

Goldbond Group: Niche play in China financial market

Recommendation: STRONG BUY (initiate coverage) **Banking/finance**

Price	HK\$1.03	Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$1.85 (+79.6%)	Mar	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
12 mth range	HK\$0.14-1.53	06A	3.9	0.002	(86.2)	443.5	4.8	120.6	na	1.1	0.6	(66.2)
Market cap.	US\$340.5m	07A	48.7	0.029	1,161	35.2	4.2	42.7	na	12.6	8.1	(20.6)
Daily t/o, 3 mth	US\$11.9m	08F	128.1	0.056	92.7	18.3	2.5	11.7	na	17.3	7.6	Cash
Free float %	53.4%	09F	193.8	0.075	33.2	13.7	2.0	6.1	na	16.1	9.8	Cash
Ticker	0172.HK/0172 HK	10F	223.3	0.087	15.2	11.9	1.5	5.4	na	14.6	9.3	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -21.3%, +6.3%, 430.8%

Actual price changes (1 mth, 3 mth, 12 mth): -22.6%, +14.4%, 586.7%

Consensus EPS (08F-09F): HK\$0.053, HK\$0.082

Key points:

- Niche financial play focusing on booming China consumers/SMEs bridge finance segment.
- Strong management team led by Mr. Wang Jun.
- Solid working relationship with more than 10 major banks in China
- Secured bridge financing business is lucrative with monthly return on capital above 4.0%.
- Number of pawn shops will expand to 11 by the end of FY03/09F from 3 currently.
- Likely to increase its stake in its mainland financial arm, Rongzhong.
- 3-year earnings CAGR between FY07A and FY10F is projected at 43.5%.
- Initiate coverage with a STRONG BUY call and a target price of HK\$1.85.

Figure 1: pawn shop in Wuhan



Source: SBI E2-Capital

Figure 2: pawn shop in Wuhan



Source: SBI E2-Capital

Investment summary. After divesting its property assets and interests in investment bank, Goldbond group has emerged as a niche financial play focusing on the booming but underbanked consumer/SMEs financial segment in China. With the personal loan/total domestic loan ratio of 10.7%, China consumer/SMEs bridge finance market segment is just beginning to emerge, presenting tremendous expansion opportunities for the group. Thanks to the close working relationship with major banks in China and well-recognized brand name developed upon its loan guarantee business, the group's 51.0%-owned subsidiary with three pawn shops in operation, Rongzhong is set to benefit from the strong financial demand from high net worth individuals/SMEs in China. It plans to operate more than 11 pawn shops by the end of FY03/09F. Besides, the group plans to increase its stake in its Chinese financial arm further. Secured bridge financing business is lucrative, with average monthly average

return on capital of more than 4.0%. Given the strong organic growth in the market, the group's 3-year earnings CAGR is projected to be 43.5% between FY03/07A and FY03/10F. Led by the strong management team with proven track record, execution risks associated with the group's expansion should be low. Trading at PEG of 0.08x for FY03/08F, the group's valuation is at substantial discount to the valuation of its listed international counterparts. Based on the target PEG of 0.15x for FY03/08F, we set our target price at HK\$1.85. With potential upside of 79.6%, we initiate coverage on the group with a STRONG BUY recommendation.

Financial flagship in China: Rongzhong (融众). Founded by Mr. Xie Xiao Qing in 2001, Rongzhong Group is engaged in the provision of consumer loan guarantee, secured bridge financing as well as credit card services in China. Currently, Rongzhong are 51.0% owned by the group, 39.01% owned by Mr. Xie and 9.99% owned by the Deputy Chairman and CEO of the group, Mr Wong Yu Lung, Charles and his associates. Rongzhong has developed national-wide network in China covering cities like Guangzhou, Wuhan, Chongqing, Chengdu, Changsha, Nanjing and Hangzhou. Going forward, Rongzhong is expected to foray into the cities in the northern and northwestern parts of the country, including Taiyun, Shenyang, Shijiazhuang, Xian and Qingdao.

Consumer loan guarantee. Rongzhong has been operating the consumer loan guarantee business in 7 major cities in China, including Chengsha, Chengdu, Chongqing, Wuhan, Guangzhou, Nanjing and Hangzhou. It provides loan guarantee and related services to individuals for the application of secured and unsecured loans. Secured loan types include but not limited to property and motor vehicle mortgage, sole-proprietor/small to medium size enterprises (SME) working capital financing as well as mortgage related bridge financing. Unsecured loan included but not limited to loans for durable consumer goods purchasing, educational fund, tourism and wedding, as well as household renovation. Rongzhong charges between 2.0% and 9.0% on the principal of the loan as service fee.

