

## **Survey Reveals Deteriorating Payment Performances**

- Numbers of late and default payments expected to rise 10 percent in 2008 -

The fourth-quarter 2007 survey of credit experiences among Hong Kong businesses – conducted by Coface, the leading international credit insurance and credit management services group – has revealed concerns regarding the global economic slowdown, which is evidenced by increasing incidents of late and default payments. Coface anticipates a 10 percent rise in late and default payments this year.

This is the first time since the third quarter of 2006 that a Coface survey has revealed an increase in overall late and default payments. Some 20.2 percent of respondents reported late payments over the past six months, up from 19.4 percent the previous quarter. Payment defaults during the past six months were reported by 4.2 percent of respondents, up from 3.9 percent the previous quarter.

“The worldwide economic slowdown is increasing the risks of late and default payments,” said Xavier Farcot, deputy regional managing director – Greater China Coface. “We anticipate that during this year, numbers of late and default payments will increase by at least 10 percent.” In 2001, payment defaults jumped 30% when the bubble burst, with the United States suffering from economic recession and world economic growth under 2% while in 2008 Coface forecasts a slower world economic growth but still above 3% and thus with lower impact on payment defaults.

### **More Concerns Regarding Economic Slowdown**

In the survey, 6.2 percent of respondents said their companies will further tighten credit terms during the next six months, with 64.9 percent of these respondents taking the reducing confidence in customers as the key reason, down from 76.7 percent the last quarter. Meanwhile, 14.9 percent citing the deteriorating overall economic situation as the main reason, sharply up from 2.3 percent of such respondents the previous quarter.

“More local enterprises are increasingly concerned that the economic slowdown will ultimately give rise to an economic recession,” said Farcot. “Local enterprises will become more cautious in granting credit terms to buyers.”

In the past six months, 11.9 percent of respondents have reviewed and / or tightened credit terms to customers, with 23.5 percent of these respondents have reduced their credit terms by 25% or more in terms of days of credit.

### **Rising Costs of Raw Materials Exacerbate Payment Problems**

The economic slowdown is resulting in reduced demand for exports – and the situation is worsened by rising costs of raw materials. Some 33.3 percent of respondents reporting payment defaults considered poor business performance by their buyers was the main reason, with almost half this figure attributing their buyers’ difficulties chiefly to rising costs of raw materials, which are eroding profit margins.

“Prices of raw materials for industries such as electronics have risen in the past months,” said Farcot. “This further decreases profit margins, which are already very low.”

### **Increasing Payment Incidents in the United States and China**

The survey revealed that 6.9 percent of respondents reported late payments by buyers from the United States, up from 6.0 percent the previous quarter. Reported defaults by buyers from the United States were 1.2 percent, rise from 1.1 percent in the third quarter of 2007.

In the Coface survey, 8.5 percent of respondents reported late payments by buyers from China – higher than 8.2 percent the previous quarter. On the other hand, reported payment defaults by buyers from China were 1.3 percent, slightly down from 1.4 percent last quarter.

“The impacts of the US sub-prime mortgage crisis and China’s macroeconomic controls on the payment performance of buyers will become more and more apparent in coming months,” said Farcot. “Local businesses are recommended to protect themselves by good credit management measures, and should be alert to any payment risks in order to avoid potential losses.”

The survey of 1,574 Hong Kong companies was conducted from October to December 2007, by Coface Greater China Services – the business information and credit management services subsidiary of Coface. The survey considered trends in late payments and defaults, as well as credit terms for manufacturing, trading services and contracting companies.

## About Coface

Coface, rated AA (stable outlook) by Fitch Ratings, AA (negative outlook) by S&P and Aa3 (stable outlook) by Moody's, is a subsidiary of Natixis whose share capital (Tier 1) was 11.6 billion euros end June 2007. Coface's mission is to facilitate global business-to-business trade by offering its 120,000 customers four product lines to fully or partly outsource trade relationship management and to finance and protect their receivables: **credit insurance, company information and ratings, receivables management and factoring**. Coface also offers, in France, management of government export guarantees. Thanks to the worldwide local service delivered by 6,000 staff in 64 countries, over 45% of the world's 500 largest corporate groups are already customers of Coface.

