

Maximizing Transaction Banking Opportunities in China

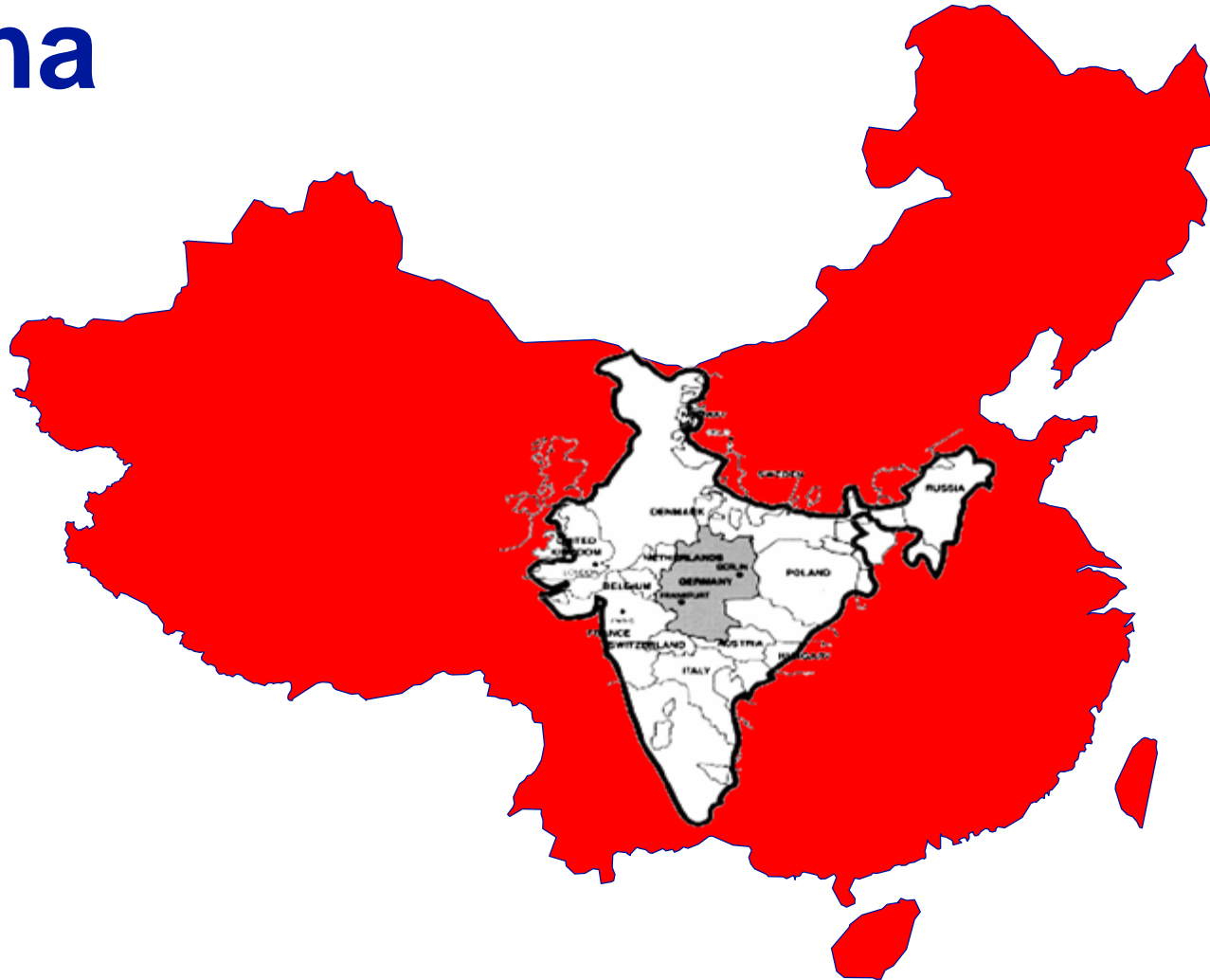


A Passion to Perform.

