CAHIERS AFRICAINS DES DROITS DE L'HOMME ET DE LA DÉMOCRATIE
AINSI QUE DU DÉVELOPPEMENT DURABLE
REVUE AFRICAINE INTERDISCIPLINAIRE

ISSN : 2791-1063 (Imprimé)
ISSN : 2791-1071 (En ligne)

26ème année - Numéro 77 - Volume 1 - Octobre-Décembre 2022

CHINA'S ASSET MANAGEMENT COMPANIES: AN ANALYSIS FOCUSED ON HUARONG AND CINDA

By

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ABSTRACT

Chinese authorities created four new asset management companies (AMCs) in 1999, which have since undergone profound and influential changes in China's contemporary integration into the world market. By contrast, we employ a PESTEL analysis in order to analyse the impact of external market forces on the industry focusing on Huarong and Cinda Assets management companies. Financial analysis was also used to provide analysis on the companies' initial year of listing, analysing how the public listing affected the financial performance of the company and then utilizing ratios analysis to suggest what was the likelihood of the performance results.

Keywords: *China, Assets Management Companies (AMC), PESTEL analysis, financial analysis.*

RESUME

Quatre sociétés de gestion d'actifs ont été créées par le gouvernement chinois en 1999. Depuis, ces sociétés ont subi de profondes transformations qui ont influencé l'intégration de la Chine dans le marché financier mondial. Cette étude a utilisé l'analyse PESTEL pour évaluer l'impact des forces externes sur l'industrie financière et ce, en nous concentrant sur les deux sociétés de gestion d'actifs cotées en bourse chinoise à savoir Huarong et Cinda. L'analyse financière a également été utilisée pour fournir une analyse de la première année de cotation en bourse, en analysant comment la cotation boursière a affecté la performance financière de ces deux sociétés d'une part et en utilisant les ratios financiers dans le but d'apprécier leur santé financière d'autre part.

Mots-clés : *Chine, Société de Gestion d'actifs, analyse PESTEL, analyse financière.*

INTRODUCTION

This paper seeks to clarify and provide critical insights into the operations of Asset Management companies within China's Financial Markets. We therefore found it excitingly interesting to look at this sub-sector of the finance industry, mainly due in part to the lack of available information and of texts pertaining to this particular research area and the critical role asset management companies play in it and will continue to play into the future. This paper seeks to perform an in-depth analysis on the sector, but due to time constraints limited, reference material on the subject area, and the inability to acquire necessary data from companies, the paper focused solely on two of the major players within this industry in China which are China Huarong and Cinda, both of which are listed on the Hong Kong Stock Exchange.

This paper is divided into four parts focusing on a multipronged approach to understanding how the two companies' business model affects China's financial markets and the economy in general. Part 1 gives insights on how these companies came to be and the role they play in the market. Part 2 analyses the impact of market forces on the companies to show how market determinants such as external forces play a vital role in shaping the companies. Part 3, provides a comprehensive overview of both companies through the usage of various financial analysis tools to understand how everything affects the financial performance of the companies. In part 4, the conclusion is about the expected future outlook of the companies and their effects on the Chinese economy, and also it express any potential concerns and recommendations as applicable. Therefore, in addition, at the end of this paper one should have a better comprehensive understanding of the role of asset management companies in China's Financial Markets, specifically China Huarong and Cinda and how they impact the Chinese economy at large in the past, present, and their role in the future.

I. HISTORY, FORMATION, AND MISSION OF THE COMPANIES

In this part, the history of the four Chinese AMCs will be presented. Firstly, the reasons for its creation are given. The focus will be put on specific information about the four AMCs' operations and stages of their transformations, including information about the companies available in English.

1.1. Why did China create asset management companies?

China was the only major economy in East Asia that not only avoided the Asian financial crises, but also continued to exhibit strong growth. It was also less (compared to other emerging countries) affected by the global financial crisis of 2008. This can be attributed mainly to some strengths of the Chinese economy, such as the current account surpluses, the dominance of foreign direct investment in capital inflows, the huge amount of international reserves, and the control of the capital account. China was fortunate to have controls over their capital account in place when the East Asian financial crises began (Fernald & Babeson, 1999)[1] and when the global financial crisis happened. This insulation of the domestic capital market helped to prevent a fatal bankruptcy attack due to uncertainties of capital flows.

If certain risks in the financial sector are not eliminated quickly, the probability of a banking crisis will increase. Such a crisis would not only lower the living standards of the Chinese people but also eliminate many of the achievements of economic reform overnight.

Therefore, the Chinese government took a series of measures designed to build a strong banking system especially: recapitalization of the state-owned banks (SOBs), adoption of the international standard accounting system, establishment of four asset management companies (AMCs) and introduction of debt-equity swaps as an instrument for dealing with bad debt. The exact policy procedures for dealing with the bad loans are still unfolding, as the transfer of the nonperforming loans (NPLs) to the AMCs was completed at the end of 1990s.