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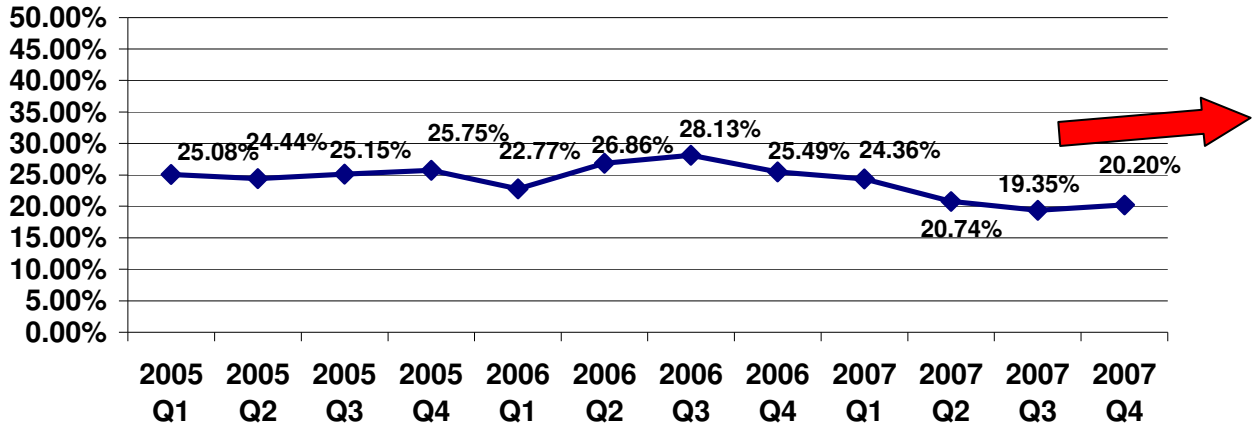
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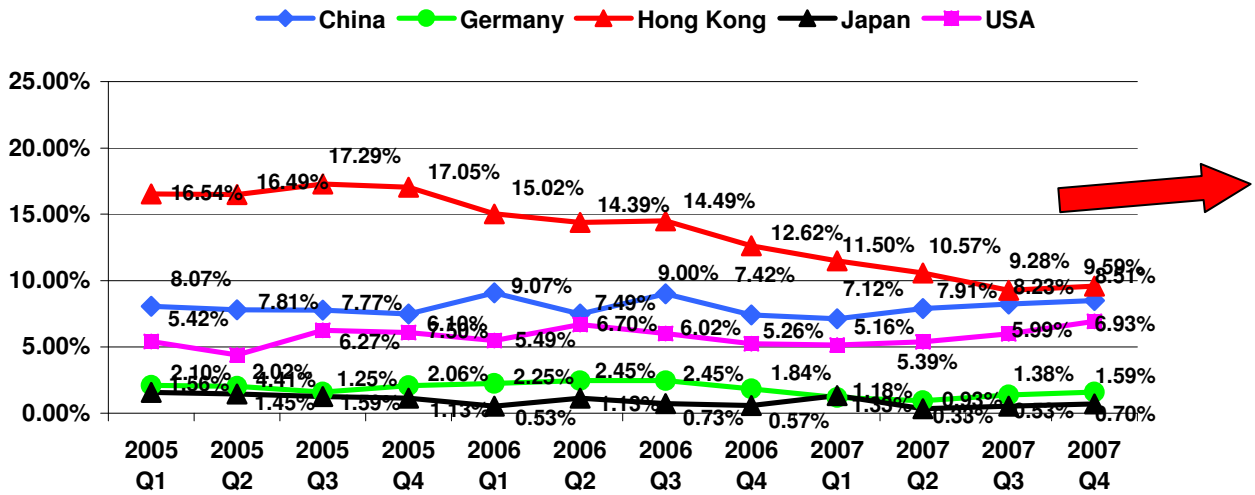
**Appendix**

