coface

P R E S S R E L E A S E

Press release **15 May 2013**

Survey reveals over 40% of enterprises in Hong Kong indicated increase of overdue

- China enterprises are less optimistic on global and local economies recovery -
- Taiwan enterprises continuous demonstrate good credit management -

A survey of corporate credit risks management across the Greater China region, China, Hong Kong and Taiwan, was conducted in the fourth quarter of 2012 by Coface, a leading global credit insurance group. This survey revealed that China and Hong Kong enterprises are exposed to higher credit risks as evidenced by sharply increased amount of overdue. Access to finance is a key concern for enterprises especially SMEs in China. Enterprises in this region are less optimistic on the recovery of global and local economies.

Hong Kong and China enterprises report sharp increase of overdue amount

42% and 56% of interviewed Hong Kong and China enterprises indicated an increase of overdue while only about 20% and 42% of them reported the same in 2011 respectively. *(Appendix 1)* This reflected a deterioration of the overdue payment situation. Moreover, the percentage of interviewed Hong Kong enterprises reporting more than 2% of their annual turnover overdue for over 6 months increased from 34% in 2011 to 49% in 2012. In China, enterprises reported the same situation increased from 31% to 36% in 2012.*(Appendix 2)*

"When enterprises have more than 2% in their annual turnover unpaid for more than 6 months, their cash flow would be in danger and it would affect their payment capability. This survey indicated that more enterprises in Hong Kong and China experienced an increase of overdue amount and an increase of long overdue in proportion of their turnover. It is a strong sign of deterioration of payment situation. Hong Kong and China enterprises should pay more attention to the timeliness of payment of their buyers" said **Richard Burton**, CEO of Coface for Asia Pacific Region.

Customer's financial difficulties is still the main reason behind overdue. Over 65% of China and Hong Kong enterprises reported fierce competition impacting margin caused financial difficulties of buyers. The prolonged economic downturn of US and Europe impacted the purchasing power of these markets which further intensified competitions. One the other hand, over 30% of Hong Kong enterprises' mentioned the rising raw material prices as the second reason caused financial difficulties of buyers. Continuous appreciation of RMB leads the raise of raw materials and labour cost for Hong Kong enterprises which further erodes their profit margin.

Enterprises in Hong Kong, China and Taiwan also expressed their buyers have difficulties in financing their operations. 'In view of the uncertainty of the global economy, banks and financial institution are more cautious in granting financing loan to companies especially for SMEs. In China, although the government tried to loosen its credit policy, most of the loans were provided to large companies or state enterprises. SMEs are increasingly turning to the informal credit system, which applies usurious rates. In a context of sluggish external demand, these SMEs, which account for 68% of exports, could quickly find themselves in difficulty.' said Burton.

82% of Chinese enterprises do not believe global recovery in 2013

Although the economic growth in China was still stable at 7.7% in 2012, about 70% of interviewed enterprises in China do not believe the economic relative slowdown in China will end in 2013. They are also less optimistic on global economy as 82% do not believe recovery will happen in 2013. *(Appendix 3)*

China is still an export driven country. The finding showed that the prolonged Euro debt crisis and slow recovery of US seriously hit the confidence of exporters. Moreover, domestic consumption was not strong in 2012, standing at 30% of the GDP with no change compared to 2011. Enterprises are less optimistic and therefore put more hopes on favourable industry policies, loosening monetary policy and access to credit to be carried out by the government to support growth in 2013.

'Although majority of the enterprises in Asia are less optimistic on economic recovery in 2013, Coface expects global growth to be stable in 2013 at 2.7%. GDP growth is going to be driven by emerging countries and Asia in particular. Some large emerging markets will benefit from lagged effects of 2012 accommodative economic policies indeed, along with robust domestic demand.(Appendix 4) On the other side, the Euro zone with -0.4% remains a drag for global growth. We still expect the US growth to reach 1.5% this year contributed by the improvement in private investment and consumption recovery.' said **Burton**.