Table 1: Overview of the banking system and NPLs (in percentages)

	2002
Banking system assets as a % of GDP	210
Assets of state-owned banks as a % of total bank assets	63
NPLs/GDP	
Peak	35
End-2002	20
NPLs/Total loans	
Peak	42
End-2002	20

***Source**: Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)*[2]

[1] J. G. Fernald and D. Babson, "Why Has China Survived the Asian Crisis So Well? What Risks Remain?", *in International Finance Discussion Paper*, Volume 633, Board of Governors of the Federal Reserve System, 1999, p.4 Available at http://www.federalreserve.gov/pubs/workingpapers.htm.

[2] B. Fung, J. George, S. Hohl & G. Ma, "Public asset management companies in East Asia-A comparative study", *in Financial Stability Institute*, n°03, 2004, p.53

Table 1 above shows the overview of the banking system and Non-performing loans. Banking systems play an important role in China. Total bank assets in China are more than the double of its GDP. Another salient feature of the banking systems in China is that, state-owned banks play a very important and dominant role in the domestic banking sectors. They represent the largest majority of all the banking sectors in terms of total assets. NPLs levels at the state banks, therefore, will have a bearing on the entire banking system's health and, under the circumstances, often require direct government involvement in their resolution.

1.2. The establishment of AMCs and their operations

China's four major financial assets management companies (AMC) were set up in 1999 to manage, purchase and dispose non-performing loans (NPLs) of the "big four" state-owned commercial Chinese banks. The four AMCs, with the corresponding banks, are:

- ✓ China Great Wall Asset Management Co. – Agriculture Bank of China (ABC)
- ✓ China Orient Asset Management Co. – Bank of China (BOC)
- ✓ China Cinda Asset Management Co. – China Construction Bank (CCB)
- ✓ China Huarong Asset Management Co. – Industrial and Commercial Bank of China (ICBC**).**

All four companies were wholly state-owned financial management companies and were established with the approval of the State Council of the People's Republic of China. The registered (initial) capital of each of the four AMC was RMB 10 billion, fully funded by the Ministry of Finance.

The idea of setting up the AMCs was to remove NLPs from the state banks, or in other words cleaning up the balance sheets of the banks. The large volume of bad loans in China was the result of decades of government lending to unprofitable and poorly performing state enterprises, property speculation in the early 1990s, and a lax internal risk control system. That was a part of a medium-term bank restructuring plan (Fung, George, Hohl, & Ma, 2004)[3]. The four companies, which got a combined 1.4 trillion yuan (US$184 billion) of non-performing loans at inception, were required to finish the disposal by the end of 2006 (China Daily, 2007). Table 2 (below) shows the main characteristics of AMCs. Actually, when we take a closer look at the table, there are no major differences between the four companies. They all have the same legal basis, official mandate, and an original sunset date (life time) of 10-year (because the AMCs bond have an original maturity of 10 years). Hence, the companies should have stopped functioning in 2009, but

[3] B. Fung, J. George, S. Hohl & G. Ma, *Op.cit,* p.13

the reality is different and they are still operating (Fung, George, Hohl, & Ma, 2004).

Table 2: Main characteristics of AMCs

<table>
<tr><th>Name of AMC</th><th>Characteristics</th><th>Year set up</th><th>Legal basis</th><th>Official mandate</th><th>Sunset date</th></tr>
<tr><td>Great Wall Asset Management</td><td rowspan="4">- Not mutual funds;
- Original mission, NPL
- initial capital was RMB 10 billion
- under CBRC
- specialized in different areas</td><td rowspan="4">1999</td><td rowspan="4">State Council executive order in 2000</td><td rowspan="4">Restructuring: -rapid asset disposal</td><td rowspan="4">10 years</td></tr>
<tr><td>Orient Asset Management</td></tr>
<tr><td>Cinda Asset Management</td></tr>
<tr><td>Huarong Asset Management</td></tr>
</table>

Source: Author, based on Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)[4]

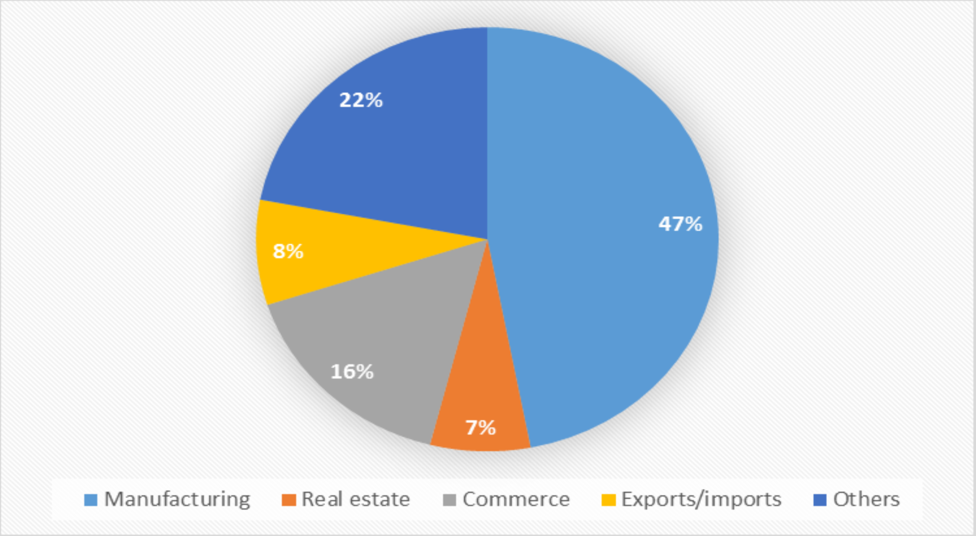
At the beginning, the four AMCs were reporting on a monthly basis to the Ministry of Finance and The People's Bank of China (PBOC). The PBOC also conducted regular inspections of the AMCs. However, after establishing the China Banking Regulatory Commission (CBRC) in 2003, it took over the supervisory responsibilities of AMCs from the PBOC. Moreover, since the AMCs are also licensed securities dealers, they are supervised by the China Securities Regulatory Commission (CSRC) as well (Ma & Fung, 2002)[5]. Compared to some other East Asian countries, e.g. Korea, Malaysia, where the centralized AMC system was established, China decided to set up separate AMCs to resolve the NPL problems for each of the big four state-owned banks. The reason for such an approach was the fact, that the big four Chinese banks held nearly 70% of the market share in China. Moreover, they specialized in different areas. Obviously, to deal with such loans an AMC needed different approaches and sets of skill than the one dealing with banks that concentrate on industrial loans to large state-owned companies. In addition, having four different AMCs encourages competition among them.