**Coface Payment Survey of Hong Kong Businesses  
Fourth Quarter 2007 – Highlights**

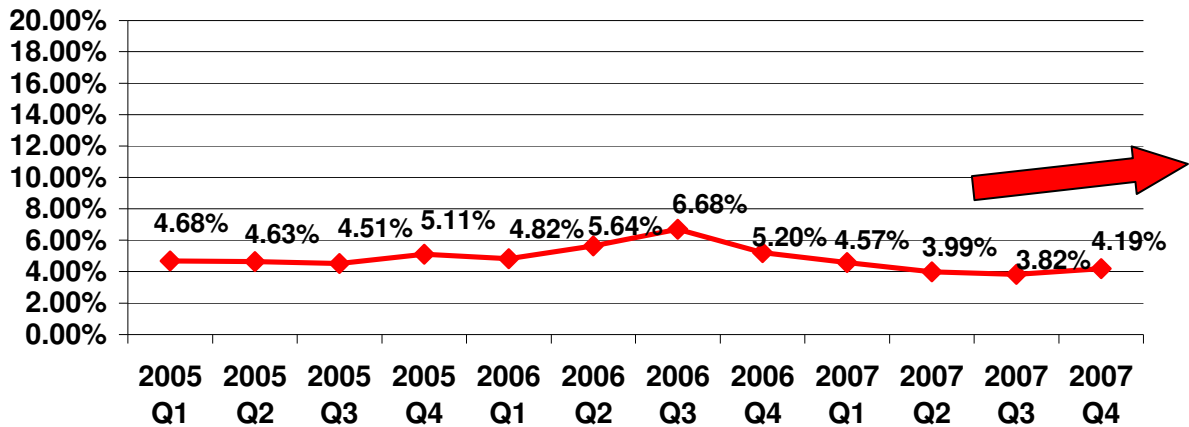
***HK Firms Experiencing Payment Delays***



***HK Firms Experiencing Payment Delays by Major Countries***

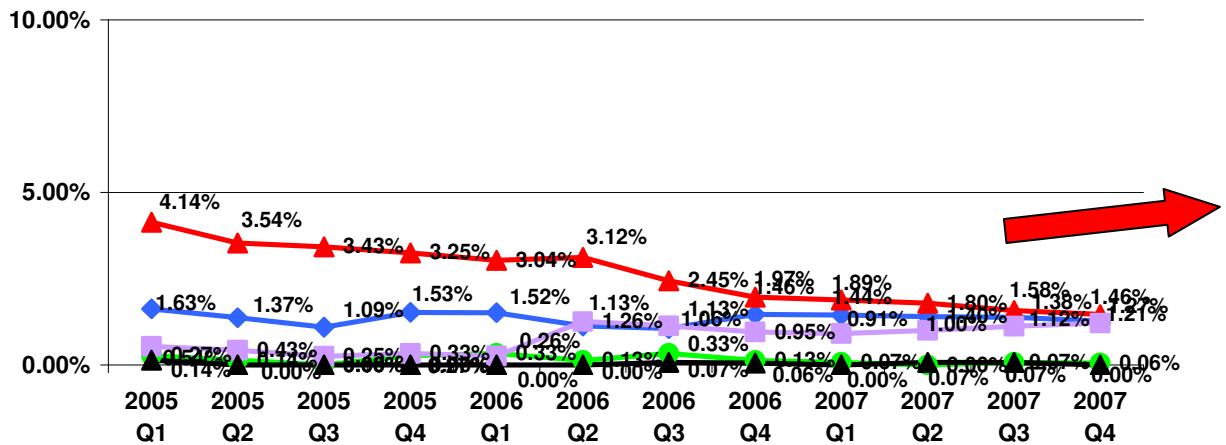


## HK Firms Experiencing Payment Defaults



## HK Firms Experiencing Payment Defaults by Major Countries

China Germany Hong Kong USA Japan



The quarterly payment survey by Coface Greater China Services studies trends in late payments and defaults, and credit terms for manufacturing, trading services and contracting companies in Hong Kong. The survey in the fourth quarter 2007 polled 1,574 Hong Kong companies.