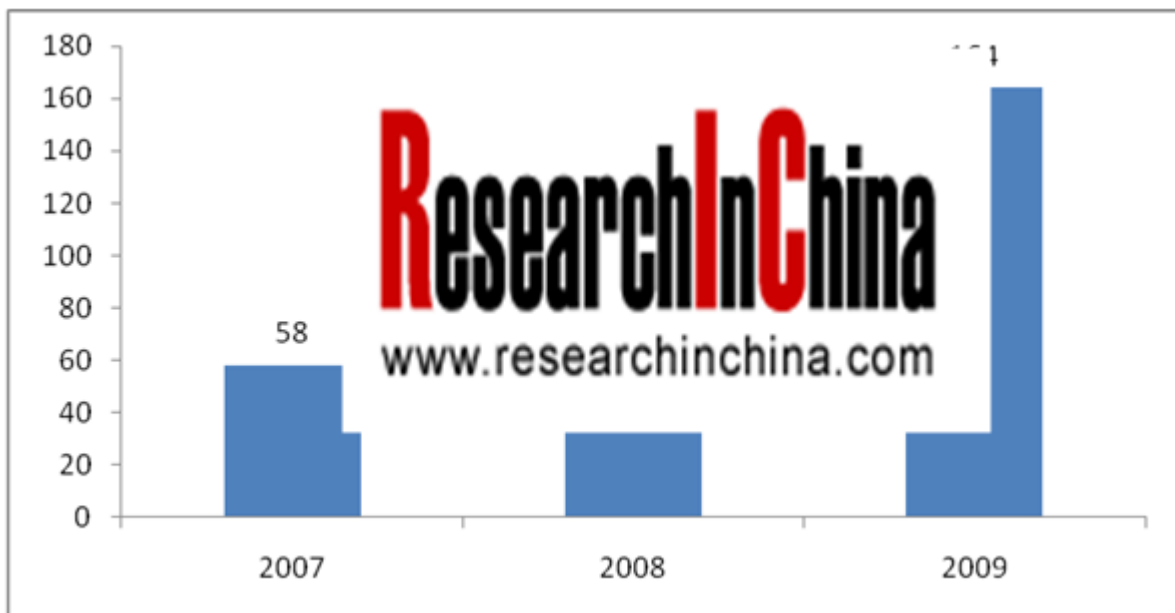
In addition, the Plan that CNPC would team up with Chongqing Machinery & Electronics Holding (Group)Co.,Ltd to establish the joint venture, Kunlun Financing Leasing Company, had approved by CBRC and the listing date has still hung in doubt. Kunlun Financial Leasing Company is expected to become the 13th

financial leasing company in China. The difference is that the company is the first whose stocks were held by industrial enterprises instead of financial enterprises. The registered capital of Kunlun Financing Leasing Company is as high as RMB 6 billion, next only to CLC whose stocks were held by China Development Bank. Among the RMB 6 billion, RMB 5.4 billion is from CNPC, 90% of the total, while RMB 600 million from Chongqing Machinery & Electronics Holding (Group) Co., Ltd, 10% of the total.

On December 15th, 2009, the Ministry of Commerce and SAT issued the Circulation of Affirming the 6th Batch Financial Leasing Pilot Enterprises, which included the following 6 enterprises:

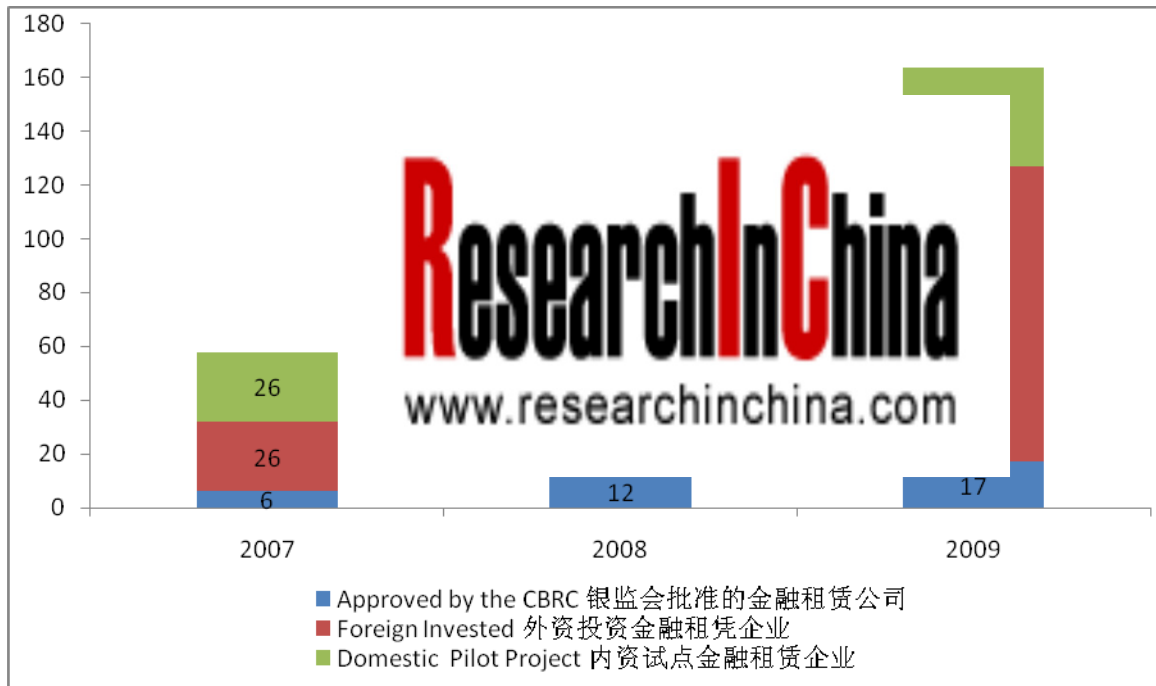
- Shantui Leasing Co., Ltd
- Rongxin Leasing Co., Ltd
- Grand China Ship Leasing Co., Ltd
- Chengdu Gongtou Financial Leasing Co., Ltd
- Tangshan Pangda Leye Leasing Co., Ltd
- Chongqing Transportation Equipment Leasing Co., Ltd
- Fenghui Leasing Co., Ltd
- Zhongyuan Leasing Co., Ltd

Total Number of China Financial Leasing Institutes, 2007-2009



Source: Leasing Blue Paper of China; ResearchInChina

Proportion of Verities of Financial Leasing Institutions in China, 2007-2009



Source: Leasing Blue Paper of China; ResearchInChina

China has recently more than ** financial leasing companies of all kinds, among which include ** domestically-funded pilot financial leasing companies jointly approved by the Ministry of Commerce and SAT, ** financial leasing companies approved by CBRC, and over** foreign-funded financial leasing companies approved by the Ministry of Commerce. It is noteworthy that the brisk development of China's financial leasing business attracts growing capitals from other industries. A case in point is Fubon Financial, who recently announced its cooperation with CITIC Asset Management Corporation Ltd. to establish financial leasing company.

4. Business Profile of China Financial Leasing in Various Industries

4.1 Aviation

4.1.1 Profile

The financing lease of civil aircraft means that the lessor acquires a civil aircraft pursuant to the selection of the lessee with respect to supplier and civil aircraft, and leases it to the lessee, who shall pay rental periodically. During the period of financing lease, the lessor shall be legally entitled to the ownership of the civil aircraft, and the lessee shall be legally entitled to the rights of possession, utilization and earnings of the civil aircraft. Additionally, the lessor shall ensure the lessee to possess and use the civil aircraft without interference; the lessee shall take proper care of the civil aircraft and keep it in the condition in which it was delivered, subject to fair wear and tear and to any modification of the civil aircraft agreed by the lessor. The supplier in the financing lease of a civil aircraft shall not be liable to both the lessor and the lessee at the same time in respect of the same damage.