Team-up with major banks in China. The group has developed working relationship with more than 10 major banks in China, including Bank of Communication (3328 HK, HK\$8.46, NR), Changsha Commercial Bank, Shenzhen Development Bank, China Construction Bank (939 HK, HK\$5.68, NR), Guangdong Development Bank, Industrial and Commercial Bank of China (1398 HK, HK\$4.68, NR), Shanghai Pudong Development Bank, China Merchant Bank (3968 HK, HK\$29.55, NR), China Minsheng Bank, Industrial Bank and Bank of China (3988 HK, HK\$3.89, NR).

Do the tedious jobs for banks. Rongzhong acts as the bridge between the individual borrower (individuals, households and SMEs) and lender (banks). It serves as a representative of local banks' retail banking arms. It sources potential customers and markets the consumer loan products for banks, collects data regarding credit history as well as marketing statistic, fill up loan applications for borrowers, conducts credit assessments and evaluation and manages loan repayment and collection. The service process is as follow:

1. Customer files application at Rongzhong's outlet.
2. Rongzhong performs the assessment and evaluation process on applicants. During the reviewing process, assessor of Rongzhong will carefully reviews applicant's financial status and income proof (salary slip) and proof of asset (homeownership...etc). Besides, assessor will go to applicant's address to conduct detailed background checks.
3. Bank conducts final credit evaluation on applicant based on Rongzhong's assessment report.
4. Should the applicant's background meet the standards set by the bank, loan will be granted to the applicant. Rongzhong will sign a loan and guarantee agreement with applicants and pay the down-payment to the borrower.
5. Money will be released by the bank to borrower or merchants through Rongzhong.
6. Rongzhong arranges repayment terms for the bank and borrower.
7. Rongzhong manages the loan repayment installments for bank and borrower. It is responsible to collect overdue loan installment.

Only institutional guarantor in China. Rongzhong is the only institutional guarantor in China and has developed a well-established platform with about 600 professional staffs to cope with the expanding demand for consumer loan processing and guarantee services. 7 functional departments have been set up to handle the service covering the whole term of a case. Staffs of its marketing department are stationing at shopping centers to market the consumer loan products. Customer service department is responsible for handling customer's application and enquires. Investigation department conducts information collection and investigation on applicant, including site visit of applicant's residence and office premises. Credit evaluation department conducts credit evaluation on each applicant and prepares credit evaluation report to bank. Installment department monitors customers' repayment and prepares monthly update for finance department. Finance department record all the guarantee information. Risk management department collects overdue repayment. Rongzhong has

developed sophisticated data collection and assessment system and risk control system to control the default risk. Besides, it has a 2-level credit committee mechanism, one at city level and another at headquarter level. Rongzhong has hired a number of experienced credit officers from national banks like Industrial and Commercial Bank of China. Thus, the loans guaranteed by Rongzhong are closely monitored. Thanks to the well-developed mechanism, overdue rate of Rongzhong's loan portfolio was below 0.1% in the past 2 years.

Win-win situation. Retail banking system in China is relatively backward compared with the developed economies such as Hong Kong. Besides, unlike corporate banking, retail banking business is labor intensive and the overhead cost is high. For example, it is estimated that the monthly operating expenses of Rongzhong is approximately RMB3.0m. As the personal credit information system that was developed by Credit Information System Bureau (CISB) and officially launched in January 2006 provides only limited information on individuals' and SMEs' credit history, risk attached with consumer loan is high. Thus, although demand for consumer loan is robust, local branches of major banks in China are reluctant to expand their retail banking division aggressively. Rongzhong serves as the extension of retail banking department for banks. It bears the overhead expenses and performs most of the credit evaluation and risk management for banks. Thus, banks can contain costs and minimize risks while expanding their retail loan portfolio by working with Rongzhong. In return, Rongzhong is capitalizing on banks' rich financial resources to generate lucrative return. It is estimated that on average, Rongzhong charges 2.0% of the loan size of each transaction. Given the light asset requirement and relatively fixed operating costs, most of the increment in the loan guarantee business' turnover go straight to the bottom line.