Furthermore, the assets received by AMCs came from different sectors. The figure 1 below shows us the transferred assets to AMCs by sector. A closer look to the graph reveals that transferred assets in China are more concentrated in the manufacturing sector.

[4] B. Fung, J. George, S. Hohl & G. Ma, *Op.cit,* p.15

[5] G. Ma and B. Fung, "China's asset management corporations", *in BIS Working Papers*, n° 115, 2002, p.15

Figure 1: Sectoral distribution of transferred assets (total book value = 100%)



Source: *Author, using data from Ben Fung, Jason George, Stefan Hohl and Guonan Ma (2004)*[6]

*** China Great Wall Asset Management Corporation (CGWAMC)**

CGWAMC specializes in acquiring, managing and disposing non-performing assets originating from state-owned commercial banks, in the pursuit of minimizing financial risks, deepening the reform of the financial system and sharpening the competitive edge of state-owned commercial banks in the international market[7].

The methods used by the CGWAMC to recover value of NPLs:

- debt collection
- asset exchange and leasing
- asset assignment and sale
- debt restructuring & enterprises reorganization
- debt to equity swap and asset securitization

*** China Orient Asset Management Corporation (COAMC)**

Over past years, COAMC has played an important role in many areas, including NPLs management and disposition, debt to equity swap, entrustment of risky financial institutions[8], etc.

[6] B. Fung, J. George, S. Hohl & G. Ma, "Op.cit", p.23
[7] China Great Wall Asset Management Corporation, 2011, Annual Report.
[8] China Orient Asset Management Corporation, 2011, Annual Report.

Recently, COAMC has commercially purchased 250 billion NPLs from CCB, ICBC and BOC. In addition, the company have taken 140-billion loss loans from BOC, entrusted by the Ministry of Finance. On December 18, 2006, COAMC issued the first asset backed securities in China, which named "Dongyuan No. 1" and based on NPLs in Liaoning Province. As a strategic investor, COAMC holds A-share stocks of ICBC and Bank of Communications, and has invested in shares of Jiangsu Bank. The book value of these investments has increased significantly (China Orient Asset Management Corporation, 2011). By the end of June 2007, COAMC had acquired 663.9 billion of NPLs and had conducted 167 debts to equity swap projects with a total amount of 30 billion yuan. Through debt to equity swap, the average debt to asset ratio of projects dropped by an estimated 20 to 30 percent, helping their financial burden significantly decreased. The effective work has made related national commercial banks' bad loan ratio dropped significantly and supported the national commercial banks' restructuring.

*** Cinda Asset Management Corporation (CAMC)**

Cinda is responsible mainly for purchasing NPL from CCB.

It uses various methods to maximize the value of them and reducing losses, such as[9]**:**

- debt collection
- foreclosure
- resale
- Conversion of debt into equity, restructuring and securitization.

*** Huarong Asset Management Corporation (HAMC)**

The business scope of China Huarong Asset Management Corporation[10]:

- To acquire and manage NPLs from banks and other financial institutions, including acquisition of NPLs on a commercial basis
- Debt collection
- Asset leasing, transfer and restructuring
- Debt-equity swap and temporary shareholding

II. THE IMPACT OF MARKET FORCES ON THE COMPANIES

It is perhaps necessary to note that no company operates without being affected by external market forces to some varying degrees. As such this part will focus on models that are based on the insight that a corporate strategy should meet the opportunities and threats in the organization's external

[9] China Cinda Asset Management Corporation, 2011, Annual Report.
[10] China Huarong Asset Management Corporation, 2011, Annual Report.

environment. As one must clearly be aware that competitive strategy should be based on an understanding of industrial structures and the way they change in order for the business to remain as a going concern into the future. As such we found it prudent to analyse these potential macroeconomic factors through the usage of PESTEL Analysis and Porter's Five Forces Analysis.

