

Enquiry on : SAMPLE  
 Xrd Floor, Unit X, No .00,  
 Nanxiang Roda Kexue City,  
 Huangpu Distinction, Guangzhou,  
 510663 Guangdong,  
 China, CN

Report Date : November 19, 20XX

**REPORT ON :** **SAMPLE Co., Ltd.**  
**(广州市黄埔乐天实业有限公司)**  
 Shop 111, No. 00 Compound, No. 01 SAMPLe Road,  
 SAMPLe District,  
 Guangzhou,  
 Guangdong, 00000  
 China

X/F, Block X, No. 11 Nanxiang Xrd Road, City,  
 Huangpu District, Guangzhou,  
 Guangdong, 510000  
 China

**Note :** The provided English name is incomplete; Subjects English name is “SAMPLE Co., Ltd.”.

**Score: 6 (out of 10)**

Score Explanation: It is a financial rating which assesses the probability of companies defaulting within one year.

The assessments are presented over ten distinct positions, each reflecting an average default rate in the coming year: the lower a company’s credit score is, the riskier its situation is; the higher its score is, the less risky its situation is.

**Different levels and description:**

| Default | Very high risk |   |   | Medium high risk |   | Low risk |   |   |   |    |
|---------|----------------|---|---|------------------|---|----------|---|---|---|----|
| 0       | 1              | 2 | 3 | 4                | 5 | 6        | 7 | 8 | 9 | 10 |

**0:** Insolvency/preliminary/debt regulation proceedings

**1:** Extremely high risk of insolvency

**2:** Very high risk of insolvency

**3:** High risk

**4:** Significant risk

**5:** Medium high risk

**6**: Acceptable risk

**7**: Moderate risk

**8**: Low risk

**9**: Very low risk

**10**: Excellent risk

## CREDIT RECOMMENDATION WITHOUT OBLIGATION

**Recommended maximum credit: CNY 1,140,000.00**

### SUMMARY:

|                    |   |
|--------------------|---|
| Founded            | 1999  |
| Legal form         | Limited liability company   |
| Registration date  | January 04, 19XX  |
| Activity           | Wholesale of chemical products (excluding hazardous chemicals); wholesale of rubber products; wholesale of resin and resin products; wholesale of hardware products; import and export of goods (excluding monopolized commodities); wholesale trade of commodities (excluding commodities subject to licensing); retail of hardware; retail of lubricants; retail of resin and resin products; retail trade of commodities (excluding commodities subject to licensing). Except for batch commodities; retail sales of chemical products (excluding hazardous chemicals); paint manufacturing (excluding monitored chemicals and hazardous chemicals); manufacturing of special chemicals (excluding monitored chemicals and hazardous chemicals); manufacturing of other metal processing machinery; processing of mechanical parts; manufacturing of special equipment for rubber processing; special for electronic industry Equipment manufacturing; Mechanical equipment leasing; Engineering and technical research and test development; Electronic product design services; Trade advisory services; Centrifuge and separator manufacturing; |
| Staff              | 121   |
| Registered capital | 30,000,000  |
| Paid-up capital    | 30,000,000 (Provided by Subject)  |
| Annual revenue     | 451,070,000 (Year 2017)   |
| Net Asset          | 50,710,000 (As of December 31, 2017)  |
| Payments           | No complaints   |
| Litigation record  | Clear   |

All figures are shown in CNY unless otherwise stated.

## IDENTIFICATION

|                    |   |
|--------------------|---|
| Company Name       | SAMPLE Co., Ltd.  |
| Business Address   | <p>Xrd Floor, Unit X, No .00,<br/>Nanxiang Roda Kexue City,<br/>Huangpu Distinction, Guangzhou,<br/>510663 Guangdong,<br/>China, CN</p> <p><b>SAMPLE Co., Ltd.</b><br/><b>(广州市黄埔乐天实业有限公司)</b><br/>Shop 111, No. 00 Compound, No. 01 SAMPLE Road,<br/>SAMPLE District,<br/>Guangzhou,<br/>Guangdong, 00000<br/>China</p> |
| Telephone          | 0086-20-66000000  |
| Fax                | 0086-20-66000000  |
| Email              | cs@SAMPLE.cn  |
| Website            | www.SAMPLE.cn   |
| Registered Address | <p>Shop XXX, No. XX Compound, No. XX Lixiang Road,<br/>Huangpu District,<br/>SAMPLE,<br/>Guangdong,<br/>China<br/>(中国广41号大院45号102辅位)</p>  |

