



HKCBA
Trends in Finance and Investing

30 May 2011

Canada

EDC
Realize a World of Opportunity

Why Asia?

Economic growth in Asia is strong and vibrant:

- foremost economists predict this growth will last for several decades
- fueled by China's economic expansion and increase in domestic consumption
- a growing consumer class in India
- a strong inflow of FDI in Vietnam and growth economies of Indonesia, Thailand etc.

The region presents a multitude of opportunities for foreign investors:

- diversification and growth in sectors such as industrial manufacturing, ICT, building component, energy, and transportation to name a few
- Canada is also a large, successful investor in financial services, education, engineering, environmental consultancy and much more

Why consider foreign direct investment?

- Canadian direct investment abroad is a key driver of Canada's future prosperity
- investing overseas grants you access to influential Asian markets
- helps deepen your integration into vital global supply chains
- can award you greater productivity and efficiency, increasing your ability to compete
- your goods and services reach more buyers than ever before

Why Asia?

Global GDP Forecast by country – Spring GEF 2011					
Market	Share	2009	2010	2011	2012
US	19.1	-2.6	2.8	3.3	3.1
Canada	1.7	-2.5	3.1	2.7	2.4
Mexico	2.0	-6.1	5.5	4.4	4.0
W. Europe	18.4	-4.2	1.8	1.6	1.7
Japan	5.6	-6.3	4.3	1.3	2.5
Emerging Asia	21.6	7.0	9.3	7.8	8.3
South America	5.5	-0.4	6.2	4.4	4.4
Industrial	49.7	-3.4	3.0	2.5	2.6
Total World	100.0	-0.6	5.0	4.1	4.3



Why EDC?

Over the past two years, EDC has facilitated more than \$250 million in Canadian Direct Investment Abroad (CDIA) in Asia. EDC can work with your financial institution to provide additional capacity and fill in the financial gaps that can frustrate even the best company's international investment plans.

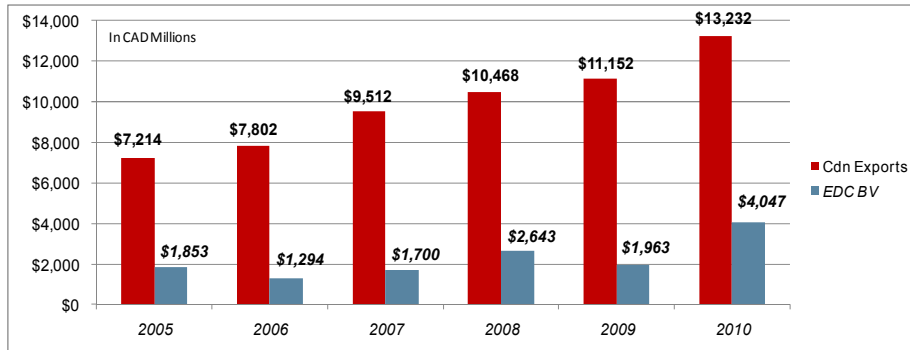
EDC can help you:

- Mitigate the receivables' risk of your foreign affiliate
- Access working capital for your foreign operation
- Secure funding for the acquisition or expansion of an overseas subsidiary
- Obtain financing for the purchase of equipment for your overseas business
- Increase your affiliate's competitiveness with buyer financing for its clients
- Protect your foreign assets and equity from a range of political risks



EDC and Mainland China

Canada's Merchandise Exports and EDC's Volume



Exports to China have nearly doubled between 2005 and 2010

- Top export items include minerals, chemicals, pulp & paper, petroleum, oilseeds, machinery & equipment

Source: Strategis & EDC Economics



Challenges for selling to China

- Price Price Price - driven by culture and competition
- IP – must register to protect, must divulge to register
 - Patents are a “first to file” system not first to invent or use – Windfall Risk
 - Copyright – registration isn’t mandatory but disclosure of parts of source code is required in the process
 - Trademarks – register through SAIC’s Trademark Office. Expiration in 3 years if not used in China
 - Protect now even if not in China – use qualified counsel!
- Burden of proof of financial loss is on you
- Have a plan – blackbox, kill switches, offshore servers, prior gen tech only, distributed assembly, slow feed tech to partner, on-location personnel,
- JV – keep partner engaged and valued! Enter with licensing agreements first



Challenges cont.

- Local presence or partner is essential (culture, distribution channels, market navigation) but also opens you up to other risks
- After sales service and support are critical = commitment and money
- Cultural context - need to customize – language, culture and tech standards
- High degree of competition from both local and international companies – know what your value proposition is and position it within the context of China's strategic goals and culture
- Regulation – new 5 year plan will mean regulations and enforcement of some policies related to the promotion or discouragement of some sectors or business structures could be subject to some confusion as different ministries and departments adjust to the new goals under China's 2011-2015 plan

It all means be sure to conduct Due Diligence BEFORE you enter the market!



