



Decide with Confidence

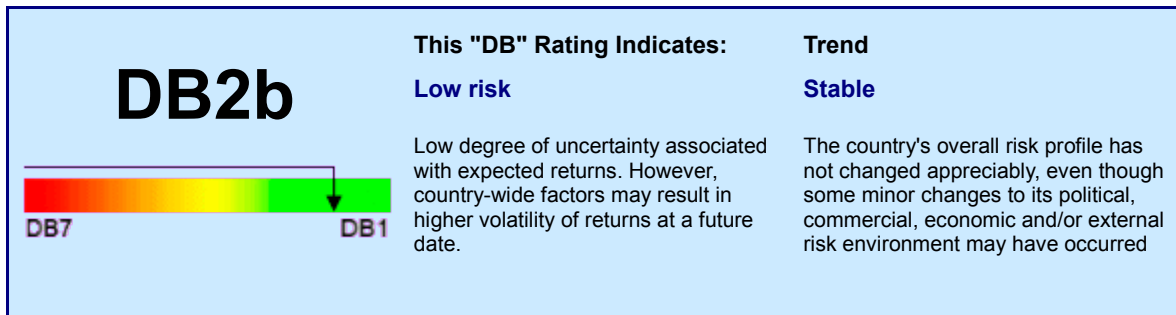
D&B Country RiskLine Report

HONG KONG (S.A.R.)

Region : Asia Pacific

Edition : September 2010

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	7.0m
Surface area (sq km):	1,092
Mobile phones (per 1000 people):	1,252
Timezone:	GMT +08:00
Official languages:	Chinese (Cantonese), English
Head of state:	President of China HU Jintao
GDP (USD):	207.2bn
GDP per capita (USD):	29,507
Life expectancy (years):	82
Literacy (% of adult pop.):	99.9

Country Overview:

Hong Kong is a special administrative region (SAR) of the People's Republic of China. Its Basic Law was agreed by bilateral negotiation between China and Britain, which returned the territory in 1997. The SAR retains its own custom arrangements, currency, British-style bureaucracy and legal system; its 1,000 square kilometre territory on the South China Sea includes Hong Kong Island and the 'New Territories'.

China exercises indirect (but effectively absolute) powers of appointment over the post of SAR chief executive and enjoys strong influence over its business community, which nominates half the seats to the legislature. Chinese People's Liberation Army personnel are stationed in the SAR, but confined to barracks.

Since light manufacturing exports accelerated in the 1970s, Hong Kong has transformed itself into a regional financial centre and corporate headquarters. It has benefited from the growth of the Chinese economy but grappled with issues arising from the relocation of industry to the mainland.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	OA
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	SD
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30-90 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-1 month
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

We recommend SD terms for manufacturing business customers, but OA terms can be considered for other sectors, and for repeat and large customers. Smaller exporters remain supported by the official Special Loan Guarantee Scheme (SpGS), an official credit guarantee scheme introduced in late 2008 and extended until end-2010 in April. About one-quarter of all manufacturers headquartered in Hong Kong but with operations in Guangdong province closed after the shock in 2008-09. However, wage demands and the disruptions from labour unrest present negative risk factors for those that survived the shock, even if demand conditions and other cost trends are benign. Service sectors in Hong Kong, for their part, are set to enjoy stable business conditions in Q3-Q4.

Export Credit Agencies

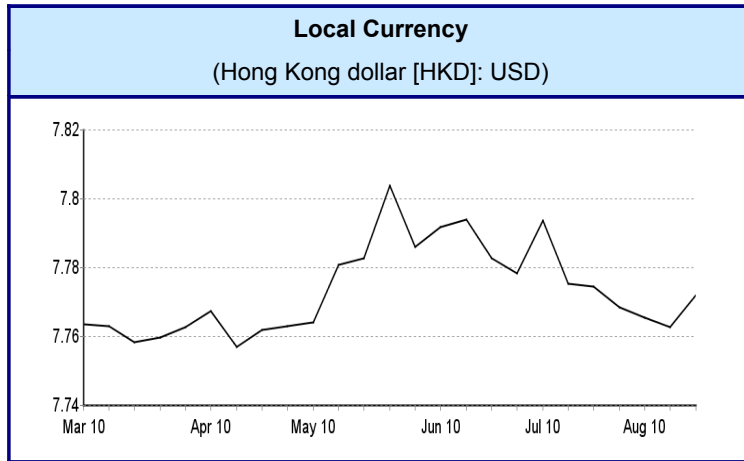
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2007	2008	2009	2010f	2011f
Real GDP growth, %	6.4	2.1	-2.7	5.5	3.5
Inflation, annual ave, %	2.0	4.3	0.6	2.6	2.8
Govt balance, % GDP	6.0	3.5	-0.9	-1.3	-0.3
Unemployment, %	4.0	3.5	5.2	4.6	4.8
C/A balance, % GDP	12.3	13.8	8.9	4.2	5.3