## **LEGAL FORM**

Subject is established as Limited Liability Company on January 04, 1999.

|  |   |
|--|---|
| Registry   | Market Supervision Administration of Guangzhou Municipality<br>Huangpu District |
| Business Registration No.<br>/ Unified Social Credit<br>Code | 91440XXXXXX   |
| Operation Period   | Long-term   |

## **NATURE OF BUSINESS**

Engaged in assembly of low pressure injection molding equipment and sales of adhesives

Industry code

3523, Plastics processing equipment manufacturing

5160, Minerals, building materials and chemical products wholesale

SIC code

5100, Wholesale Trade-non-durable Goods

## **CAPITAL**

Registered capital : 30,000,000

## **REGISTERED CAPITAL ADJUSTMENT**

In July 2013, Subject's registered capital rises from 1,000,000 to 6,000,000.

In October 2016, Subject's registered capital rises from 6,000,000 to 30,000,000.

## **SHAREHOLDER**

Before October 2016

| Name       | Investment | % Ownership |
|------------|------------|-------------|
| GUO SAMPLE | 3,600,000  | 60%         |
| LUO SAMPLE | 2,400,000  | 40%         |
| Total      | 6,000,000  | 100%        |

After October 2016

| Name       | Investment | % Ownership |
|------------|------------|-------------|
| GUO SAMPLE | 18,000,000 | 60%         |
| LUO SAMPLE | 12,000,000 | 40%         |
| Total      | 30,000,000 | 100%        |

Note: The above information about shareholder(s) is sourced from the industry and Commerce authorities.

## **DIRECTORS**

|                      |  |
|----------------------|--|
| Legal Representative | CHEN SAMPLE Executive Director and General Manager |
|----------------------|--|

## **MANAGEMENT**

Executive Director and General Manager

|                     |  |
|---------------------|--|
| Name                | CHEN SAMPLE  |
| Gender              | Male   |
| Education           | University education   |
| Responsibility      | Overall management   |
| Brief CV            | Works in Subject for long and as Executive Director and General Manager since June 2017 in charge of overall management. |
| Reason of Promotion | Appointed by the shareholder   |
| Delinquent Record   | None reported  |

Board Member

N/A

## **HISTORY**

Subject is a private limited liability company in Guangzhou. It was registered with Guangzhou Municipal Administration for Industry and Commerce Huangpu District Sub-bureau (now renamed as Market Supervision Administration of Guangzhou Municipality Huangpu District) on January 4, 1999 with its initial registration No. of "440112000000".

In March 2002, Subject set up (SAMPLE Co., Ltd. Tianhe Business Department, transliteration)有限公司天河营业部 (revoked in September 2005)

In July 2010, according to Coding Rules of Registration Number for Industry and Commerce, Subject's registration number was changed from "44011000000" into "440112000000".

In May 2012, Subject set up (SAMPLE Co., Ltd. Science City Branch, transliteration) 公司科学城分公司

In March 2016, according to Encoding Rules of Legal Person and Other Organizations of Social Credit Code, Subject's registration number was changed into unified social credit code of "914401127000000".