Risky industries in Greater China Region : building & construction; steel, iron & other primary metals ; textile, clothing & shoes ; household electric & electronic appliances

The survey also reveals that the overdue situation, overdue trend, average overdue days and more than 6-month overdue ratio of enterprises in building & construction, steel, iron & other primary metals, textile, clothing & shoes and household electric/ electronic appliances industries are at higher risk comparing to other industries.

Building & construction : In China and Hong Kong, authorities have taken measures to cool down the property market in fear of formation of a speculative bubble coupled with the rise of discontent among a high and growing proportion of the population unable to finance a home. The sector is highly sensitive to government policy and financial market. Construction related to public work and infrastructure development is less volatile in view of continuous expansionary policies and re-establishment after natural disasters in many Asian countries.

Steel, iron & other primary metals : China's steel industry is weak. Overcapacity makes the enterprises in the sector and at the same time their exposure to credit risk more vulnerable to the global economic and the Chinese economic slowdowns.

Textile, clothing & shoes : The sector is a traditional risky sector as demand for consumer goods is easily affected by economic downturn. The recovery of EU and US markets is critical as still a majority of enterprises in Hong Kong, China and Taiwan relies on export to these markets. Competition in domestic market is also very intense in this sector.

Household electric & electronic appliances : The sector is highly export oriented in the region. Except high end products like smart-phones and tablets, medium to low end appliances are badly hit by slow demand in export market, high competition, fast changing technology trend and rising production costs.

Awareness of credit management of Hong Kong enterprises improved but not implemented it well like Taiwan enterprises

More Hong Kong enterprises appointed finance and credit management department to perform credit management function which increased from 37% in 2011 to 58% in 2012. *(Appendix 5)* At the same time, credit sales offered by Hong Kong enterprises reduced from 80% in 2011 to 67% in 2012.*(Appendix 6)* It seems that Hong Kong enterprises are tightening their credit control but still 49% of Hong Kong enterprises had more than 2% of their receivables overdue for 6 months or longer.*(Appendix 2)*

On the other hand, almost all Taiwan enterprises offered credit sales and 90% of them could control their overdue debt below 2% of their turnover and kept an average overdue days below 60 days, demonstrating the best credit control in the region.

"This shows that tightening credit terms does not mean better credit management control. In fact, effective use of credit management tools and closely monitor buyers' change of payment behaviours are critical success factors for credit management." continued Burton.

This survey was conducted in the 4th quarter of 2012 with responses from 1,648 enterprises of all sizes and industries in China, Hong Kong and Taiwan. This survey aimed at providing a broad understanding of the status of payment experiences, payment trends and credit risk management practices in enterprises in the Greater China Region.

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2012, the Group posted a consolidated turnover of €1.6 billion. 4,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French state.
Coface is a subsidiary of Natixis, corporate, investment management and specialized financial services arm of Groupe BPCE.