Deutsche Bank
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China



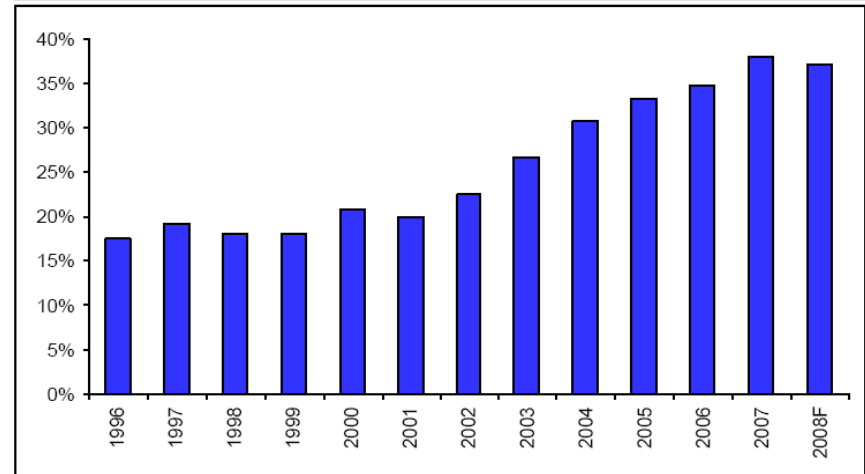
China Outlook 2009F

Navigating a Year in Deceleration, Deflation and Consolidation

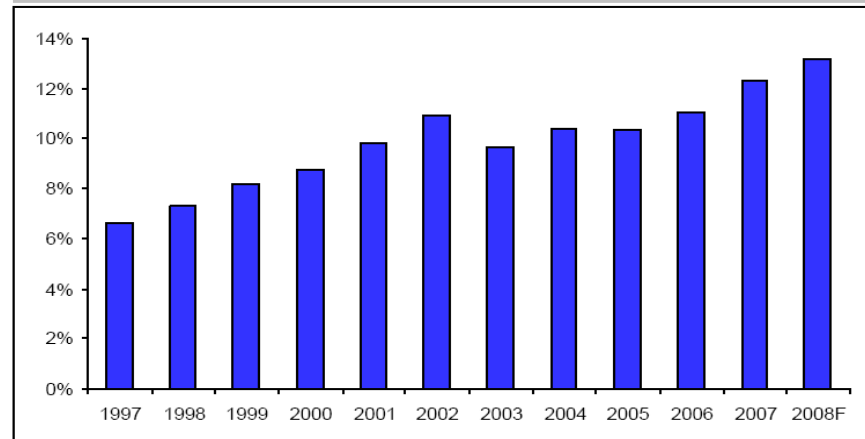
- GDP growth to decline from **9% in 2008** to **7% in 2009** and **6.6% in 2010**
- Growth may tentatively **recover in H1 2009**, but will slide again until hitting **the second trough in H1 2010**.
- The further deceleration in investment activities in the **real estate, manufacturing, mining** and **export** sectors, as well as spillover effect on **consumer**, will lead to GDP deceleration for **3-4 quarters until H1 2010**.
- China current economic deceleration is **even worse than that during the Asia financial crisis**:
 - 1) G3 growth outlook is now a deep recession of at least 2-3% GDP contraction in 2009 vs. 3.9% growth during 1997-1999.
 - 2) China's export/GDP ratio is 37% in 2008F vs. 18% in 1998.
 - 3) China's economic growth is much more dependent on the performance of the property market.

Source: China: Themes and Strategy for 2009, Asia China, Macro Strategy, 5 January 2009

China's export/GDP ratio



China property investment as a percent of GDP



Analytical Perspective on Current Issues

VAT Reform

- The reform, a conversion of the product-type to a **consumption-type VAT** effective on 1 Jan. 2009, will reduce companies' tax burden by **RMB 129 bn** in 2009.
- It will offer some benefits to a few sectors with **higher capex** and **lower margins**.

RMB 4tn Stimulus Program

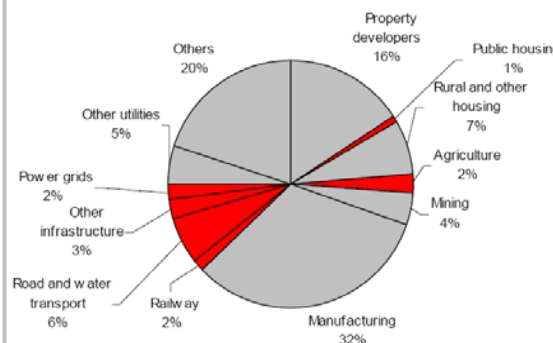
- **RMB 1.18tn** will be arranged by the central gov. and the rest will be financed by the "**society**", i.e. loans, corporate debt, equity financing, and etc.
- **Stimulus in 10 areas:**
public housing, rural development, infrastructure, health care and education, environment, technological innovation, post-quake construction, agriculture subsidies and social security payments, VAT reform and credit support.

Estimated sector impact of VAT reform 2009

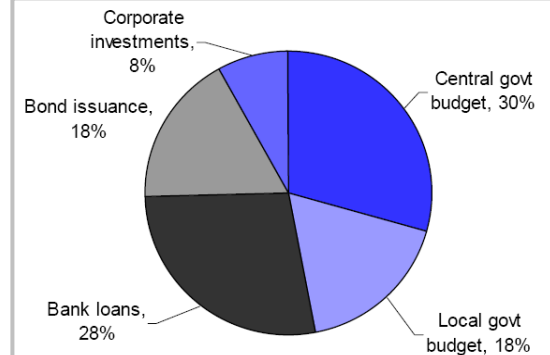
Sector	Impact on net income	Impact on cash flow
Materials	3.2%	9.0%
IPP	1.9%	3.3%
Industrials	1.8%	9.7%
Consumer Discretionary	1.5%	7.6%
Oil	0.8%	4.2%
Consumer Staples	0.8%	3.3%
Coal	0.8%	5.3%
Health Care	0.1%	0.5%

Source: Deutsche Bank. Note: Impact on net income is defined as the % change in net income due to the reform; impact on cash flow is defined as the change in cash flow due to the reform divided by baseline operating cash flow.