2.1. PESTEL analysis of China big four AMC`S

Political

- The legislative impact on the industry is arguably subject to a significant amount of government interference.
- Political stability affects the big four AMC`S as deleveraging and structural adjustments can have negative consequences.
- Bureaucracy and interference of government towards the AMC`S can result in AMCs doing political prudent activities as opposed to business prudent activities.

Economical

- The credit bubble in China's housing market is continuing to develop.
- Economic growth rate is slowing and shifting to consumption as opposed to net exports as previous.
- Business cycle stages towards products of the AMC`S
- Exchange rate and stability of the country.

Social

- Cultural norms of the Chinese people are to be net savers
- Educational level as well as educational standards regarding the AMC`S
- Knowledge gap about the important of AMC`S

Technological

- The development and shifting trends of fin-tech
- Support research and development activities by government
- High technological development in products of the AMC`S
- High rate of technological diffusion among the AMC`S

Environmental

- The industry's commitment to reducing paper usage
- To utilize power saving technologies

Legal

New regulations for Asset Management Companies:

- The aim is to restrain banks from moving their assets and liabilities off the balance sheet, in an effort to curb the expansion of shadow banking.
- To apply unified, controlled supervision for similar asset management products. For example, to set up different debt levers based on different products.
- Removal of multi-tier, restriction on conduit operations.
- The transition period for new regulations has been extended to the end of 2020.
- China has decided to split monetary policy and banking regulation among separate institutions and as such there exist some regulatory overlaps and some regulatory vacuums.

2.2. Analyzing the five forces towards the big four AMC`s in China

2.2.1. Rivalry among the existing players

- It is strong with four major company occupying most of the market share with the rest of the market share being held by smaller Local AMCs.
- Note that among the four only two, which are being studied, are publicly listed, as such financial information on them are publicly analyzed.
- By continuing to innovate various financial products, and service them across their various business segments, they can achieve sustainable differentiation in the market from competitors.
- Informational complexity and asymmetry represent major cost obstacles to smaller companies.
- The rate of industry growth outlook looks promising especially for the core business model providing the massive surges in credit in the Chinese market used for speculation continues.

2.2.2. Threat of new entrants

- Entrance to the market is extremely difficult when looking at the initial capital requirements to operate, which must also be combined with the costs associated with meeting the necessary regulatory requirements.
- Rich Provinces can create new AMC, but this would only represent competition for the big four at the local level in the short to medium term.
- As the big four continue to develop economies of scope and implement various cost cutting measures, for example, automation which thus creates more efficiency and significantly reduces the window of extraordinary profits for the new firms thus discouraging new players in the industry.
- Business among the four big AMC`S are higher and no new local AMC`S will survive.
- For any of the new AMC`S, no matter their financial strength, product categories, logistics system, technology or talent advantages it is hard for them to catch up in a short time.

2.2.3. Bargaining power of suppliers

- While no single corporation or HNWI will affect an individual company, mass migration of them would be significant to affect the company.
- As the companies continue to focus on their various business segments this represents a backwards vertical integration of the company (countercyclical business cycles: other segments during boom years and its' core focus during recessionary periods.
- The supplier information availability bargaining leverage is minimal for its core business as suppliers seek to move NPLs off the books and reinvest the proceeds from them.
- Any of the four AMC`S has a relatively stable position in the market as it has many buyers of its products. Each individual buyer cannot become the supplier of important customers.
- The four big AMC`S can easily implement forward joint or integration, the buyer is very difficult to combine or integration.

2.2.4. Threat from substitute products

- No potential threats of substitutes exist in its core business of asset management of non-performing loans (NPLs)
- Its' other business segments are susceptible to the technology change and product innovation of competitors (financial innovation & engineering).
- In the other business segments, relative price performance of substitutes and low buyer switching costs, which thereby generates a level of product differentiation, can mean the migration of buyers and suppliers.
- The substitution competition also depends on switching cost of the buyers

III. METHODOLOGY, RESULTS AND DISCUSSION

The discussion of any company in general and a financial company in particular relies inevitably on the financial performance of the companies in acute detail. This, this part will provide an analysis on the companies' initial year of listing, analysing how the public listing affected the financial performance of the company and then utilizing ratio analysis to reasonable suggest what was the likelihood of the performance results.

3.1. Cinda Initial Year

On the first look at the books of Cinda, when it became public it gives us a look into the snapshot of the previous year's books of 2012 and from this we were able to adequately ascertain a sense of the financial health of the company at and after its public listing. This was done by basically looking at key year to year figures on the balance sheet and in terms of the Equity portion of the balance sheet we can generally assume that the proceeds received from the initial public offering enabled an increase in all holdings of the equity section of the balance sheet. The most notably of these were the capital reserve and the general reserve which both more than double from year to year. This can be assumed to be related to good corporate governance on the company's part in order to adequately mitigate risk management effectively as another alternative which is new regulatory impacts seems to be the unlikely factor. The assumption of this said notion can generally be supported by the fact that both the company's holding in surplus reserves and retained earnings increased suggesting a probability that the company found it prudent to strength its capital holdings for the next year for any operations it is under taking.