Provision of secured bridge finance. Rongzhong was granted the first pawn shop license in Wuhan City in China by the Ministry of Commerce (MOC) in January 2006. The company's Wuhan Rongzhong Pawn Company was established in March 2006 and is engaged in the provision of secured bridge finance. Recently, Rongzhong obtained an additional 2 pawn shop licenses in Wuhan. Each pawn shop can lend out 2x capital based. Unlike the conventional pawn shop, which takes jewelry, automobile, antique or other luxury items as collateral, Rongzhong mainly operates its pawn shops as a finance company providing SMEs/high net worth individuals bridge financing and takes real-estate as collateral only. The loan to valuation ratio (LVR) of Rongzhong's pawn shops is approximately 40.0%, implying that the shop only lend out 40.0% of the collateral value to customer. According to the "Dian Dang Administration Rules", incomes generated from the pawn shop loans comprise of interest and handling fees. Interest income is determined upon the interest rate quoted by the People's Bank of China (PBOC) and the handling fee is charged at up to 4.2% on monthly basis. Currently, loan portfolio of Rongzhong's pawn shops are yielding a monthly return on capital of more than 4.0% per month, or above 48.0% per annum.

Figure 3: pawn shop in Wuhan



Source: SBI E2-Capital

Figure 4: pawn shop in Wuhan



Source: SBI E2-Capital

Bridge financing provider. Although there is a huge demand for consumer/SME financing, banks remains the major source of funding for individual/SME in China. Pawn shop is the only alternative funding source specializing short term bridge financing for individuals/SMEs in China other than banks. Strong economy, the emerge of private enterprises in China, robust property market and the restructure of state-owned enterprises (SOE) have spurred the demand for short term bridge financing in the country. In China, loan cannot roll-over upon maturity. Borrower must repay the existing loan with interest upon its maturity first then apply for a new loan. It takes approximately 1 month. Such loan repayment scheme has created a huge demand for working capital bridge financing from SMEs in China. Besides, management buyout (MBO) of state-owned enterprises

requires bridge financing as well. Manager of state-owned enterprise is required to inject funds into the target company before he can be entitled the ownership of the interest in that company. Following the ownership entitlement granted and the registered shares of the targeted enterprise issued to the manager, manager can finance the buyout with commercial bank by pledging the shares of the target enterprises as collateral. Property developer needs to pay up land premium to the Ministry of Land and Resources prior obtaining the land use right. After obtaining the land use right certificate, developer pledge it to bank as collateral to finance the development project. Rongzhong's pawn shop provides bridge financing to SMEs' owners, managers of SOEs as well as property developers. All of the loans provided by Rongzhong's pawn shops are short-term with average repayment term of 1 to 3 months.

Synergy with its loan guarantee business. Thanks to its close working relationship with banks in China, most of the business of Rongzhong's pawn shops are referred by banks. Banks are willing to refer business to Rongzhong's pawn shops on its creditability and execution capability of its loan guarantee business. Besides, the bridge financing provided by the pawn shops actually smooth out the transaction between bank and borrower, in our view. For example, SME will default should it is not able to repay its previous loan with bridge financing upon withdrawal of the new loan, and the loan facilities provided by the bank previously to the SME will become non-perform loan or even unrecoverable bad debt. Although the loan guarantee division and secured consumer finance division generate revenue by different means, the two divisions are operated on the same platform. Thus, Rongzhong is fully utilizing its well established platform.

Building a nationwide network. Rongzhong has already obtained 4 pawn shop licenses. Three pawn shops in Wuhan have already commenced operation. The acquisition of pawn shop license in Chengdu is expected to be closed soon. Besides, it is expected that pawn shops in Jiangsu and Chongqing would be put on stream soon. The group will submit application for pawn shop licenses in Hangzhou, Changsha and Guangzhou by the end of this year. It is expected that Rongzhong will obtain the licenses in between February and March and the shops will be put on stream by the end of May 2008. We expect that by the end of FY03/09F, the group should have a nationwide pawn shop network comprising more than 11 outlets covering 7 major cities in China.

Drivers in the future. Currently, the group has 51.0% stake in Rongzhong. There is the possibility that the group might increase its stake in the mainland financial arm. If it is the case, it should increase the group's share of profit generated by Rongzhong. In May 2007, the group advanced a 3-year term shareholder loan of HK\$60.0m with annual interest rate of 16.0% p.a. to Rongzhong. We expect the group to inject another HK\$500.0m between FY03/08F and FY03/09F to its mainland financial arm. The group's outstanding loan portfolio has already exceeded RMB200.0m. With further capital injection of RMB560.0m, the group's loan book size will expand further by the end of FY03/08F. The group is serving as a fund raising platform for Rongzhong. Since the licenses possessed by Rongzhong are just pawn shop licenses, and pawn shop operators in China are not allowed take deposit, Rongzhong relies on internal generated resources and shareholders' loan as well as equity to finance its business, at this juncture. However, the group can raise capital for Rongzhong via debt financing obtained from banks overseas and inject the capital into its mainland financial arm.