FAI supported by stimulus program is only 15% of total



Financing of the RMB 4tn package: DB projection



China Economic Indicators 2009F

Fixed Asset Investment

- Single most important driver of overall GDP slowdown.
- Slow from **26% in 2008** to **10% in 2009** and only **8% in 2010**.
- Gov.-sponsored projects (**account for only 15% of FAI**) are far from sufficient to offset the massive slowdown in corporate investments.

Export Volume Growth

- Sharp drop to **-4% in 2009, the weakest since 1976 and worst performance in 32 yrs.**
- China raised export tax rebates **4 times in 2008** for **3,486 items** from labor intensive industries and for **553 types** of high-tech mechanical and electrical products.

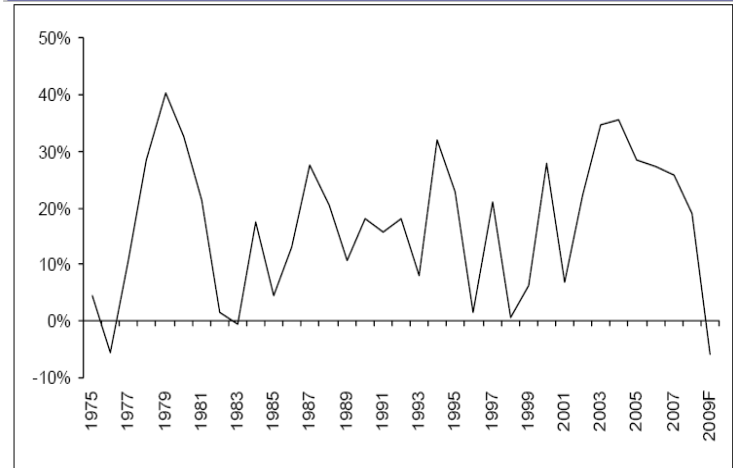
Retail Sales

- DB expects retail sales growth to slow sharply from **2008's 21% to 13% in 2009** due to:
 - Falling corporate earnings
 - Sharp wealth effect
 - Rising unemployment

CPI Inflation

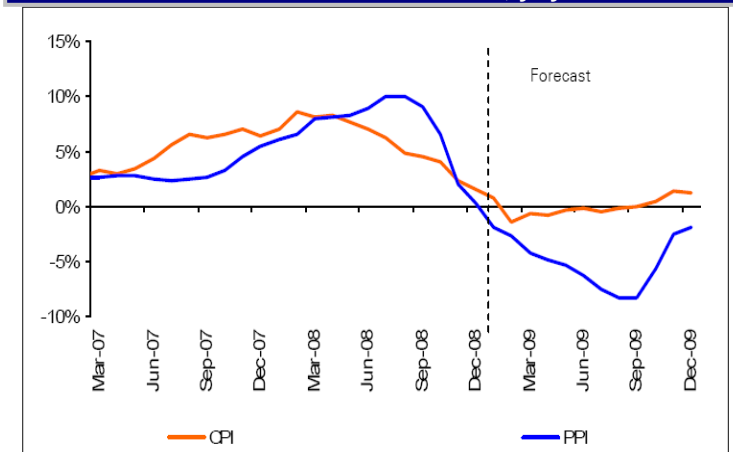
- **Worst deflation in 10 yrs.**
- **CPI will fall below -1% in Feb. 2009, with annual average at round zero.**
- **PPI inflation will likely be -5% in 2009, with the quarterly trough at -7% in Q3 this yr.**

China export value (in USD) growth forecast, yoy%



Source: Deutsche Bank, CEIC

China CPI and PPI forecast, yoy%



Source: Deutsche Bank, CEIC

Source: China: Themes and Strategy for 2009, Asia China, Macro Strategy, 5 January 2009