## **FORMER NAME**

None

## **ACTIVITY**

Subject is a private business enterprise engaged in the sales of adhesives, mainly engaged in fast-drying adhesives, PUR adhesives, UV adhesives, epoxy adhesives, silica gel, anaerobic adhesives, hot melt adhesives, surface treatment agents, liquid thread sealants, and solid thread locking rods, liquid thread locking agents and so on. After years of operation and development, Subject has become the agent distributor of SAMPLE (China) Co., Ltd. (有限公司). In terms of sales channels, it has won the tender of (Guangzhou Railway Vehicle Co Ltd., transliteration) 广州铁道车辆有限公司, (SAMPLE Depot, transliteration) 广州机务段 and other enterprises and institutions. In addition, in May 2012, Subject established (SAMPLE Co., Ltd. Science City Branch, transliteration) 限公司科学城分公司, adding low-pressure injection molding equipment, dispensing equipment, UV Ultraviolet rays curing equipment and other processing equipment assembly, sales business, so that it has further improved business structure. And it can provide customers with coating agent services. With the continuous expansion of sales channels, Subject's business income has been steadily improved in recent years, and the business situation at this stage is rather stable.

## **Purchase**

|                    |  |
|--------------------|--|
| Products/Materials | Quick-drying adhesives, PUR adhesives, UV adhesives, epoxy adhesives, silica gels, anaerobic adhesives, hot melt adhesives, surface treatment agents, liquid thread sealants, solid thread locking rods, liquid thread locking agents and other chemical materials, as well as separation nozzles, circuit boards, electronic wiring harnesses, mechanical components, component fluid equipment, etc. |
| Purchase Region    | Domestic: Shandong, Jiangsu, etc.<br>Overseas: US, Taiwan, etc.  |
| Main Supplier      | Domestic: SAMPLE (China) Co., Ltd. (有限公司), (Graco Fluid Equipment (Suzhou) Co., Ltd., transliteration) 体设备 (苏州) 有限公司, etc.<br>Overseas: Mechanical parts suppliers in USA, Taiwan, etc.  |
| Payment Terms      | Domestic: payment as per contract<br>Overseas: T/T   |

## **Market**

|          |  |
|----------|--|
| Products | Quick-drying adhesives, PUR adhesives, UV adhesives, epoxy |
|----------|--|

|                 |   |
|-----------------|---|
|                 | adhesives, silica adhesives, anaerobic adhesives, hot melt adhesives, surface treatment agents, liquid thread sealants, solid thread locking rods, liquid thread locking agents and other chemical materials, as well as low-pressure injection molding equipment, dispensing equipment, UV ultraviolet curing equipment and other equipment. |
| Sales Territory | Domestic: Guangdong, Jiangsu, Sichuan, etc.<br>Overseas: Canada, the United States, Hongkong, etc.  |
| Main Customers  | Domestic: (Technology Co., Ltd., transliteration)有限公司, (SAMPLE Vehicle Co Ltd., transliteration)道车辆有限公司, (SAMPLE Depot, transliteration) 广州机务段, etc. institution<br>Overseas: Canada, QUANTUM (2007) LLC (US) , Buyers of adhesive equipment in Hongkong, ETC.  |
| Sale Terms      | Domestic: 30-90 days credit, payment as per bidding contract, internal transaction (settlement on terms)<br>Overseas: T/T, L/C  |

### Customs Registration

|                           |                                 |
|---------------------------|---------------------------------|
| Import & Export License   | Yes                             |
| Customs Registration Code | 4401900000                      |
| Customs                   | Guangzhou Huangpu Customs       |
| Expiration Date           | February 03, 20XX-July 31, 20XX |
| Customs Credit Rating     | General credit enterprise       |

### Import/Export Countries (Regions) (USD)

| Import (2017)         |           |            | Export (2017) |         |            |
|-----------------------|-----------|------------|---------------|---------|------------|
| Country               | Amount    | Proportion | Country       | Amount  | Proportion |
| Taiwan                | 1,339,544 | 41.68%     | Hong Kong     | 369,249 | 64.16%     |
| China Free Trade Zone | 1,224,311 | 38.1%      | Canada        | 204,286 | 35.49%     |
| USA                   | 394,329   | 12.27%     | USA           | 2,000   | 0.35%      |
| Others                | 255,322   | 7.95%      | ---           | ---     | ---        |
| Total                 | 3,213,506 | 100%       | Total         | 575,535 | 100%       |