Furthermore, in terms of the liability portion of the balance sheet the total liabilities increased by around fifty percent, of that the paramount aspects here to pay critical attention to is how borrowings significantly increase by just over one hundred percent while at the same time both accounts payable and borrowings from central bank were reduced significantly. This as such will lead one to reasonably assume that the interest on these borrowings were much lower than interest payments on payables due to creditors and borrowings received from the central bank. So, the company utilized the borrowings to decrease these outstanding amounts respectively. Moreover, when looking at the change in the amount of placements from banks and financial institutions going from zero in the prior year to 10,477,000,000 RMB would lead one to reasonably assume that the company opened a new business segment after going public probably to realize better economies of scope in their business operations.

Lastly, in terms of the asset portion of the balance sheet, we found it crucial to note that on analysis while one can generate a certain uneasy when noting how both deposits with exchanges and a financial institution and even more so, and what would be in most cases worryingly, placements with banks and a financial institution fell sharply between the two-year period. This is perhaps in our analytical assumption no significant caused for great concern as the cash and bank balances holdings rose sharply by almost fifty percent from the previous year which in our assumption should provide much more than adequate mitigation against any potential liquidity concerns one may be likely to develop concerning the company. Moreover, it is exceptionally important to note that holdings of both financial assets classified as receivables and loans and advances to customers increased approximately by just over fifty percent and under fifty percent respectively. This can reasonably suggest that business operations increased substantively as these increases probably represent that the company increased its' amounts in distress asset purchases while respectively providing more credit service facilitation to its customers as well.

3.2. Huarong Initial Year:

On first looking at the books of Huarong, when it became public it gives us a look into the snapshot of the previous year books of 2014 and from this we were also able to adequately ascertain a sense of the financial health of the company at and after its public listing. This was done by basically looking at key year to year figures on the balance sheet. In terms of the Equity portion of the balance sheet, we can assume that the around fifty percent increase in both Capital reserve and General reserve was the result of using funds raised from the public offering in order to increase capital adequacy within the company. Whether this was due to regulatory measures impacting the company or the company's own due diligence in respect to its risk management exposure approach we are unable to determine at this time. However, this may very well be unlikely the case, as such a scenario would see the rise in one specified reserve while others will remain stagnant and even in some cases decrease but as all reserves rose and so considerable as well, we are only thus left to assume that Corporate Governance played a critical role in it.

Moreover on glancing at the liability portion of the balance sheet from year to year from the first public disclosure, we can reasonably assume that the initial public offering resulted in a reduction of borrowings from the central bank by approximately one fourths, moving from 80,000,000 RMB in 2014 to 20,000,000 RMB in 2015 which one can, thus, assume was due to the likely usage of the new capital raised, which significantly reduced the dependence on central bank borrowing to finance operations, in particular liquidity or working capital operations in general. Also, we see what one can describe as a significant increase in long term or non-current liabilities such as borrowings and especially bonds & notes issued between the two-year period, which can therefore reasonably imply that after listing and subsequently raising capital, lenders are assumed to be even more confident and optimistic in the viability of the company in the medium to long term. Therefore, implying that once interest on these debts are held constant within a reasonable and not usurious amount, the company can significantly increase its operations through the financing of activities where interest received from operations are greater than the interest, which is needed for servicing these debts.

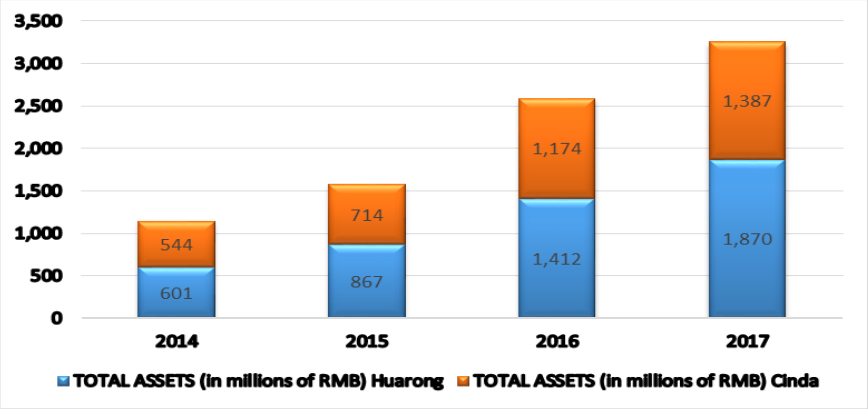
Furthermore, in terms of the asset section of the balance sheet we can clearly see the sharp increase in assets from year to year with an almost forty-five percent increase in the total asset value moving from 600,521,142,000 RMB to 866,546,418,000 RMB. These figures and changes are insignificant if standing alone as an increase in these can generally be resulted from a mere change in valuing assets or the increase in the market value of a particular fixed asset. However, as such if we were to look much more deeply into them we can clearly see that across the board, there was an increase in all assets with the exception of cash and balances with the central bank and placements with financial institutions. The decrease in both of these holdings should really be of little to no concern for any potential investor or market analyst as the decrease in both these holdings, which would generally raise a liquidity concern in almost all cases. But in this instance, it can be reasonably generally assumed to be adequately mitigated against due to the substantial increase in deposits with financial institutions which increase, significantly out-weighted the reduction in both the previously noted asset holdings. More so, our previously held assumption that the capital injection received from the public listing couple with those portions received from long term liabilities have significantly expanded the business operation can be assumed to be held true as the company's holdings in assets such as interests in associates and joint ventures and Financial assets classified as receivables exponentially increased, which suggests that the previously stated capital injection was able to increase the company's holdings in probably other companies as well as increase their core business in the purchasing of more distress assets, i.e. non-performing loans.