Current PBOC Rates

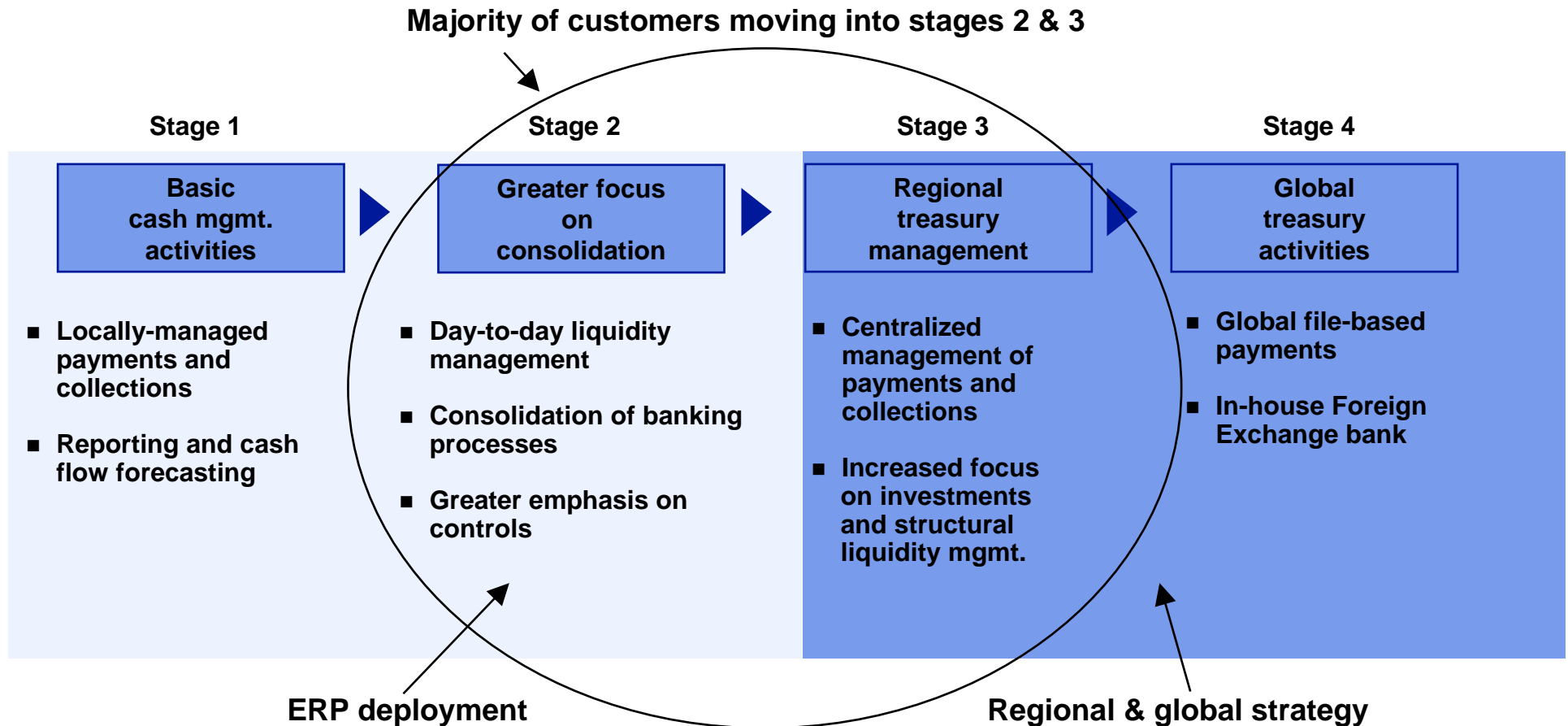
RMB Primary Interest Rates p.a. (regulated by PBOC)

	Deposit		Bank Loan	PBOC + 10%
3 Months	1.71%	3-6 Months	4.86%	5.35%
6 Months	1.98%	6 Months-1 year	5.31%	5.84%
1 Year	2.25%	1-3 years	5.40%	5.94%
2 Years	2.79%	3 -5 years	5.76%	6.34%
3 Years	3.33%	5 years above	5.94%	6.53%
5 Years	3.60%	(>5 years)		

Notes:

- Wide spread between deposit and loan rate.
- Lack of tenor flexibilities.

Maturity of Treasury Management in China



Trade Finance Solutions

Full Suite Trade Finance Services

Export Finance	Import Finance	Domestic Trading	Others
<ul style="list-style-type: none">■ LC Advising■ LC Confirmation■ LC Bill Negotiation■ D/A,D/P Bill Purchasing■ Forfeiting■ Receivables Financing■ Packing Credit	<ul style="list-style-type: none">■ LC Issuance■ Loans against Imports■ Shipping Guarantees■ Trust Receipt	<ul style="list-style-type: none">■ Commercial Draft Acceptance■ Bank/Commercial Accepted Draft Discounting ("BAD/CAD")■ Entrusted BAD/CAD Discounting■ Domestic Receivables Finance	<ul style="list-style-type: none">■ Supplier Finance■ Supply Chain Solutions■ Structured Trade Finance■ Credit Insurance Backed Receivables Finance■ Guarantees

Cash Management Solutions

Full Suite Cash Management Services

Payables Management	Receivables Management	Liquidity Management	Partner Bank Link-up
<ul style="list-style-type: none"> ■ Local transfers, giro, cheques ■ Cross-border transfers, demand drafts ■ Direct interface to local clearings ■ Payroll & staff reimbursement 	<ul style="list-style-type: none"> ■ Local & cross-border collections ■ Direct interface to local clearings ■ Comprehensive information reporting ■ Real time to 24 hours collection speed 	<ul style="list-style-type: none"> ■ RMB entrust loan ■ FCY entrust loan ■ RMB cash sweep ■ FCY cash sweep ■ Quasi-netting arrangement 	<ul style="list-style-type: none"> ■ Account inquiry ■ Payments ■ Collections ■ Direct debits ■ E-banking platform and host-to-host solution

Key Regulatory Authorities

People's Bank of China (PBOC)

- China's central bank
- Formulates and implements monetary policy, maintains financial stability and provides financial services to promote economic growth and price stability

China Banking Regulatory Commission (CBRC)

- Assumes regulatory function of the banking sector
- Regulates and supervises financial institutions
- Protects the interests of depositors and consumers, maintains market confidence in banking system, enhances public knowledge of modern finance, eradicates financial crimes

State Administration of Foreign Exchange (SAFE)