Currency Information

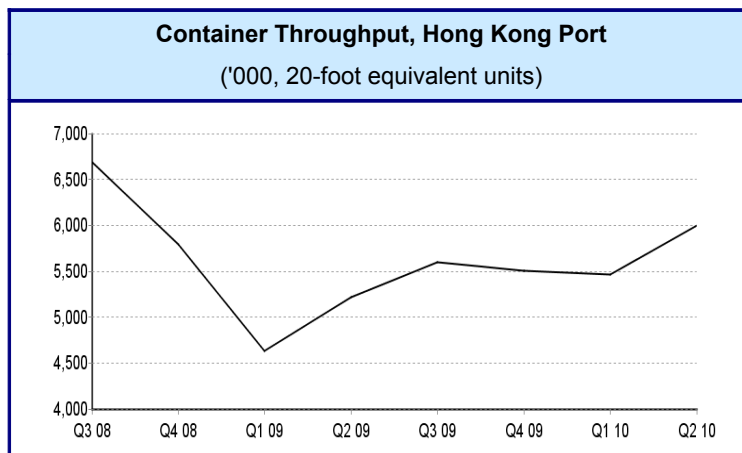
Exchange Rates	
(London, 16 Aug 10)	
EUR	9.9178
GBP	12.113
JPY*	9.0005
USD	7.772
*(x 100)	



Local Currency
(Hong Kong dollar [HKD]: USD)

	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10
Week 1	7.763	7.767	7.764	7.792	7.794	7.765
Week 2	7.763	7.757	7.781	7.794	7.775	7.763
Week 3	7.758	7.762	7.783	7.783	7.774	7.772
Week 4	7.760	7.763	7.804	7.778	7.768	
Week 5	7.762		7.786			

Container Throughput, Hong Kong Port



Data Table

Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
5793.0	4629.0	5221.0	5597.0	5510.0	5466.0

Risk Factor

Following the publication of preliminary GDP figures for Q2 2010, D&B is upgrading our forecast for Hong Kong's real GDP growth in 2010 from 4.6% to 5.5%. The Q2 growth figure of 6.5% year on year (y/y) exceeded expectations and was driven by investment in machinery and equipment, and by public construction activities. Because of the unusual dominance of public construction, the seasonal effects that usually cause Q3 and Q4 to grow quarter-on-quarter (q/q) may not be as pronounced. However, we see Q3 and Q4 as likely to be stronger than Q2 and Q3, given that this even happened in 2008, the year of the global financial crisis.

Generally, Hong Kong's policymakers are more focused on the risk of a property market bubble than on the dangers of a recession. This reflects Hong Kong's role as a destination for wealthy Chinese shoppers and real estate investors, which has fuelled its recovery, in addition to the general recovery in Asian trade flows. However, it also reflects the fact that Hong Kong's currency board system, which keeps the Hong Kong currency pegged to the US dollar, does not allow the Hong Kong Monetary Authority to set a monetary policy stance distinct from that of the US. Accordingly, rates for borrowing in Hong Kong are inappropriately low, another factor fuelling the property market; where the average price has risen by approximately 45% since the start of 2009. This resulted in a new array of property market curbs announced in August, including new maximum loan amounts for upper-end properties sold for over HKD12m, and mandatory stress tests for new mortgages, testing the consequences if interest rates rise by 2 percentage points. The government will also release more land on to the market in 2011, although this typically only has a price-damping effect after some delay. Given that some mortgages are being sold with rates under 1%, and some apartment prices in popular developments are approaching historic peaks in terms of price, the government deems this necessary to prevent a large price bubble taking shape and wrecking banks' balance sheets later in the 2010s. As things stand, Hong Kong's commercial banks are in good shape, and regulators do not want this to change.

Financial results for the first half of 2010 at some of Hong Kong's bellweather companies indicate the strengthening of the economy has been across the board. Orient Overseas Ltd (Hong Kong's largest container shipping line) saw container-shipping sales rise 39% y/y in Q1-Q2 2010, as volumes rose 12% y/y and Asia-Europe sales almost doubled. Meanwhile, Li and Fung, the largest supplier to European, Japanese and US retailers such as Walmart, saw its first-half profits double. Subway operator and real estate company MTR Corp. saw its underlying income rise 47% y/y in the first half. Despite our concerns for demand in the big OECD economies, the outlook for Hong Kong remains stable.

Glossary & Definitions

DEFINITIONS

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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