3.3. Yearly Ratio Analysis

Although generally speaking, we would prefer to compare yearly ratios to an industry standard in a best-case scenario; however, due mainly in part to the unavailability of such data as previously mentioned we are indeed forced to look at a comparison between the two companies on a yearly basis. As such we look at key ratios, in areas to measure such as leverage, liquidity, valuation, and profitability in order to better ascertain the performance of the entities.

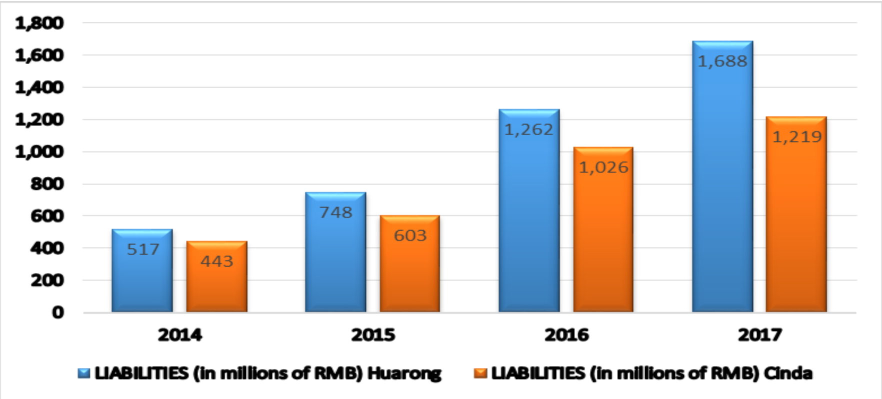
Firstly, when glancing at total assets, total liabilities, and net income over the period of both companies, we can see the degree in change of both companies as it pertains to these key factors which relates to the financial performance. The figures below graphically depict the changes in these three factors as such:

Figure 2: Trend of Assets of two Assets Management Companies



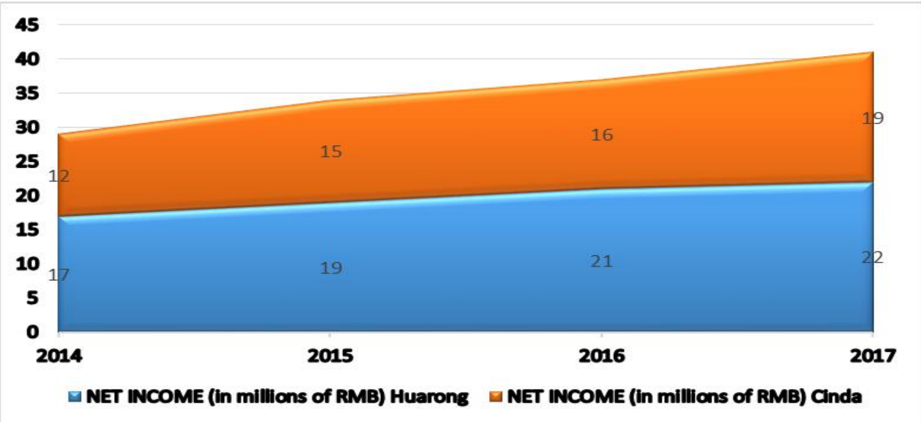
Source: Author, using financial data

Figure 3: Trend of liabilities of two Assets Management Companies



Source: Author, using data from annual reports

Figure 4: Trend of Net Income between two Assets Management Companies

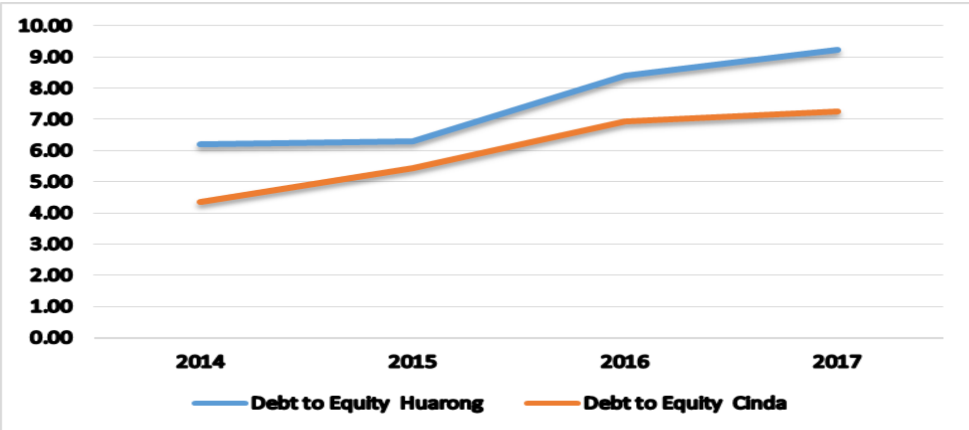


Source: Author, using financial reports

However, it is perhaps of critical importance to note that none of the above graphs should be taken individually as a whole, as there are several mitigating factors which affect each one individually.