Stripping off non-core assets. The group disposed Golden Plaza, Hong Kong in FY03/07A and a cash inflow of HK\$530.0m is expected to be received in FY03/08F. Besides, the group disposed its 25.0% interest in Nanjing International Center, a property development project in Nanjing at a consideration of HK\$125.3m and a disposal gain of HK\$16.0m will be booked in this fiscal year. In July 2007, the group entered into a conditional agreement with Piper Jaffray to dispose of its 20.0% interests in Goldbond Capital at the consideration of HK\$80.0m and a book gain of HK\$44.0m is expected to be realized. We expect the group to realize a total disposal gain of HK\$60.0m for FY03/08F and receive HK\$735.3m in cash, which will serve as war chest for the expansion in its secured bridge finance business in China, from the divestments. After stripping off the non-core assets, the group was turned into a niche financial plays in mainland China focusing on the provision of short-term bridge financing, and its earnings quality and visibility will be enhanced on single scope of business.

Led by the strong management team. In April 2007, the board of directors of the group appointed Mr. Wang Jun as Chairman and Executive Director of the group. Mr. Wang was the former Chairman of CITIC Group in Beijing and is currently the chairman of Poly (Hong Kong) Investments (0119 HK, HK\$6.88, NR) and CITIC 21CN (0241 HK, HK\$0.86, NR), the honorary chairman of HKC (0190 HK, HK\$2.41, NR) and the independent non-executive director of China Communications Services (1800 HK, HK\$15.58, NR). Mr. Wang's profound knowledge on the China market, broad network and superior management skill should assist the group's expansion in China financial segment.

Mr. Wong Yu Lung, Charles is the Deputy Chairman and Chief Executive Officer of the group. He joined the group in January 2003 and is responsible for corporate strategic planning of the group. Mr. Wong has over thirty years of worldwide experience in the procurement and logistics of consumer products. He is an international entrepreneur of repute and was the co-founder and chief executive officer of Pacific Resources Export Limited

(“Pacific Resources”). Pacific Resources had been the worldwide exclusive procurement agent for Wal-mart for twelve years until 2002, with annual turnover reaching approximately US\$6.5b. Throughout his years in operating Pacific Resources and twenty-nine branch offices spreading over the world including the U.S.A., South America, Central America, Indian Subcontinent, Middle East, Asia and Europe, Mr. Wong has accumulated valuable experience and profound knowledge, in particular, market mechanism and demand, manufacturing industry, financial market, capital investment and asset management.

Mr. Ding Chung Keung, Vincent is the Deputy Chief Executive Officer of the group. He joined the group in January 2004 and oversees all business operations of the group. Mr. Ding has been in the investment, audit and finance industries for more than 15 years and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Prior to joining the group, Mr. Ding was the managing director of Cheung Tai Hong (0199 HK, HK\$, NR, now known as Macau Prime Properties Holdings Limited) and the executive director of Capital Estate Limited (0193 HK, HK\$, NR). Mr. Ding holds a bachelor degree in business administration from The Chinese University of Hong Kong.

Mr. Xie Xiao Qing has been an executive Director of the group since April 2007. He is a founder and a director of the subsidiaries of Rongzhong Group Limited (“Rongzhong”) in China and supervises the business of Rongzhong. Mr. Xie is also the chairman of Wuhan Pawn Association and the guest professor of the Management Technology College of the Hubei University of Economy. Mr. Xie graduated from Hubei Technology Institute in China.

Brilliant growth is expected in bottom line for FY03/08F. The group’s 3-year earnings is projected to be 66.1% between FY03/07F and FY03/10F. However, due to 54.0% increase in share capital, its 3-year EPS CAGR is projected to be 43.5%. Given the strong organic growth in demand for secured bridge finance in China market and the expansion in Rongzhong’s capital base, the group loan book is expected to reach RMB500.0m and RMB800.0m, respectively, by the end of FY03/08F and FY03/09F. Stripping off the disposal gain of HK\$60.0m recognized from the divestment of 25.0% interest in Nanjing International Center and 20.0% stake in Goldbond Capital, the group’s core earnings is projected to increase by 61.3% YoY to HK\$78.6m. Interest income generated from the group’s secured bridge finance division is estimated to be HK\$208.0m. Meanwhile, the loan guarantee division is expected to generate HK\$24.0m revenue to the group. We estimate that the group will realize an interest income of HK\$32.0m (or HK\$26.4m after tax) on the HK\$360.0m loans advanced to Rongzhong at a rate of 16.0% p.a..