- Responsible for planning and administrative control of foreign exchange
- Control payment, collection and conversion of foreign exchange, manage the exchange rate and foreign exchange reserves

Account Structure Overview

RMB Current Accounts

Basic Account

- Only one account allowed for each entity
- Cash withdrawal allowed (e.g. payroll & travel, entertainment and reimbursement payments)
- Should register with the PBOC

General Account

- No limitation on number of accounts opened
- Multiple openings with one bank allowed (i.e. for different divisions)
- Reported to basic account holding bank
- Remote RMB General Account is permitted

FCY Current Accounts

Capital Account

- Only for capital injection purposes
- Limits on total “injected cash”
- Only one account for each entity (exception: capital exceeds USD 30 million)
- Requires SAFE approval

Settlement Account

- The domestic institution is allowed to keep the foreign exchange incomes obtained under current items in light of the operation needs without ceiling limit

Shareholder's Loan Account

- Only for shareholder's loan and require SAFE approval

China Loan Structure

Onshore Loans		Offshore Funds via Shareholders
RMB Loans	FCY Loans	FCY Loans
<ul style="list-style-type: none"> ■ All tenors possible ■ Overdraft allowed ■ FCY Conversion upon Int'l payment ■ Interest rates are regulated by PBOC 	<ul style="list-style-type: none"> ■ No liquidity for long-tenor ■ No FCY overdraft is allowed ■ FCY loan cannot be converted into RMB ■ Interest rate base on the onshore inter-bank rate 	<ul style="list-style-type: none"> ■ Shareholder's Loan is subject to SAFE registration ■ Sufficient borrowing gap needed to meet SAFE requirements ■ Each conversion into RMB requires approval of SAFE upon transaction ■ Interest rate depends on cost of funds
Entrustment Loans (Onshore)		
RMB Loans	FCY Loans	
<ul style="list-style-type: none"> ■ Direct financing between companies is not allowed in China ■ RMB entrust loans allowed cross different group ■ Interest rates can be chosen freely ■ Tri-party or multi-party agreement, bank acts as agent to transfer fund from lender to borrower ■ Third party entrusted loan valid based on Deutsche Bank's guarantee to the lender 	<ul style="list-style-type: none"> ■ Direct financing between companies is not allowed in China ■ FCY entrust loans only allowed within a same group (more than 3 subs in China) ■ Interest rates can be chosen freely ■ Lender should use self available funds in settlement or capital account ■ Not allowed to be converted into RMB 	

RMB Entrustment Loan

RMB Entrustment Loan is a product that enables companies to engage in inter-company loans through financial institutions.

- Entrustment Loan involves three parties in the transaction:
 - Entrustor (cash surplus company/lender)
 - Entrustee (bank acting as agent)
 - Borrower (cash deficit company)
- Entrustment Loan is to on-lend the entrustor's surplus fund to the borrower through the entrustee.
- Entrustor will take the full range of credit risk of the borrower.
- Lending rate is negotiated between entrustor and borrower.
- Entrustee plays an administrative role.



Local Regulations

- RMB forward is allowed to hedge “permitted” underlying businesses – eg. trade & non-trade businesses, capital injections, bank loans, overseas proceeds from IPO.
- RMB forward can be unwound fully or partially if the underlying business is changed or cancelled. The profit or loss will go to client account directly to reflect the hedging gain or loss.
- Invoice in RMB is possible for international trade. Non-trade businesses can only be priced in foreign currency.
- Companies registered in bonded zone are allowed to do RMB FX conversion directly and their FCY current account opening no longer need SAFE approval.

Regulation on Offshore Loans

- Offshore shareholder's loans still need to be registered with SAFE and subject to SAFE approval. The offshore loan account* could be opened with foreign banks.
- The amount of the shareholder's loan account shall be up to the borrower's borrowing gap.
- Conversion of FCY borrowed from offshore shareholders into RMB is allowed subject to SAFE's approval.
- Conversion of injected FCY capital into RMB is allowed subject to other applicable regulations such as:
 - For each conversion above the amount of USD200K or equivalent, the RMB proceeds shall be directly wired to the designated beneficiary's account subject to the written payment instruction by the borrower.
 - For each conversion below the amount of USD200K or equivalent, the RMB proceeds can be credited to the borrower's own account , while the utilization details of these RMB proceeds shall be provided for the next conversion request.
- However, the conversion of FCY borrowed from offshore shareholders into RMB is prohibited for the purpose of repaying RMB loans.