### Import/Export Commodities (USD)

| Import (2017) |           |            | Export (2017) |         |            |
|---------------|-----------|------------|---------------|---------|------------|
| HS Code       | Amount    | Proportion | HS Code       | Amount  | Proportion |
| 84248999      | 1,261,667 | 39.26%     | 84798999      | 295,177 | 51.3%      |
| 38249999      | 825,160   | 25.68%     | 90328990      | 74,072  | 12.9%      |
| 84249090      | 639,555   | 19.9%      | 84771010      | 52,000  | 9%         |
| Others        | 487,124   | 15.16%     | Others        | 154,286 | 26.8%      |
| Total         | 3,213,506 | 100%       | Total         | 575,535 | 100%       |

### HS Code Comment

| HS Code  | Commodity  |
|----------|--|
| 38249999 | N/A  |
| 84248999 | Separated nozzles                                  |
| 84249090 | Other parts for spray equipment and steam turbine. |
| 84771010 | working plastics machines                          |
| 84798999 | N/A  |
| 90328990 | N/A  |

## **Plans & Strategies**

Subject has no significant plan for the time being.

## **PREMISES**

|                       |   |
|-----------------------|---|
| Business address      | X/F, Block C, No. XX Nanxiang X <sup>rd</sup> Road, City, District, Guangzhou, SAMPLE, China<br>(广州市翔三路48号C座三楼) |
| Location              | Industrial zone   |
| Floor Area            | 4,300 sq. m.  |
| Ownership of Premises | Leased  |

\*In the People's Republic of China, all lands are owned by the state.

|                       |  |
|-----------------------|--|
| Business address      | Shop XXX, No. XX Compound, No. XX SAMPLE Road, District, SAMPLE, Guangdong, China<br>(45号102铺) |
| Location              | Downtown   |
| Floor Area            | 160 sq. m.   |
| Ownership of Premises | Leased   |

\*In the People's Republic of China, all lands are owned by the state.

## **STAFF**

|                 |         |
|-----------------|---------|
| Total Full-time | 121     |
| Include:        |         |
| Management      | 12      |
| Production      | 34      |
| Sales           | 36      |
| Technician      | 17      |
| Financial       | 9       |
| Others          | 13      |
| Quality         | Average |
| Efficiency      | Average |
| Number          | Stable  |

## **PARENT COMPANY & SUBSIDIARY**

N/A

## **AFFILIATES**

| Name  | Registered Capital | Ownerships % |
|---|--------------------|--------------|
| (Industrial Co., Ltd., transliteration) 基实业有限公司 | 5,000,000          | 100%         |

## **BRANCH**

(SAMPLE Co., Ltd. Science City Branch, transliteration) 业有限公司科学城分公司

## **RELATED COMPANIES**

(Electronics Industry Co., Ltd., transliteration) 东莞业有限公司

(Science & Technology Co., Ltd., transliteration) 成都有限公司

## **FINANCE**

|                |                                     |
|----------------|-------------------------------------|
| Annual Revenue | 451,070,000(Year 2017)              |
| Net Assets     | 50,710,000(As of December 31, 2017) |

| <b>Balance Sheet ('000)</b>       | <b>12/31/2016</b> | <b>12/31/2017</b> |
|-----------------------------------|-------------------|-------------------|
| Current assets                    | 179,011           | 229,783           |
| Including: Cash & Bank            | 8,968             | 21,386            |
| Financial assets held for trading | 33,000            | 8,000             |
| Notes receivable                  | 0                 | 0                 |
| Accounts receivable               | 121,247           | 170,175           |
| Other accounts receivable         | 8,183             | 191               |
| Payment in advance                | 0                 | 0                 |
| Inventories                       | 7,613             | 30,031            |
| Other current assets              | 0                 | 0                 |
| Total fixed assets                | 795               | 374               |
| Including: Fixed assets-net value | 795               | 374               |
| Construction in progress          | 0                 | 0                 |
| Long-term investments             | 0                 | 0                 |
| Intangible and deferred assets    | 0                 | 0                 |
|                                   | -----             | -----             |
| <b>Total assets</b>               | <b>179,806</b>    | <b>230,157</b>    |