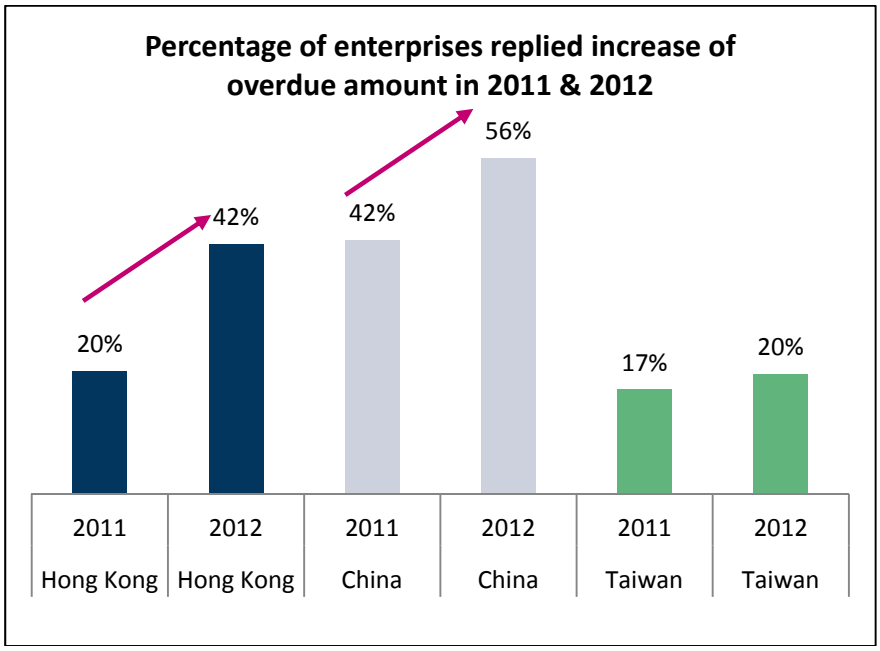
www.coface.com

For further information, please contact:
Compagnie Française d'Assurance pour le Commerce Extérieur, branch in Hong Kong **(COFACE)**
Leo Chak / Joanne Lee
Tel: +852 2585 9188
E-mail: leo_chak@coface.com / joanne_lee@coface.com

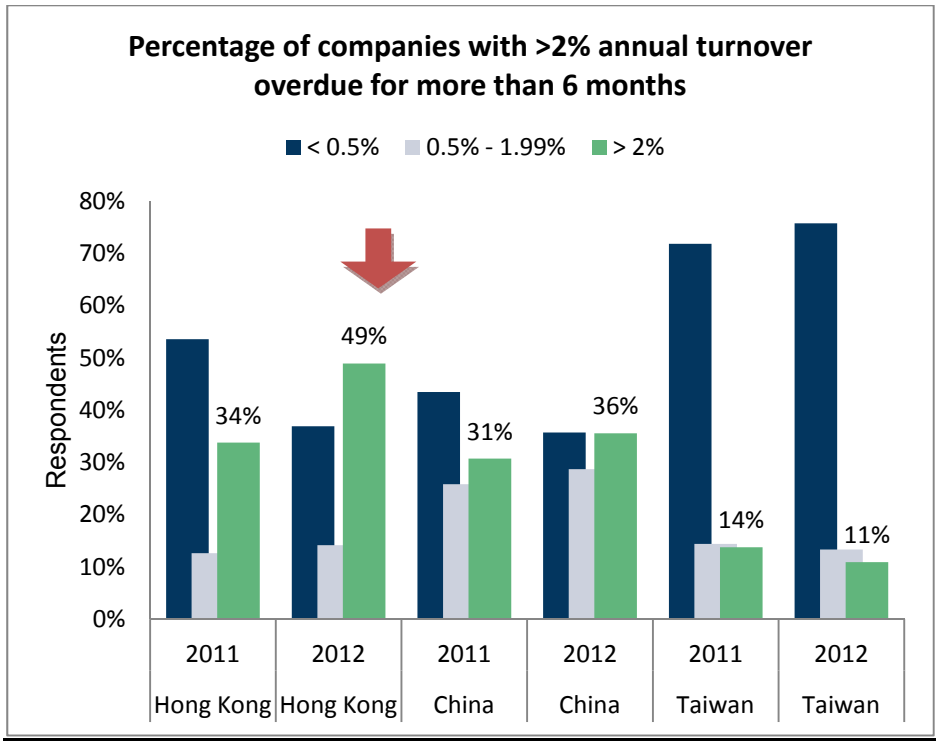
coface

PRESS RELEASE

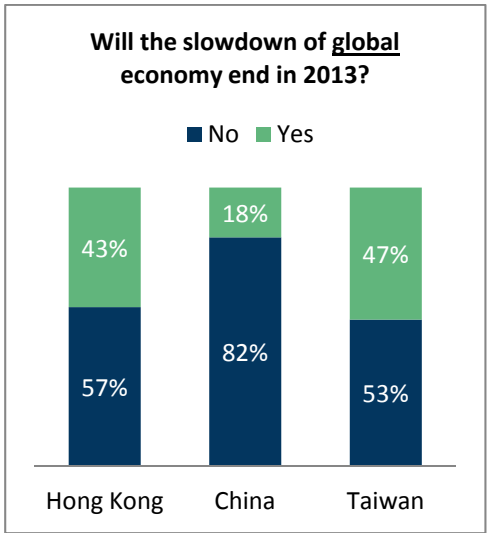
Appendix 1 : More enterprises in Hong Kong and China reported increase in overdue amount in 2012