Growth momentum would remain robust in FY03/09F. Given a projected 60.0% growth in loan portfolio, we reckon that the interest income yielded from the group’s secured bridge finance division will increase by 64.6% YoY to HK\$342.4m. Meanwhile, income generated from its loan guarantee business is expected to increase by 50.0% YoY to HK\$36.0m. Interest income realized upon the shareholders’ loans of HK\$560.0m at a rate of 16.0% p.a. is estimated to be HK\$89.6m (or HK\$73.9m after tax). Net earnings is projected to increase by 51.3% YoY to HK\$193.8m for FY03/09F.

Initiate coverage with STRONG BUY call. The group is trading at a PEG of 0.08x for FY03/08F, compared with the selected international peers average 1-yr forward PEG of 0.4x. Valuation of the group is very attractive, in terms of PEG. In our view, China consumer finance plays should have a much better growth prospect than its counterparts operate in developed market like U.S., Japan and Hong Kong and deserve a premium among the valuation of the overseas peers. Compared with the developed markets that have been highly saturated, China consumers/SMEs finance segment remains underbanked. Demand for secured consumer/bridge finance products in China is expanding rapidly on strong economy growth and increase in affluence, but supplies of such products are still very limited at this juncture as the regulation on secured consumer/bridge finance sector is yet to be evolved. Besides, risks attached with the developed markets like the U.S. are escalating, due to the possible credit crunch as the aftermaths of the sub-prime mortgage woes. However, as the group’s bridge finance operation has very limited track record and is still at a developing stage, in order to reflect the risks associated with the operation and our earnings forecasts, we prudently adopt a deep discount to the peer group’s average 1-yr PEG and arrive at our target price of HK\$1.85, representing a PEG of 0.15x for FY03/08F. It is noteworthy that the group is also trading at a substantial discounts to the HK-listed Chinese banks average 1-year forward P/E of 23.5x.

Table 1: Peer group comparisons

Company name	Ticker	Year End	Currency	Price	Market cap (US\$m)	P/E (x)	P/E (x)	PEG (x)
						1-yr forward	2-yr forward	1-yr forward
First Cash Financial Services	FCFS US	Dec	USD	21.9	685.8	16.9	13.7	0.5
Ezcorp	EZPW US	Sep	USD	10.7	443.1	12.2	10.0	0.2
Advance America Cash Advance	AEA US	Dec	USD	14.0	1,112.8	13.6	11.0	0.6
Cash America International	CSH US	Dec	USD	32.8	970.8	13.1	10.9	0.4
Dollar Financial	DLLR US	Jun	USD	25.2	600.8	14.9	11.5	0.7
QC Holdings	QCCO US	Dec	USD	13.0	251.2	15.3	11.5	0.2
CIT Group	CIT US	Dec	USD	37.2	7,101.5	7.7	6.4	0.7
First Marblehead	FMD US	Jun	USD	32.9	3,084.1	8.4	7.9	0.4
Nelnet	NNI US	Dec	USD	21.1	1,047.5	10.1	9.4	na
NewStar Financial	NEWS US	Dec	USD	12.2	440.5	18.9	9.7	na
H&T Group	HAT LN	Dec	GBp	212	36.6	16.5	15.3	na
NIS GROUP	8571 JP	Mar	JPY	45	1,105.3	14.3	12.4	1.8
Takefuji	8564 JP	Mar	JPY	3610	4,475.9	13.6	13.5	na
Aiful	8515 JP	Mar	JPY	2745	3,281.9	14.0	11.6	na
Aeon Credit	900 HK	Feb	HKD	6.51	348.5	9.5	7.7	0.6
<i>Average</i>						<i>11.4</i>	<i>9.8</i>	<i>0.4</i>

Source: Bloomberg

Table 2: Peer group comparisons (Chinese banks)

Company name	Ticker	Year End	Currency	Price	Market cap (US\$m)	P/E (x)	P/E (x)	P/B (x)
						1-yr forward	2-yr forward	1-yr forward
China Construction Bank	939 HK	Dec	HKD	5.68	163,146.0	20.8	16.0	3.4
Bank of China	3988 HK	Dec	HKD	3.89	174,598.5	18.3	14.1	2.3
Bank of Communications	3328 HK	Dec	HKD	8.46	67,718.3	24.6	18.4	3.3
China Citic Bank	998 HK	Dec	HKD	5.79	47,197.5	32.5	23.6	2.7
Industrial & Commercial Bank of China	1398 HK	Dec	HKD	4.68	266,638.5	22.5	17.2	3.0
China Merchants Bank	3968 HK	Dec	HKD	29.05	67,344.3	39.6	28.6	6.5
<i>Average</i>						<i>23.5</i>	<i>17.7</i>	<i>3.2</i>

Source: Bloomberg

Description of the peers: First Cash Financial Services is a leading provider of specialty consumer financial services and related retail products. First Cash operates pawn stores; cash advance stores and buy-here/pay-here car dealerships.