** refers to the foreign debt account for offshore loan in FCY.*

Source: *Notice Regarding FIE's FCY Conversion under Capital Item and Foreign Debt Registration Management* [SAFE No.42, 2004]

Settlement Infrastructure in China

Local Currency Settlements

- Local clearing house (intra-city clearing)
- China National Advanced Payment System (CNAPS): real time nationwide coverage
- Big Six banks' in-house clearing systems
- Bulk Electronic Payment System (BEPS): ACH functionality within the overall CNAPS infrastructure

Settlement infrastructure in China

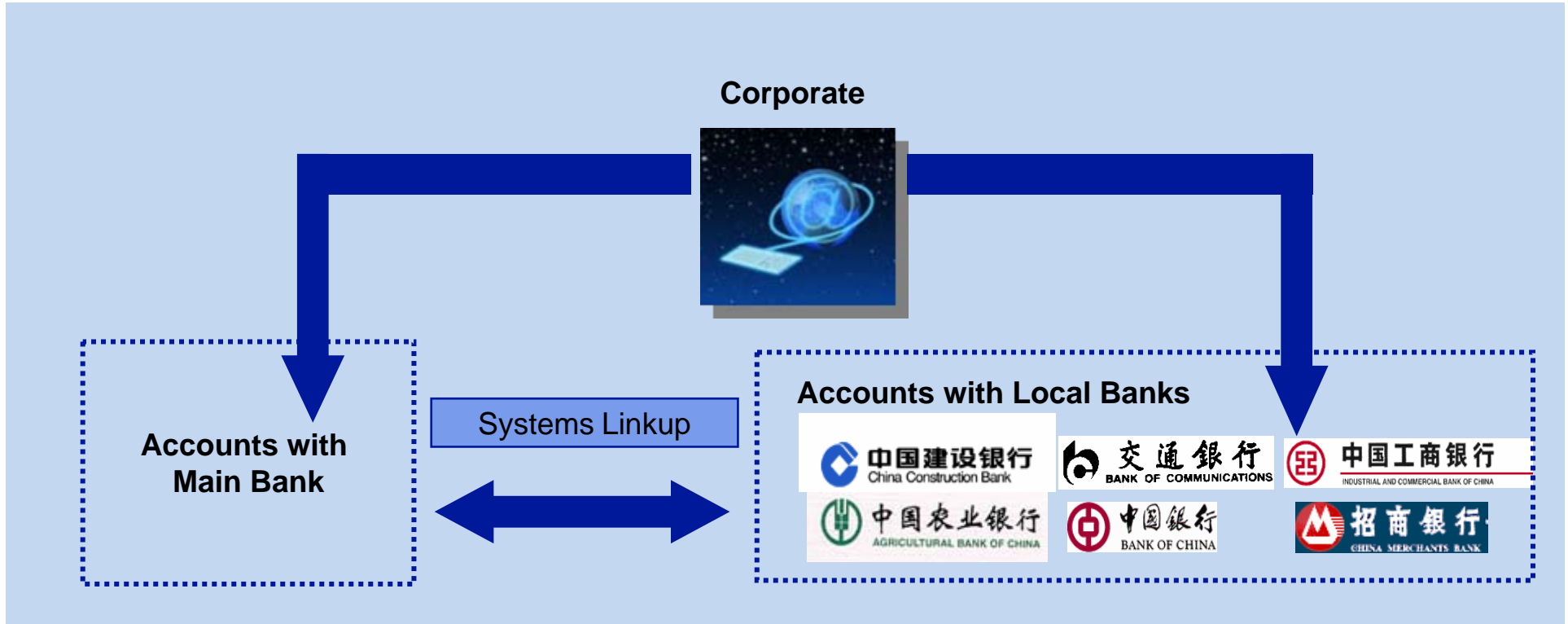
Foreign Currency Settlements

- Cross-border international transfers typically via SWIFT
- Demand drafts
- PBOC developing a new system to handle domestic foreign currency clearing (FCY)

Local Currency Settlement Instruments in China

Type of Transfer	Instruments	Availability of Funds
Intra-city transfer	Cash	Immediate
	Corporate check	Within 48 hours
	Cashier's order	Immediate
	Local transfer via Dai Ji Ping Zheng	Within 24 hours
Intra- & Inter-city transfer	Local transfer via CNAPS	Real-time up to 48 hours
Inter-city transfer	Demand draft	Within 48 hours
	Bank acceptance draft	Within 10 days
	Commercial acceptance draft	Within 10 days