As of the end of 2009, a total of 1,417 aircrafts had been applied in China's civil aviation transport, doubled than the figure during the 10th Five-year Plan Period, and 276 aircrafts of which were financial-leased, and 255 aircrafts operating-leased.

China Airlines generally lease aircrafts from foreign leasing companies for a long time, and foreign leasing companies have dominated nearly 90% of aircraft leasing business in China.

Financial Leasing Business of Aircraft

Type	Contents
Direct Financing	Airlines apply for financing to commercial banks for directly acquiring the required aircraft models from aircraft manufacturers, and then they are entitled to the ownership of the aircraft.
Pre-paid Financing	Airlines apply for financing to commercial banks to pay aircraft manufacturers the advance of the required aircraft models.
Leaseback	The domestic aircraft leasing companies (lessor) apply for financing to commercial banks to acquire the domestic airlines' (lessee) aircrafts with their own property and be free to dispose, and then the lessor will leaseback the aircrafts to lessee, and pay the bank's loan by rent income.

Source: ResearchInChina

4.1.2 Key Enterprises

4.1.2.1 Air China

Headquartered in Beijing, Air China was established on Jul 1, 1988 with the registered capital of RMB1.5 billion, and the total assets have reached RMB35.9 billion.

As of June 2009, Air China had ** aircrafts, which was nearly same to the end of 2008. The average age of aircraft is ** years. In addition, **% aircrafts were acquired by leasing, up **% year-on-year; of which, financial-leased and operating-leased aircrafts respectively accounted for **% and **%.

Comparisons between Self-owned and Leased Aircrafts of Air China, Jun, 2009

Model	Self-owned Aircrafts	Financial-leased Aircrafts	Operating-leased Aircrafts	Total
Passenger Aircraft	**	**	**	**
Boeing aircraft	**	**	**	**
Airbus	**	**	**	**
Cargo Aircraft	**	**	**	**
Corporate Aircraft	**	**	**	**
Total	**	**	**	**

Source: Annals, ResearchInChina

Comparisons between Self-owned and Leased Aircrafts of Air China, Jun, 2008

Model	Self-owned Aircrafts	Financial-leased Aircrafts	Operating-leased Aircrafts	Total
Passenger Aircraft	**	**	**	**
Boeing aircraft	**	**	**	**
Airbus	**	**	**	**
Cargo Aircraft	**	**	**	**
Corporate Aircraft	**	**	**	**
Total	**	**	**	**

Source: Annals, ResearchInChina

By the end of Oct, 2009, Air China had ** aircrafts, mainly Boeing and Airbus, and ** airlines covering **countries and regions. In the meantime, Air China had established cooperation with 22 well-known airlines worldwide to expand the services to 912 destinations in 159 countries.

As of Mar, 2010, Air China had had ** aircrafts, and ** of which were leased.

On Apr 27, 2010, Air China introduced a Boeing 737-800 with the code of B5507 via ICBC Leasing, which was the first aircraft China introduced via financial leasing in bonded areas. In addition, Air China also introduced a Boeing 737-800 and an Airbus 321 in this way, and the three aircrafts totally cost USD140 million.

4.1.2.2 China Southern Airlines

Headquartered in Guangzhou, China Southern Airlines has ** operation divisions in China and 53 oversea offices. China Southern Airlines operated 400 modern Boeing 777, 747, 757, 737 and Airbus A330, 321, 320, 319 and 300 jet aircrafts, forming an extensive network with Guangzhou and Beijing as its hubs, covering all of China, radiating throughout Asia and linking Europe, America, Australia & Africa with convenient connections to all main cities in the world.

Comparisons between Self-owned and Leased Aircrafts of China Southern, Dec, 2009

	Number	Ratio
Self-owned	**	**
Operating-leased	**	**
Financial-leased	**	**

Source: Annals, ResearchInChina

4.1.3 Development Trend

Besides limited capital, Chinese domestic aircraft leasing companies have to rely on lending from commercial banks for their business development, and the lending cost is relatively high. Such high cost of lending and reasonable profit make airlines bear higher leasing cost, which has forced air carriers either to borrow money from banks for purchase of aircrafts or lease aircrafts from overseas leasing companies.

