

# Research Report on Chinese Trust Industry, 2010-2011

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## Abstracts

Trust refers to the economic behavior that the trustee accepts clients' commission to manage or deal with property and economic affairs according to the clients' intention defined in the agreements or contracts and works in the interests of beneficiaries. Trust investment company is a kind of financial institution managing finances for others as a trustee.

In 2004, the scale of trust assets in China was only CNY 149.80 billion. In 2009, the scale rose by over 30% YOY, reaching 1,897.40 billion. With the accelerated increase in the scale of trust assets in China, its proportion in GDP is also enlarging. In 2004, the scale of trust assets only accounted for 1.1% of the GDP. In 2009, it rose to 5.7%. This suggests that Chinese trust industry enjoyed faster development than GDP in the past few years.

In 2006, Chinese trust industry earned the profit of CNY 3.90 billion. It acquired over twofold growth to reach 12.20 billion in 2009, and the profit per capita exceeded CNY 2 million. Furthermore, the proportion of commission charge of the industry in the total business revenue exceeded 50% for the first time. It indicates that the profit source and revenue structure of trust companies become more proper, the trust business is enhanced progressively and the sustainable profit-making mode tends to be mature and stable. Besides some short-term investment, the long-term shareholding investment of trust companies in some financial institutions also plays an increasingly important role, generating good and stable returns for trust companies.

After the reform of the trust industry in 2007, the function position and market value of trust companies are gradually recognized by the society. Domestic and overseas strategic investors' inclination to invest in trust companies is enhanced obviously. By

the end of 2009, seven foreign-funded financial institutions and a group of domestic notable enterprises (e.g. COFCO, China Huaneng Group, CNPC, Bank of Communications and China Construction Bank) became shareholders of trust companies. In 2008, during the outbreak of the global financial crisis and the slump of the domestic capital market, such financial institutions as securities companies, fund companies and banks all suffered criticisms on their financial products. In comparison, trust companies were under stable operation with their products being widely favored.

With the return to main business and the implementation of new rules on trust, the bond function of Chinese trust companies connecting the industrial market, money market and capital market will be fully displayed. This will enable the trust industry to acquire better development prospects. The status of the trust industry in the national economy will be further raised.

In 2009, 49 trust companies in China issued 1,172 assembled trust products and the establishment scale was about CNY 131.26 billion. The total scale of Top 10 companies was CNY 71.01 billion, accounting for 55.3% of the total scale of all trust companies. This reflects the high concentration of the industry. However, the CR10 dropped by 12% compared with the 67.31% in 2008.

In 2009, M&A events occurred frequently in Chinese trust industry. Large institutions tried to be the first to carry out the M&A in the industry. In previous three quarters of 2010, the operating revenue of Chinese trust industry amounted to CNY 10.94 billion. Among that, the interest balance was CNY 1.53 billion, accounting for 14% of the total revenue; the trust business revenue came to CNY 5.83 billion, taking up 53.3% of the total; the investment revenue was CNY 3.12 billion, taking up 28.5% of the total revenue. The scale of trust assets was CNY 2,957 billion and the profit was CNY 7.60 billion.

Though Chinese trust industry only has a history of three decades, it has experienced six governmental regulations. The volume of trust companies in China has been reduced from over 1,000 in the peak period to over 50 in 2010. With the execution of the sixth rectification, the polarization in Chinese trust industry will become more prominent. Strong trust companies will become stronger while weak ones will be confronted with the risk of elimination.

With the implementation of new policies on trust in 2007, the competition situation among trust companies in China experienced great changes: some large competitive trust companies directly changed new license plates and began to operate multiple

innovation businesses of high added-value; however, most local companies and some companies in the transitional period due to various problems were faced with declining market shares and even the risk of elimination. With the operation of cross-regional business and the expectation of policy permission for trust companies to establish cross-regional branches, the trend of “the strong get stronger and the weak get weaker” in the trust industry is likely to be intensified.

On the whole, the concentration ratio of Chinese trust industry will be further improved after the reorganization. With the incessant growth of the market demand, competitive enterprises will achieve explosive growth in their scale and business. By contrast, companies with weak capital strength will be forced to exit the market or merged by strong companies. This can be demonstrated by the frequent asset reorganization in Chinese trust industry in 2009-2010.

In the present financial system of China, trust company is the only financial institution that can span the monetary, capital and direct investment markets. Trust companies have complete investment channels and flexible institutions that commercial banks, securities companies and fund management companies do not possess. Judging from the future demand, Chinese trust industry has bright development prospects. However, the trust industry is after all on the threshold in China, so it is still faced with high risks.

**Through this report, readers can acquire more information:**

Status quo of Chinese trust industry

Economic and policy environment faced by Chinese trust industry

Competition in Chinese trust industry

Development of Chinese trust industry by region

Analysis of major enterprises in Chinese trust industry

Development of major trust products in China

Factors affecting the development of Chinese trust industry

Prediction on development of Chinese trust industry

## Prediction on investment opportunities in Chinese trust industry

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