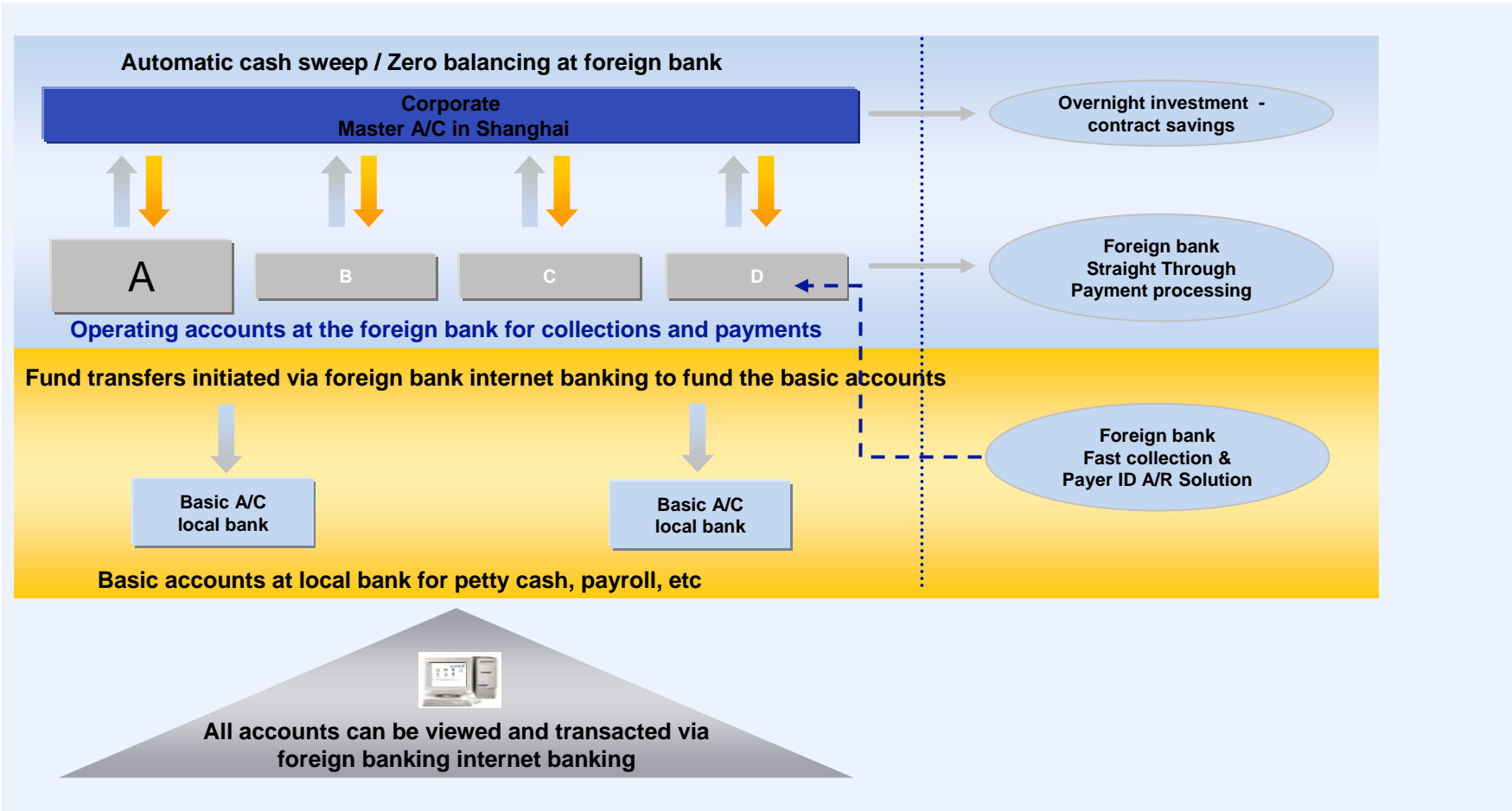
One-stop Electronic Banking Platform in China



Liquidity Management in China – Regulation

- Direct inter-company lending is not allowed in China
- Group liquidity can be optimized through the use of entrust loan and physical cash sweep
 - Entrust Loan – bilateral or multilateral entrust loan structure with a bank acting as an agent
 - Physical Cash Sweep (zero or target balancing) – structure under the entrust loan framework
 - Work under Entrust Loan Framework
 - Physical movement of funds between concentration and member accounts to achieve “zero balancing” or “target balancing”
 - Member accounts linked to a concentration account
 - Interest rate between lender and borrower is negotiable using arm’s length principles

Zero Balancing RMB Cash Pooling Solution



Fully-Automated Straight Through Processing Payment Service Benefits

- Eliminate paper work by initiating all payment instructions (both in-city and cross-city) via foreign bank internet banking platform or using ERP interfaces
- Automated payment processing on straight through basis without manual intervention through direct linkage with CNAPS
- Shorter turnaround time: credit beneficiary's accounts within 2 to 24 hours
- Automatic e-mail/fax notification to beneficiaries as value-added service
- Secure and convenient authorization process by online or offline authorization