EZCORP is a market leader in the specialty consumer finance industry, providing the cash and credit constrained consumer with convenient options for short-term cash. The company operates over 600 storefronts in 13 states.

Advance America, Cash Advance Centers is the largest provider of payday cash advance services in the U.S., as measured by the number of centers operated. As of December 31, 2006, it operated 2,853 centers in 36 states. It does not franchise any of its centers. Payday cash advances are small-denomination, short-term, unsecured advances that are typically due on the customer's next payday.

Cash America International is a diversified specialty finance company serving the needs of the underbanked segment of the population. Cash America is the market leader in secured non-recourse lending to individuals, commonly known as pawn loans. It currently operates over 450 pawnshops in the U.S. under the brand names Cash America Pawn and SuperPawn. Cash America also provides other financial services through its network of lending locations or subsidiary companies.

Dollar Financial Corp. is a leading international financial services company serving under-banked consumers. Dollar Financial provides a range of consumer financial products and services primarily consisting of check cashing, short-term consumer loans, Western Union money orders and money transfers as well as other conveniences such as utility bill payments, currency exchange and tax preparation.

QC Holdings is a leading provider of payday loans in the U.S. It owns and operates more than 550 stores in 25 states.

CIT Group is a leading commercial and consumer finance company providing financing and leasing products

and services to clients in a wide variety of industries around the world.

The First Marblehead Corp. offers its clients a fully integrated suite of outsourcing services in connection with their private student loan programs. In providing its services, it does not serve as a lender, guarantor or loan servicer, but instead receive fees for the services it provides in connection with processing and securitizing its clients' loans.

Nelnet is one of the leading education and finance companies in the U.S.. The company provides quality student loan products and services to students, as well as a full range of student-lending services and technology-based products to schools nationwide. This includes student loan origination and lending, holding, student loan and guarantee servicing and software solutions.

NewStar Financial is a Boston-based commercial finance company with extensive direct origination that provides customized financing solutions to mid-sized borrowers .

H&T Group is the UK's leading pawn broking business by size of pledge book.

NIS Group is engaged in the provision of integrated financial services, and specializes in providing both secured and unsecured loan products to owners of SMEs in Japan. In addition, the group is active in servicing distressed loans purchased from third parties and operates in the real estate related business and securities business. The group has established a subsidiary in Shanghai and has commenced full-scale leasing operations in China.

Takefuji Corporation is engaged in the provision of consumer financing services in Japan.

Aiful Corporation is engaged in the provision of consumer finance, mortgage loan, guaranteed loan, real estate business.

Risk factors. 1) Expansion of the group depends on whether it can acquire additional pawn shop licenses. 2) loan default risk. 3) Competition from banks and other financial institutions in China. 4) Restriction on foreign ownership in local pawn shop. 5) economy growth deceleration. 6) more austerity measures launched by the government to curb economy growth.

Change in share capital in the past 12-months. In July 2007, the group raised HK\$316.2m through the placement of 268m shares at HK\$1.18 each. In August 2007, the group issued 544.3m shares upon the conversion of the convertible note.

Demand for consumer finance products expand rapidly. China consumer finance market is yet to be saturated. Despite the rapid development of loans and deposits, the banking industry in China is underdeveloped in many respects, particularly in the retail-banking sector. Although corporate banking continues to be the main business for most commercial banks in China, demand for retail banking products and services has grown significantly due to rising income levels in China's households. Rapid increase in personal wealth in China should continue to drive demand for retail banking products. Personal loans in China totaled RMB 2.4 trillion as of the end of 2006, representing 10.7% of total loans in China and 14.6% of China's GDP, according to the National Bureau of Statistics of China. From 2002 to 2006, total personal loans in China increased at a CAGR of 22.5%. However, comparing to the market share of personal loans in Japan (28.3% of the total domestic loan as of the end of 2006) and the U.S. (53.7%), China personal loan products/retail finance market is far from to be saturated. Residential mortgage loans generally account for the majority of personal loans. Total residential mortgage loans have grown from RMB 825.8 billion as the end of 2002 to approximately RMB 2.0 trillion as of the end of 2006, according to the National Bureau of Statistics of China.

