

The China Opportunity: Now is the Time to Build Bridges through Hong Kong

*“ Current International Trends in
Finance and Investing ”*

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China's Reserve Assets

China's reserve assets have topped USD3tn and are being managed by world-class talent

China has USD3.045tn of reserve assets which represents 31.3% of the reserve assets of the world

China's reserve assets are 61% of GDP compared against a global average of 17%

China's reserve assets are up 24% year on year compared against a global average increase of 17% year-on-year



China's Reserve Assets



By asset class, China's reserve assets are approximately 70% in bonds, 25% in equity and 5% in others



By currency, the IMF has reported that China's reserve assets are 61% in USD, 26% in EUR and 13% equally spread across GBP, JPY, CAD, AUD and EM

**BIG
TREND**

*A reduction in
USD and bonds*

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CNY



Convertible CNY would facilitate flow into the world's 2nd largest economy and enable **USD11.6tn** of Chinese domestic savings to have access to the world



Chinese banks have total assets of **CNY101.2tn** as at end of March, up 18.9% year-on-year



50% think that the CNY will join the USD, EUR and JPY as a reserve currency by the end of the decade



19% believe that CNY will become a reserve currency within **5 years**

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Recent Developments

HONG KONG PLAYS AN IMPORTANT ROLE

*USD2.4tn will be directly settled
against CNY by 2015*

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Recent Developments: CNY Deposits



CNY deposits in Hong Kong stood at a record CNY451bn in March



Could hit CNY870bn by year-end



Analysts predict CNY2tn in 3 years



Offshore spot CNY fixing rate introduced soon

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Recent Developments

CNY
denominated
bonds in Hong
Kong

- *CNY40bn year-to-date versus CNY36bn last year*
- *McDonald's Corp issuance last year*

CNY
denominated
IPO's on Hong
Kong market

- *Hui Xian REIT was first CNY denominated offering on an exchange outside of China*

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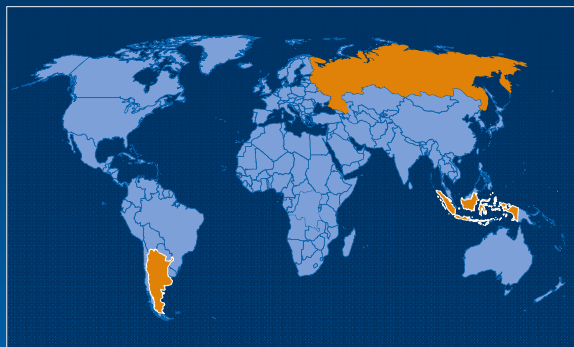


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Recent Developments: International

Currency swaps with
many nations
including **Indonesia**,
Argentina and **Russia**

CNY **SHOULD** be
included in the
currency basket used
in the IMF's Special
Drawing Rights



Loan to Venezuela by China denominated in CNY

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Recent Developments: International

“China Goes Global 2011”

- *In 2010, Chinese companies made direct investments in 3,125 overseas companies in 129 countries and regions with the non-financial direct investments amounting to USD59bn*
 - 8% of companies made investments of over USD100mn
 - 68% made investments of USD5mn or less
- *4 out of the top 10 places in the 2010 global M&A league table were Chinese companies*
- *20% of companies make investments outside of China*
 - 80% of these companies that are making overseas investments started after 2000
- *Manufacturing remains the largest area of outside investment at 33%, but has been decreasing*
 - 76% of companies largely concentrated in manufacturing
- *Agriculture, mining and energy are increasing and are the areas of highest value.*

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Capital Flows

Hot money inflows totalled **USD28.9bn** a year

- *Equates to 9% of the increase in China's foreign exchange reserves*
- *Economy with nominal GDP of around USD5.7tn and where new loans created last year reached CNY8tn*

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Capital Flows

International Monetary Fund's

Outlook for Asia and the Pacific

- *Surging economies = “key concern”*
- *China is one of three countries highlighted with the highest level of flows*
- *Continued surge in capital flow throughout 2011 and 2012*

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Recent Developments: Canada-China Flows



China is Canada's second largest trading partner



Canada's largest export market in Asia



In 2010, China's direct investment in Canada reached **CDN14.1bn**
– up from CDN12.9bn in 2009 and CDN5.7bn in 2008



In 2010, China's exports to the US and Europe equate to 2/5 of China's total exports

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Conclusion

A light blue map of China is centered on a dark blue background. The map shows the outline of the country and its internal provincial boundaries. A semi-transparent white box with a dark blue border is overlaid on the map, containing the main text.

**Canadian companies should attach
priority to China**
The opportunities are massive