In terms of leverage, when looking at the companies utilizing a debt to equity ratio, we must first be knowledgeable to the fact that financial institutions are very highly leveraged firms. After such, it is only then that we can adequately take a look at analysing this ratio. In the year 2014, there is a vast difference in the two companies with figures suggesting that Huarong utilizes more debt financing than equity financing when compared to Cinda which can imply either the fact that Huarong is overleveraged or that Cinda is not operated utilizing optimal financing. When we continue to move along the years to present, we can see year by year increases which thereby suggest that both companies are financing more and more of their activities through debt and less so through equity which should generate some degree of cause for concern. More so is the fact that by 2017 these ratios were so high especially in Huarong case that any potential down swings in the market value of any assets they are holding would have a strong potential likelihood to generate disastrous consequences for the company while in Cinda's case even though it increased significantly as well, it's equity one can assume with a fairly reasonable amount of certainty should be enough to cover any small down swings in the market value of its assets. The figure below graphically depicts the debt to equity amounts of both companies over the period.

Figure 5: Trend of leverage ratio between two companies

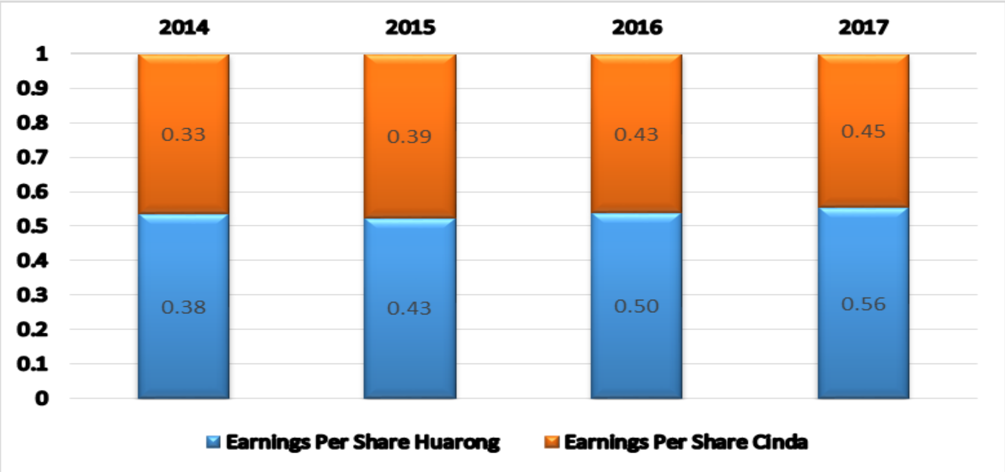


Source: *Author, using annual reports of companies*

When looking at the liquidity in terms of the business operations, both companies appear to be consistently maintaining what one can fairly suggest to be a healthy position over the course of all the periods as foregoing no major volatilities or shocks, short term assets can very much easily cover all short-term liabilities if the need presents itself. Therefore, one can adequately generate an assumption that liquidity risk is very well managed against over the periods.

Moreover, we can assume the valuation of both companies would be quite similar when taking their earnings per share into consideration as over the course of the period in focus the earning per share had a continuous increase year to year which one can clearly assume to be an increase in profits. however, one must also take into consideration the possibility that the companies could also have decreased their retained earnings in order to finance the distribution of more dividend amounts or utilize debt to pay dividends, both of which can be detrimental to the company in the medium to long term. The figure below shows the amounts which earnings per share stood at over the period.

Figure 6: Trend of earnings per share of the companies



Source: *Author, using data from financial reports*

As to the ratios concerning efficiency and profitability, we took a look at return on equity, return on debt, return on assets, and net income margin. In looking at the return on equity, one can see a difference between the two companies over the period which one can arguably suggest is due to the way in which both companies are financing their operations. This can roughly, at a glance, be assumed to be due to the degree of debt which both companies utilize in order to finance their operations with a high debt amount concurrently implying a low equity amount which would spread any returns over a smaller amount. The return on debt can reasonably generate a deal of concern to any onlookers as, over the period for both companies one can see a decrease from the initial year to 2017 which as mentioned before can be reasonable cause for concern as this probably would suggest than while debt over the period is increasing, the returns the companies are generating are not by either the same amount or a higher amount than the debt increasing amounts. In the case of return on assets, for both companies over the period one can see a decrease which reasonably suggests that the assets are either generating lesser returns probably due to management inefficiency or assets are at a higher price than they were in previous years probably due to competition in acquiring them which arguably suggests that a diminishing return is occurring as the companies are requiring more assets in order to generate the same returns of previous years. As pertaining to net income margin for both companies, this over the period decreased, which will thus generally lead one to believe that either debt financing is affecting overall profitability of both companies or the companies possess some inefficiencies within their operations which results in increased operational expenses and thereby driving down overall profits as a direct subsequent result of it.