China pawn shop industry. In order to increase the liquidity in the market, Ministry of Commerce of PRC (MOC) reissued pawn shop licenses in 2005. As of the end of 2006, 2,494 pawn shop licenses were issued and 2,052 pawn shops are in operation. As of the end of 2006, loans lent by pawn shops in China totaled RMB96.0b, representing an annual growth rate of 40.0%. The industry is highly fragmented, with virtually no market leader or "nationwide pawn shop chains" exists in the market. Pawn shops in China provide short term secured financing with average repayment terms between 1 to 3 months to high net-worth individual and SMEs whose have financial need. Entry barrier of the pawn shop industry in China is high, as there is a quota restricting the issuance of pawn shop licenses. Besides, regulations promulgated by MOC are in favor of operators with financial strength.

Launching of personal credit information system. In September 2003, the PBOC established the Credit Information System Bureau, or CISB, to focus on developing nationwide credit information systems. The CISB started to develop a personal credit information system to collect information on personal credit data in 2004. As of the end of December 2005, the outstanding personal loans recorded in this system amounted to RMB 2.2 trillion, representing 97.5% of the total outstanding personal loans in China. After implementing this system on a trial basis in selected PRC commercial banks and rural credit cooperatives, the CISB officially launched the

system on a nationwide basis in January 2006. Should the personal credit information system become prevailing in China, default risks on domestic loans lent out by banks and financial institutions and loan transaction costs should reduce.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Placing Agent for Goldbond Group (350.5m vendor shares at HK\$1.26) on August 6, 2007.