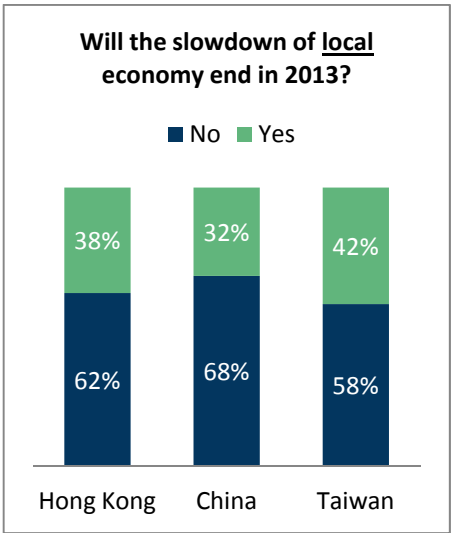


Appendix 2 : More enterprises in Hong Kong have high debt weight in their turnover



Appendix 3 : Enterprises in China are less optimistic on recovery in 2013

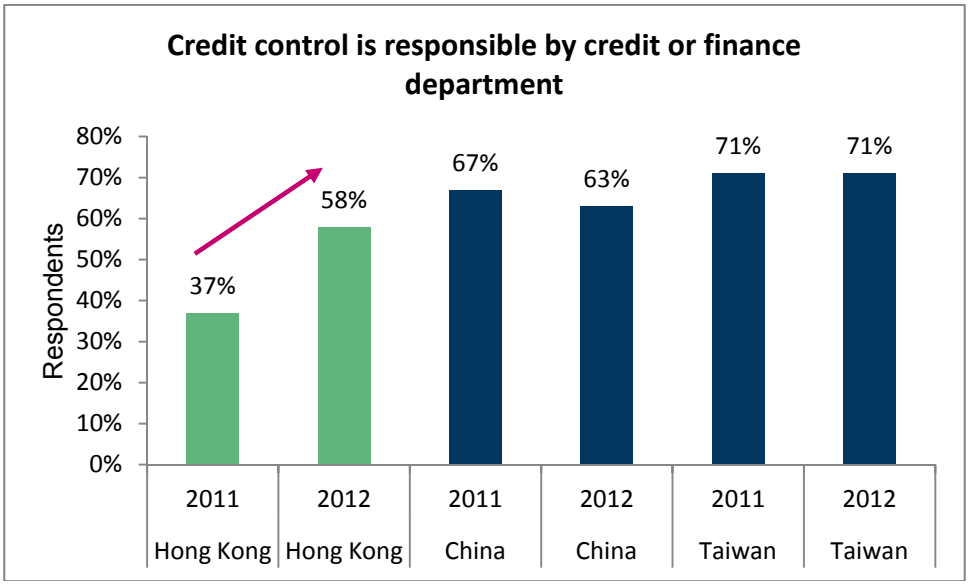




Appendix 4 : Coface country risk assessment and 2013 GDP forecast

Asia	Coface Country Risk Assessment	2013 GDP forecast
Australia	A2	2.3
China	A3	8.5
Hong Kong	A1	2.2
India	A4	6
Japan	A1	0.7
Singapore	A1	3.4
Taiwan	A1	2
Malaysia	A2	5
New Zealand	A2	2.9
South Korea	A2	3.9
Thailand	A3	5
Indonesia	A4	6.5
Philippines	B	2.7
Vietnam	C	5.7

Appendix 5 : Responsible department of credit management function



Appendix 6 : Enterprises offered credit sales in past 12 months