|   |                |                |
|---|----------------|----------------|
|   | =====          | =====          |
| Current liabilities                               | 135,990        | 179,439        |
| Including: Short-term loans                       | 0              | 0              |
| Notes payable                                     | 0              | 0              |
| Accounts payable                                  | 94,418         | 122,811        |
| Advances from customers                           | 0              | 0              |
| Tax payable                                       | 1,197          | 946            |
| Others payable                                    | 37,564         | 51,277         |
| Other current liabilities                         | 2,811          | 4,405          |
| Long-term liabilities                             | 0              | 8              |
| Including: Long-term loans                        | 0              | 0              |
| Other non-current liabilities                     | 0              | 8              |
|   | -----          | -----          |
| Total liabilities                                 | 135,990        | 179,447        |
| Total shareholders' equity                        | 43,816         | 50,710         |
| Including: Paid-up capital                        | 30,000         | 30,000         |
| Capital surplus                                   | 0              | 0              |
| Surplus reserve                                   | 656            | 656            |
| Undistributed profits                             | 13,160         | 20,054         |
|   | -----          | -----          |
| <b>Total liabilities and shareholders' equity</b> | <b>179,806</b> | <b>230,157</b> |
|   | =====          | =====          |

| <b>Income Statement ('000)</b>             | <b>Year 2016</b> | <b>Year 2017</b> |
|--|------------------|------------------|
| Principal operating income                 | 322,512          | 451,070          |
| Less: Cost of sales                        | 293,016          | 412,629          |
| Principal operating tax and the additional | 567              | 347              |
| Principal operating profit                 | 28,929           | 38,094           |
| Add: Other operating profit                | 0                | 0                |
| Less: Selling expense                      | 17,607           | 21,601           |
| General and administrative expense         | 7,160            | 8,415            |
| Financial expense                          | 5                | -220             |
| Operating profit                           | 4,157            | 8,298            |

|                             |       |       |
|-----------------------------|-------|-------|
| Add: Investment income      | 855   | 900   |
| Subsidy                     | 0     | 0     |
| Non-operating income        | 50    | 0     |
| Less: Non-operating expense | 391   | 0     |
| Profit before tax           | 4,671 | 9,198 |
| Less: Income tax            | 1,351 | 2,392 |
| Net Profit (After tax)      | 3,320 | 6,806 |
|                             | ===== | ===== |

| <b>Key Financial Ratio</b>   | <b>12/31/2016</b> | <b>12/31/2017</b> |
|--|-------------------|-------------------|
| Current Ratio<br>(Current assets/Current liabilities)                                  | 1.32              | 1.28              |
| Quick Ratio<br>(Current assets-<br>Inventories/Current liabilities)                    | 1.26              | 1.11              |
| Liabilities/Assets<br>(Liabilities/Total assets)                                       | 0.76              | 0.78              |
| Equity ratio<br>(Total Liabilities/Total<br>shareholders' equity)                      | 3.10              | 3.54              |
| Current Assets Turnover<br>(Principal operating<br>income/Current assets)              | 1.80              | 1.96              |
| Total Assets Turnover<br>(Principal operating<br>income/Total assets)                  | 1.79              | 1.96              |
| Inventory Turnover<br>(Cost of sales/Inventories)                                      | 38.49             | 13.74             |
| Accounts Receivable<br>Turnover<br>(Principal operating<br>income/Accounts receivable) | 2.66              | 2.65              |
| Average Collection Period<br>(360days/Accounts<br>Receivable Turnover)                 | 135               | 136               |
| Profitability<br>(Profit before tax/Principal<br>operating income x100%)               | 1.45              | 2.04              |
| Return on Equity<br>(Net profits/Total<br>shareholders' equity x 100%)                 | 7.58              | 13.42             |
| Return on Assets<br>(Net profits/Total assets x<br>100%)                               | 1.85              | 2.96              |

**Note:** The above financial data is sourced from official mission, meaning 2016-2017 audited Complete financial statements of Subject.

## **Financial Analysis**

### Solvency

Subject's long-term solvency is average; its short-term solvency is above average in its line; its short-term realizable ability is fairly strong; Subject's asset security is acceptable.