IV. CONCLUSION AND THE FUTURE OUTLOOK

To any casual onlooker at China's economy over the last few decades, it is undoubtedly a continuously rapid dynamically changing environment in which companies must continuously adequately adapt to change from present and developing external issues in order to continue to survive. As such when looking at what the future of the AMCs in China holds, one is simply forced to look at China's economy as a whole in general in order to adequately assess what external forces at present are guiding AMCs on a path towards. Therefore, as such one is perhaps forced to speak about the present forces such as structural change, deleveraging, and related government policy implications primarily shadow banking on this specific sector and the industries in which this sector has linkages with.

In terms of structural change, it is undoubtedly clear in China's case "that enhance internal dynamism and unleashing the potential of domestic demand, so as to ensure that the national economy develops steadily within an appropriate range and the annual target for national economic and social development can be achieved"[11]. This therefore represents a significant shift away from relying on net exports as successfully done in the past for Gross Domestic Product (GDP) growth and leaning more and more towards the consumption portion for GDP growth[12]. This notion can be perhaps best supported by the fact that recent November 2018 data released by China's government Statistics Bureau valued the total of exports to be 1,490.7 billion yuan, up by 20.1 percent, while the value of the total imports stood at 1,257.1 billion yuan, representing an increase of 26.3 percent. This subsequently led

[11] The notion quoted here is taken from http://www.stats.gov.cn/english/PressRelease/201811/t20181114_1633345.html in its discussion on "The Supply-Side Structural Reform Made New Progress"

[12] This sentiment is similarly echoed in the 2017 Annual Report for Huarong in the Management Discussion and Analysis section.

to the trade balance which stood at 233.6 billion yuan in surplus, to be down by 5.0 percent when compared with that of the same period last year[13]. This shift can likely be viewed as great for AMCs as more domestic consumption would likely mean more credit financing and it is inevitable that some portion of the credit financing will result in becoming non-performing loans (NPL) which thus means more business for AMCs.

Moreover, where significant pause for concern should be noted is in the recent focus on deleveraging especially as it pertains to financial institutions, there is perhaps no widely held secret to even a most causual onlooker as to the degree of how much these companies are highly leverage, as was concisely depicted earlier in the part 4 section of the paper. As such if economic theory is to hold truthful, then this will indefinitely result in significant troublesome challenges for the AMCs as they rely very heavily on debt to finance their operations, as mentioned previously and trying to make them grow while simultaneously asking them to either pay down debt amounts, find additional equity amounts which is especially difficult when earnings per share of the last few years have increased but still remained agruably flat while recent information pertaining to Huarong indicates that "the share price has slipped in the wake of the CEO being under investigation"[14], or a combination of both simultaneously paying down debt and securing equity investments which is arguably extremely difficutly to say the least.

Moreover, other related government policy implications which are significantly likely to impact the AMCs such as the fact that recently Shadow Banking has arguably been targeted by the government in recent years, which one can argue is of significant importance because this sector, even though financing at higher interest rates than traditional lending does, provides the much needed critical credit facilitation to enterprises allowing financing to flow where it is absolutely needed and due to the difficulty in acquiring data relating to Shadow Banking one can only assume that AMCs are at some level involved in this area.

Finally, in conclusion, one must clearly note that there exist several macroeconomic challenges facing the AMCs into the future, these were simply a few mentioned here. however, with their significant importance to the economy with the role they play, their adaptability to continuously innovate utilising economies of scope to create different business segments to

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[13] These figures stated here were taken from http://www.stats.gov.cn/english/PressRelease/201811/t20181114_1633345.html in its discussion on "The Growth of Import and Export Continued to Accelerate"

[14] This information is acquired from the present news media, such as https://www.reuters.com/article/us-china-huarong-probe/china-huarong-confirms-chairman-departs-after-probe-shares-tumble-idUSKBN1HQ3B6 and https://www.businesstimes.com.sg/banking-finance/political-risk-creeps-into-chinas-very-bad-bank

run counter-cyclical to their core business segment and in so doing gaining greater economies of scale, and lastly being arguably backed by the government as they can reasonably expect either a bailout or cash injection from government in times of facing severe economic challenges. Thus, given these stated factors one can therefore reasonably expect the long-term outlook for these companies in specific, the sector in general, and China's economy as a whole to be fairly optimistic because even though the financial cliché which suggests that past performance is not necessary an indicator of future performance in some cases are true. One can reasonably expect both the sector and China's economy to simply successfully progress past any issues it is facing in the short to medium term as arguably express by some rating agencies[15].

[15] The short to medium term outlook is supported by Moody's which in late 2018 categorized China's outlook to be stable, noting that high economy leverage and de-risking was slow to reduce and starting to weigh on investments. This is also couple with the present ongoing trade dispute between China and the US. See, https://www.moodys.com/research/Moodys-China-banking-system-outlook-stable-but-high-economy-wide--PR_389416

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