Chinese government is well aware of the importance to develop leasing business and has adopted a series of measures to encourage domestic companies to get access to aircraft leasing market. With the approval of the State Council, China’s cabinet, five commercial banks, namely, Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Bank of Communications (Bocom), China Merchants Bank and Minsheng Bank, were allowed to launch their aircraft leasing business on trial. Meanwhile, the National Development and Reform Commission and the Ministry of Finance are drafting the policies on providing a new fundraising channel to aircraft leasing market by using private fund.

All airlines suffered heavy losses due to the global economic meltdown in 2008, which was also a heavy blow to international airline leasing industry. However, China’s leasing companies like Changjiang Leasing, AVIC International Leasing, CDB Leasing and ICBC Leasing had signed a total of over 90 aircrafts by the end of 2008, which highlighted China’s leasing industry.

According to the planning by Civil Aviation Administration of China, there are about 100 to 150 newly added airplanes each year in China during the 11th Five Year Period (2006-2010). It is forecasted that aircraft population in China will reach ** in 2010, and China civil aviation industry will delivery over 700 aircrafts in the following five years. In addition, approximately 3,000 aircrafts will be applied in China's civil aviation transport, and 60% of which will be operated by leasing, which means that the aircraft leasing market capacity will reach over USD** billion in China in the following 15 years.

5. Analyses on 12 Financial Leasing Enterprises Directly Subordinated to CBRC

Leasing companies inside China is classified into two types. One is foreign-funded leasing companies and domestically funded leasing companies approved by Ministry of Commerce. Such companies are mostly engaged in operating lease, but in recent years they start to operate financial leasing business. Another is financial leasing companies approved by China Banking Regulatory Commission, and such companies are specialized financial institution.

5.3 CCB Financial Leasing Corporation Limited

Established in Dec. 2007, CCB Financial Leasing Corporation Limited was jointly invested by China Construction Bank Corporation and Bank of America Corp. and registered in Beijing with registered capital of RMB4.5 billion.

The business scope includes finance lease, lease premiums, leasing accounts receivable assignment to commercial banks, financial bonds, inter-bank lending, borrowings from financial institutions, borrowings of overseas foreign exchange, lease residual value sell-off & disposal, economic consultation and other business approved by regulation institutions.

Total Assets and Net Income of CCB Financial Leasing Corporation Limited, 2008-2009

Unit: RMB mln	Total Assets	Net Income
2008	**	**
2009	**	**

Source: ResearchInChina

Up to the end of 2009, the total assets reached RMB** billion, lease input accumulated RMB* billion, and the leased assets has good quality; the total liabilities were RMB** million, shareholder's equity was RMB**million. In addition, it realized pre-tax profit RMB** million, and net income of RMB** million.

5.8 CMB Financial Leasing Co., Ltd.

CMB Financial Leasing Co., Ltd was solely founded by China Merchants Bank under the approval of the China Banking Regulatory Commission in Shanghai in March 2008, with registered capital of RMB2 billion. By December 31, 2009, its total assets had reached RMB** billion, net assets RMB** billion and net profits RMB90 million.

Assets and Profits of CMB Financial Leasing Co., Ltd, 2008-2009 (RMB in Millions)

Year	Total Assets	Net Assets	Net Profits
2008	**	**	**
2009	**	**	**

Source: ResearchInChina

On July 5, 2009, Datang Huayin Electric Power Ltd signed a RMB-200-million-worth leasing agreement with CMB Financial Leasing on thermal power equipments (#1 and #2 steam turbines) for the first phase of Jinzhushan Power Plant Expansion Project, and leasing term is five years.

On May 21, 2010, Anhui Wenergy Company Limited transferred to CMB Financial Leasing the ownership of steam turbine & accessories and ultra-supercritical boilers, and raised funds of RMB300 million in the form of leaseback.