### Turnover

Subject's ability of turning over inventory is high; its ability of turning over funds is weak; Subject's accounts receivables are poor.

### Profitability

Subject's profitability is relatively weak; its return on assets is relatively low.

## **PAYMENT**

|                      |  |
|----------------------|--|
| Payment to suppliers | 73% paid on schedule, 27% deferred (within one year) , 0% deferred (over one year) |
| Payment from buyers  | 70% paid on schedule, 30% deferred (within one year) , 0% deferred (over one year) |

## **MORTGAGE RECORD**

None

## **CHATEL MORTGAGE RECORD**

There is no related information found on Query System of People's Bank of China Credit Information Center.

## **LITIGATION**

No relevant record was found in the court.

Source: WWW.Chinacourt. Org, District Court Net and China Judgments Online

## **BANKER**

|                  |                                |
|------------------|--------------------------------|
| Banker           | Huangpu Sub-branch (中国黄埔支行)    |
| Deposit          | Low 8 figures                  |
| Rating by Banker | No detrimental record reported |

## **CREDIT OPINION WITHOUT OBLIGATION**

Subject, as an adhesive sales enterprise with a long history of operation, has established good business cooperation with Henkel Loctite (China) Co., Ltd. (汉高乐泰 (中国) 有限公司). Therefore, it has stable purchasing channels for high-quality adhesives. In addition, after years of operation and development, Subject has now established a mode of operation with its branch integrating with adhesive wholesale, glue processing equipment assembly, glue dispensing. On the other hand, Subject has a long-standing shortcoming of inadequate profitability and poor recovery of accounts, which hinders the expansion of business to a certain extent. Above all, it is thought that the current market credit risk of Subject is still at the average level in the line. Thus credit trading with Subject in the near future on the basis of continuous monitoring is recommended.

## OVERALL ASSESSMENT

|                     |                       |
|---------------------|-----------------------|
| Industry Trend      | Average               |
| Business Position   | Fairly Stable         |
| Business Trend      | Average               |
| Size in Its Line    | Medium                |
| Background          | Individual Investment |
| Short-term Solvency | Fairly Strong         |
| Long-term Solvency  | Average               |
| Assets Efficiency   | Average               |
| Profitability       | Relatively Weak       |
| Payment Record      | Good                  |

\*\*\*\*\*

## MAJOR MACRO ECONOMIC INDICATORS OF CHINA\*

### COUNTRY RISK ASSESSMENT\*

Country Risk Assessment: **B**

### MAJOR MACRO ECONOMIC INDICATORS

|                                 | 2015 | 2016 | 2017 | 2018(f) |
|---------------------------------|------|------|------|---------|
| GDP growth (%)                  | 6.9  | 6.7  | 6.7  | 6.6     |
| Inflation (yearly average, %)   | 1.4  | 2.1  | 1.6  | 2.3     |
| Budget balance (% GDP)          | -2.7 | -3.0 | -3.7 | -3.5    |
| Current account balance (% GDP) | 2.7  | 1.7  | 1.3  | 0.8     |
| Public debt* (% GDP)            | 41.1 | 44.3 | 47.6 | 50.8    |

Including central and local government debt (excl. financing vehicles)

(f): forecast

### **STRENGTHS**

- Sovereign risk contained as public debt remains mainly domestic and denominated in local currency
- Reduced risk of external over-indebtedness thanks to high level of foreign exchange reserves and to the maintenance of a current account surplus
- Gradual move upmarket as part of China's 2025 strategy to boost high-value added output
- Services and infrastructure developments

## WEAKNESSES

- Credit risks remain a cause of concern; high corporate indebtedness set to impact growth potential
- Overcapacity concerns in certain industrial sectors will continue to drag on profits
- Exposure of banks to rising corporate debt levels and deterioration in asset quality
- Government's strategy is ambiguous on arbitrating between reform and growth
- Environmental issues
- Ageing population and gradual depletion of cheap labor pool