P & L (HK\$m)	06A	07A	08F	09F	10F
Year to Mar					
Turnover	8.1	24.9	264.0	468.0	526.0
% chg	5.7	207.5	961.3	77.3	12.4
Gross profit	(39.8)	(53.8)	222.8	423.3	478.2
EBITDA	22.0	62.2	228.0	432.0	490.0
Depre./amort.	(1.0)	(1.7)	(5.2)	(8.7)	(11.8)
EBIT	21.0	60.4	222.8	423.3	478.2
Net int. income/(exp.)	(8.3)	(17.3)	(15.9)	(7.7)	0.8
Exceptionals	(14.3)	-	60.0	-	-
Associates	5.8	6.1	-	-	-
Jointly-controlled entit.	-	-	-	-	-
Pre-tax profit	4.2	49.2	266.8	415.5	478.9
Tax	(0.4)	(0.5)	(73.3)	(99.1)	(112.8)
Minority interests	-	-	(65.4)	(122.6)	(142.8)
Net profit	3.9	48.7	128.1	193.8	223.3
% chg	(86.2)	1,161.4	162.9	51.3	15.2
Dividends	-	-	-	-	-
Retained earnings	3.9	48.7	128.1	193.8	223.3
EPS (HK\$) - Basic	0.002	0.029	0.056	0.075	0.087
EPS (HK\$) - F.D.	0.002	0.029	0.050	0.075	0.087
DPS (HK\$)	-	-	-	-	-
No. sh.s o/s (m) - W.A.	1,662.4	1,662.9	2,269.1	2,578.9	2,578.9
No. sh.s o/s (m) - Y.E.	1,662.4	1,674.4	2,578.9	2,578.9	2,578.9
No. sh.s o/s (m) - F.D.	1,662.4	1,662.9	2,578.9	2,578.9	2,578.9
Margins (%)					
Gross	(491.5)	(216.3)	84.4	90.4	90.9
EBITDA	272.1	249.9	86.4	92.3	93.2
EBIT	259.6	243.0	84.4	90.4	90.9
Pre-tax	52.1	197.7	101.1	88.8	91.1
Net	47.7	195.8	48.5	41.4	42.5
Balance Sheet (HK\$m)	06A	07A	08F	09F	10F
Year to Mar					
Fixed assets	464.3	5.0	15.7	23.0	25.2
Intangible assets	-	-	-	-	-
Other LT assets	135.0	44.6	699.3	1,016.0	1,057.2
Cash	65.4	108.4	743.5	573.6	905.7
Accounts receivable	29.6	110.4	300.0	480.0	540.0
Other receivables	-	-	-	-	-
Inventories	-	-	-	-	-
Due from related co.s	51.9	0.0	-	-	-
Other current assets	7.9	642.9	8.0	8.0	8.0
Total assets	754.1	911.3	1,766.7	2,100.7	2,536.2
Accounts payable	(29.3)	(70.6)	-	-	-
Other payable	-	-	-	-	-
Tax payable	(0.8)	(0.6)	(19.0)	(43.7)	(71.9)
Due to related co.s	(26.3)	(48.1)	(48.1)	(48.1)	(48.1)
ST debts	(62.1)	(178.1)	(150.0)	(150.0)	(150.0)
Other current liab.	(16.0)	(183.7)	(21.0)	(21.0)	(21.0)
LT debts	(239.9)	(10.0)	(123.9)	-	-
Other LT liabilities	(22.1)	(5.9)	(1.4)	(1.4)	(1.4)
Total liabilities	(396.6)	(497.1)	(363.4)	(264.3)	(292.5)
Share capital	166.2	167.4	257.9	257.9	257.9
Reserves	191.3	246.7	804.2	1,082.1	1,469.2
Shareholders' funds	357.5	414.2	1,062.1	1,340.0	1,727.1
Minority interest	-	-	341.2	496.4	516.6
Total	357.5	414.2	1,403.3	1,836.4	2,243.7
Capital employed	659.5	602.3	1,677.1	1,986.4	2,393.7
Net (debt)/cash	(236.6)	(79.7)	469.7	423.6	755.7
Cash Flow (HK\$m)	06A	07A	08F	09F	10F
Year to Mar					
EBIT	21.0	60.4	222.8	423.3	478.2
Depre./amort.	1.0	1.7	5.2	8.7	11.8
Net int. paid	(8.3)	(17.3)	(15.9)	(7.7)	0.8
Tax paid	-	(0.5)	(55.0)	(74.3)	(84.6)
Dividends received	0.6	0.0	-	-	-
Gross cashflow	14.3	44.4	157.1	349.9	406.1
Chgs. in working cap.	(0.3)	(56.8)	(262.6)	(180.0)	(60.0)
Operating cashflow	14.1	(12.5)	(105.6)	169.9	346.1
Capex	(5.0)	(1.1)	(16.0)	(16.0)	(14.0)
Free cashflow	9.0	(13.5)	(121.6)	153.9	332.1
Dividends paid	-	-	-	-	-
Net distribution to MI	-	-	-	-	-
Investments	(56.1)	(42.8)	(463.4)	(200.0)	-
Disposals	-	2.4	735.3	-	-
New shares	-	1.8	306.9	-	-
Others	55.1	209.1	92.1	-	-
Net cashflow	8.1	156.9	549.3	(46.1)	332.1
Net (debt)/cash - Beg.	(244.7)	(236.6)	(79.7)	469.7	423.6
Net (debt)/cash - End.	(236.6)	(79.7)	469.7	423.6	755.7
Interim Results (HK\$m)	05A	06A	07A		
Six months to Sep					
Turnover	11.9	16.4	26.1		
% chg	(8.0)	38.0	59.1		
Profit from operations	5.7	11.9	40.2		
Interest expenses	(1.2)	(7.5)	(11.9)		
Associates	-	(1.6)	0.1		
Jointly-controlled entit.	(2.4)	3.0	0.1		
Pre-tax profit	2.2	5.8	28.5		
Tax	(0.5)	(4.3)	(8.0)		
Minority interests	-	-	-		
Net profit	1.7	1.5	20.5		
% chg	(88.9)	(11.0)	1,277.9		
EPS (HK\$) - Basic	0.001	0.001	0.012		
DPS (HK\$)	-	-	-		
Shareholding Structure					
				Shares o/s (m)	%
Allied Luck				1,030.0	39.9
Directors of the group				171.0	6.6
Public				1,377.9	53.4
Total				2,578.9	100.0
Background					
Through its 51.0%-owned subsidiary in China, Rongzhong, Goldbond is engaged in the provision of secured consumer financing as well as loan guarantee businesses. The group has 3 pawn shops in operation in Wuhan, China. The group has developed solid working relationship with 12 major banks in China.					
Key Ratios	06A	07A	08F	09F	10F
Net gearing (%)	(66.2)	(20.6)	Cash	Cash	Cash
Net ROE (%)	1.1	12.6	17.3	16.1	14.6
EBIT ROCE (%)	3.2	9.6	19.5	23.1	21.8
Dividend payout (%)	-	-	-	-	-
Effective tax rate (%)	8.4	0.9	27.5	23.8	23.6
Net interest coverage (x)	2.5	3.5	14.0	54.7	na
A/R turnover (days)	1,334.3	1,027.2	283.8	304.2	353.9
A/P turnover (days)	1,320.0	732.7	48.8	-	-
Stock turnover (days)	-	-	-	-	-

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