6. Future Development of Financial Leasing Industry

6.1 Influence of Financial Crisis

The financing leasing industry has not greatly impacted by periodicity fluctuations of economy, which is mainly attributable to its operation mode. The financing leasing business is investment and financing service based on real assets trade and utilization. During the developing period, medium- and small-size enterprises are lack of capital, and then the financial leasing can play the fully role to financing. However, when in depression, the financial leasing plays the role to promote in order to stimulate consumption and ease slumping market. Therefore, no matter how the market goes, it all can bring business opportunities for the financial leasing industry.

It is with great possibility that the global financial crisis started in Sep, 2008 is an opportunity for China's financing leasing industry. The international economy downturn has not impacted directly on China's finance system, since the financial assets and operation performance that China had bought was relatively small, and it had taken risks into consideration when buying. So it is the export that had impacted in China's economy.

About 60% of China's economy is relying on international trade, so the drop in international consumption caused by global economy crisis has impacted on the export companies, which has led to the decline in equipments demand. Therefore, the former companies that their supply can not meet demand all have considering selling their products via financing leasing, and the share of equipment purchase will be larger in financial leasing.

More and more investors and consumers have to shift to leasing to buy equipments and goods under the condition of insufficient funds. Currently, the financial leasing industry can play its leverage in China since there is not many adjustment means.

Development opportunities are mainly shown as the following five areas:

1 The world's financial crisis had led to the shrinkage of international market, so China has encouraged expanding domestic market demand, and developing domestic market.

2 The companies have become more difficult to get a loan from banks, which will promote the cooperation of banks and financial leasing companies familiar with the background of manufactures. Thus, it can improve risk control capability of bank credit.

3 The financial leasing trade has not involved in equity trade, the industry with equity restrictions, or the issue of foreign capital or public holding. However, it can help the investors have higher return than traditional debt investment. Establishing financial leasing companies, building financial leasing platform and setting up domestic and foreign capital investment configuration channel is the effective ways to attract and make use of foreign capital, ease liquidity surplus, as well as make domestic companies become bigger, stronger and more competitive.

4 The construction process of developing public service resource facilities, such as education, health care, municipal construction, energy conservation and emissions reduction, can make full use of guidance and leverage of financial capital, and using financial leasing system to accelerate urban and rural public services construction.

5 Actively developing international financial leasing business to provide financing service for customers from import country, which will promote export, balance of international payments, and maintain steady growth in exports. The financing leasing system can support domestic companies to invest overseas.

Influence of global financial crisis on China's financial leasing companies by type

China has more than ** foreign-invested financial leasing companies, of which some enterprises rely on foreign financial institutions for funding. Impacted by the world's financial crisis, overseas financial institutions have experienced the problem of insufficient liquidity, so the capital for leasing companies is inadequate as well, even interruptions in fund chain. Such leading companies should find their own way not rather than relying on their parent company.

→ Related Reports

- **China City Commercial Bank Report, 2009**
<http://www.researchinchina.com/htmls/Report/2009/5735.html>
- **China Rural Commercial Bank Industry, 2009**
<http://www.researchinchina.com/htmls/Report/2009/5757.html>
- **China Financial POS Machine Industry Report, 2009**
<http://www.researchinchina.com/htmls/Report/2009/5721.html>
- **China Guarantee Industry Report, 2008-2009**
<http://www.researchinchina.com/htmls/Report/2009/5712.html>
- **China Fund Industry Report, 2008-2009**
<http://www.researchinchina.com/htmls/Report/2009/5664.html>
- **China ATM (Automatic Teller Machine) Market Report, 2008-2009**
<http://www.researchinchina.com/htmls/Report/2009/5655.html>
- **Merger and Acquisition Report of China Insurance Industry, 2007-2008**
<http://www.researchinchina.com/htmls/Report/2008/5554.html>
- **China Equity Investment Report, 2008 (Updated Version)**
<http://www.researchinchina.com/htmls/Report/2008/5463.html>
- **Merger and Acquisitions Report of China Securities Industry, 2008**
<http://www.researchinchina.com/htmls/Report/2008/5542.html>

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