## RISK ASSESSMENT

### **GRADUAL DECELERATION IN 2018**

Chinese growth will likely moderate in 2018 due to more restrictive policies aimed at curbing financial vulnerabilities and asset bubble risks. In particular, the authorities are likely to ramp up efforts to reduce the weaknesses associated with corporate indebtedness. The People's Bank of China (PBOC) maintains a "prudent" stance. PBOC tightened considerably in the first half of 2018. Tightening will continue only , if this does not aggravate growth headwinds in the remainder of the year. The effects of a cooling property sector are expected to impact the real economy in 2018, especially as sluggishness spills over into second- and third- tier cities (according to the unofficial hierarchical classification of Chinese cities). Consumption, which accounts for two thirds of GDP, has remained on target, supported by relatively low inflation. Fiscal policy was very accommodative in 2017. The authorities are therefore expected to oscillate between policy accommodation and tightening in order to manage a gradual slowdown. Rising levels of corporate indebtedness coupled with overcapacity concerns in some sectors (cement, aluminum, chemicals, ship building, etc.) will put pressure on profits. This will act as a drag on already-slowing levels of private investment.

### **CURRENT ACCOUNT SURPLUS TO DETERIORATE**

After contracting by 7% in 2016, exports in US dollars increased by approximately 8% in 2017. Exports have benefitted from robust demand in developed markets as well as higher commodity prices, but this has started to reverse. The appreciation of the Chinese yuan in 2017 (which reduced capital outflows) has also eroded export competitiveness, despite the yuan losing value since April 2018. Moreover, United States tariffs on up to USD 200 billion worth of Chinese imports will likely add to pressures. For these reasons, export growth is expected to slow to 5% in the second half of 2018. Although the current account returned to a surplus in the second quarter of 2018 and is expected to remain in surplus throughout the year, this surplus will likely narrow due to declining exports, as will the foreign investment surplus, despite capital controls remaining firmly in place.

Overall indebtedness in the Chinese economy remains extremely high (more than 260% of GDP). Most of the debt is owned by corporates, a large proportion of which are state-owned enterprises. Many of these are "zombie" enterprises: companies that are struggling with high levels of debt and overcapacity, but which continue to generate employment and output. In addition, corporate debt is difficult to assess due to the expansion of shadow banking: Moody's estimates that shadow banking assets peaked at 87% of GDP in 2016, before falling to 73% at the end of June 2018. The government has been trying to curb this type of lending, leading to overall higher levels of loans on banks' balance sheets. Finally, public debt may be higher than reported once the surge in local government financing through local government financing vehicles (LGVFs) is taken into account.

### **STRONG DOMESTIC MANDATE CLASHES WITH EXTERNAL PRESSURES**

During the 19<sup>th</sup> National Congress of the Communist Party of China (CPC) that took place in October 20XX, all members of the Politburo Standing Committee – excluding President Xi Jinping and the Premier Li Keqiang – retired. The new line-up includes Li Zhanshu, Wang Yang, Wang Huning, Zhao Leji and Han Zheng. President Xi Jinping did not announce a successor, and it is unlikely that his selection will come from this list: not only will most members be close to retirement age by the time the president steps down in five years, not everyone on the list belongs to the same faction as President Xi Jinping. Potential heirs will most likely come from the extended 25-member Politburo, where the president has supporters abound. On the foreign policy front, fears of a full-fledged trade war between the United States and China have now fully materialized. This is expected to have an impact equivalent to at least 0.5% of GDP, requiring an appropriate policy response. It remains unclear how this is compatible with the policy agenda for 2018: reducing corporate debt and curbing housing price speculation.

**CURRENCY: Chinese Yuan Renminbi - CNY - per 1.00 USD**

|      | <i>3/31</i> | <i>6/30</i> | <i>9/30</i> | <i>12/31</i> |
|------|-------------|-------------|-------------|--------------|
| 20XX | 6.10911     | 6.08835     | 6.34676     | 6.48882      |
| 20XX | 6.46490     | 6.64413     | 6.66792     | 6.94400      |
| 20XX | 6.81052     | 6.78319     | 6.65443     | 6.53683      |
| 20XX | 6.28018     | 6.59733     | 6.87312     |              |

\*\*\*\*\*END REPORT\*\*\*\*\*

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