Developments in financing in China

- Yuan in Your Pocket – RMB internationalization
 - ▶ Step by step approach taken by the Chinese Government
 - ▶ Now legal to conduct trade and negotiate commercial contracts in RMB
 - Offers another option for natural hedge of fx risk for those companies importing and exporting from China OR who have operations in China
 - Requires RMB bank account offshore – Hong Kong or even Canada can offer this service (HSBC, BMO, Bank of China, ICBC)
 - ONLY for current account activity – capital account transactions still subject to restrictions EVEN on lending RMB offshore into China based operations
 - ▶ Expect more liberalization in the next few years



Developments in financing in China

- Domestic bank lending on the mainland tightened last year and into 2011
 - ▶ *Quotas on lending still tightly constrained to control the economy*
 - ▶ *Result – very hard for affiliates in China to find working capital or loans for expansion*
 - ▶ *Higher interest rates in mainland now incentive for credit worthy companies to look offshore for funding*
 - ▶ *HOWEVER - State Administration on Foreign Exchange (SAFE) still has firm hand on foreign funds coming into China regardless of currency*
 - *A company's "borrowing gap" still defines the capacity to take on offshore loans*



Mitigate Risks

- Sourcing from China? – DUE DILLIGENCE (factory audits, site visits, get an interpreter, check claims of capabilities by asking for overseas references, check custom duty payments, make sure your supplier feels valued and important!)
- Selling to China? - GET PAID!
 - ▶ Have clear contract payment terms – currency, date due, deemed acceptance, performance standards, no unsecured payment post delivery
 - ▶ Have clear arbitration terms
 - ▶ Follow up immediately on late payments
 - ▶ Accounts Receivable cover for your sales from Canada and your Canadian affiliate's sales to companies in China. Sinasure for export receivables from China.
- CDIA support from EDC: working capital, funding for investment, PRI cover



Benefits of Hong Kong

- Offers a chance to test products and tweak for China market
- Offers trade shows and events to help evaluate your products value, clients and networking opportunities
- Cross border market offers chance to grab the attention of mainland early adopters (grey market)
- Offers a lower risk environment – good rule of law, IP, western business know-how
- Diaspora from the mainland presents potential agents as well as possible JV partners to help understand and navigate mainland China
- Investing in mainland China via a HK holdco may add value in terms of exit strategies in case you need to sell or abandon the China presence
 - Get strong tax, legal and financial advice from the outset since regulations and China's tax authorities have shown willingness to extend their reach into HK



EDC's Strategic Buyer Relationships for Asia

Who are they?

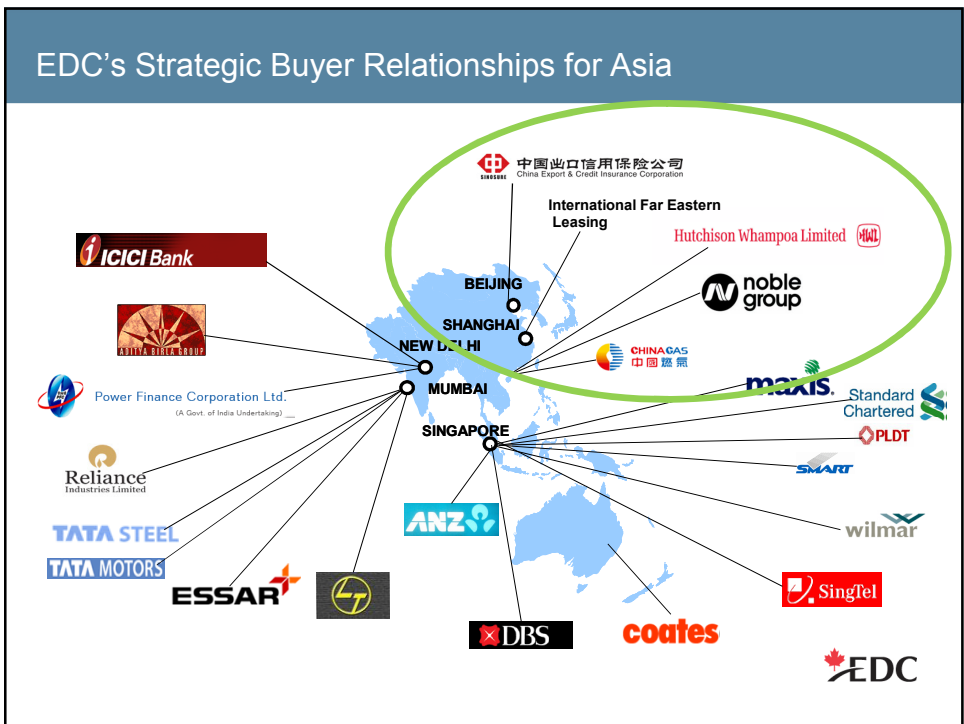
Large foreign or multinational group of companies that:

- *offer good supply opportunities for Canadian exporters*
- *have shown both interest and capacity to procure from Canada*
- *have used EDC financing to fund their capex and recognize Canadian supplier capabilities*

EDC can help to create opportunities with our strategic relationships

- *active in matchmaking and developing the strategic information that Canadian companies need to deliver effective bids to these companies*





Questions ?

Feel free to contact EDC to discuss further...

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