Open Account Financing Solutions

Open Account Solutions

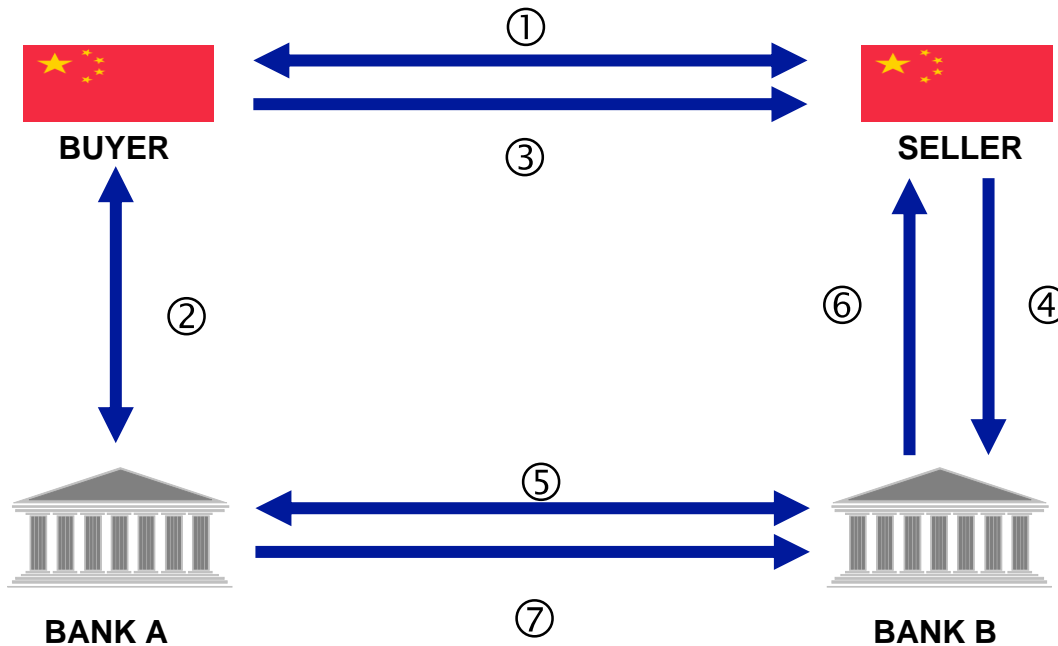
Export Finance

- ✓ Receivable Financing
- ✓ Insurance Backed Receivable Purchase

Domestic Trading

- ✓ Receivable Financing
- ✓ Insurance Backed Receivable Purchase
- ✓ Supplier / Vendor Financing
- ✓ Commercial Accepted Draft (CAD) Discounting
- ✓ Bank Accepted Draft (BAD) Discounting

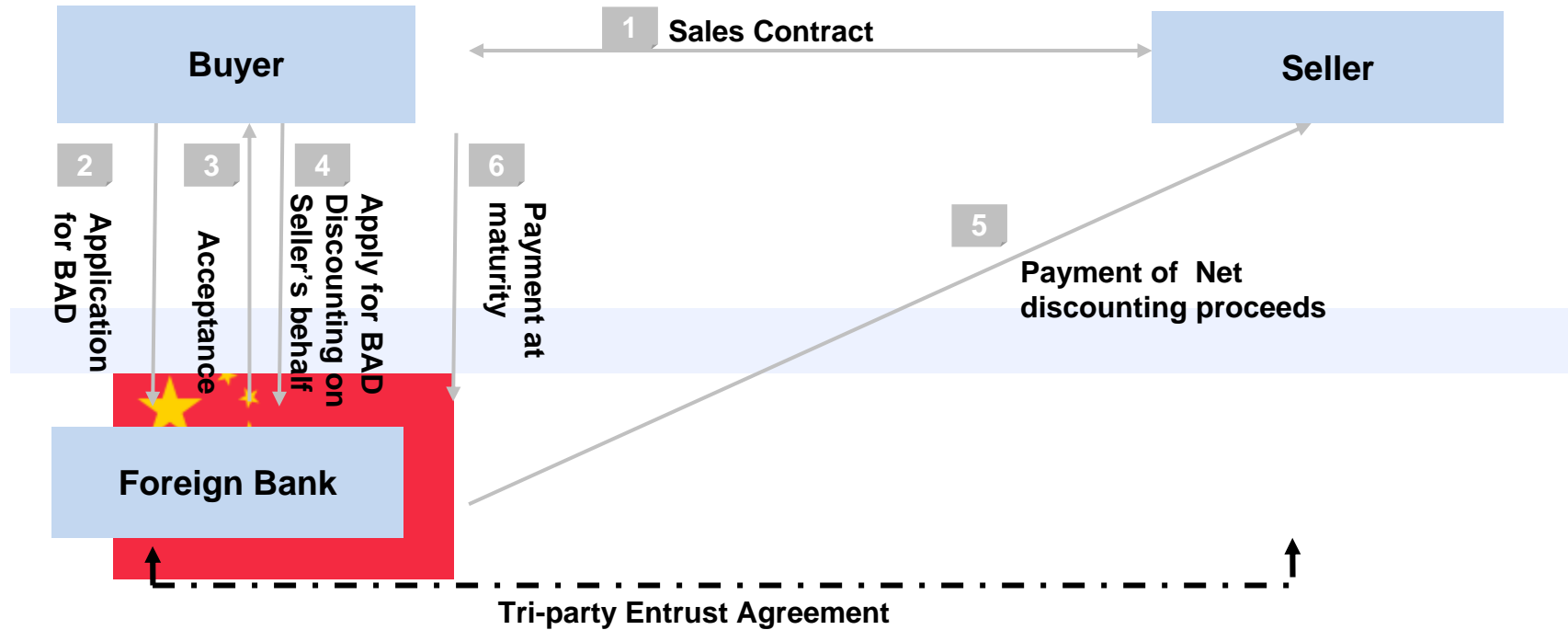
BAD Discounting



- 1.Sales Contract
- 2.Issuance of BAD
- 3.Payment with BAD
- 4.Discount with Bank B
- 5. Authentication with Issuing Bank
- 6. Bank B credits Sellers' Account
- 7.Repayment on Maturity Date

- An account receivable solution to seller to speed up its receivable collection.
- Discounting can be 1) with recourse or 2) without recourse to the seller
 - With recourse, is based on the seller's credit line with Bank B.
 - Without recourse, is based on Bank A's credit lines with Bank B.

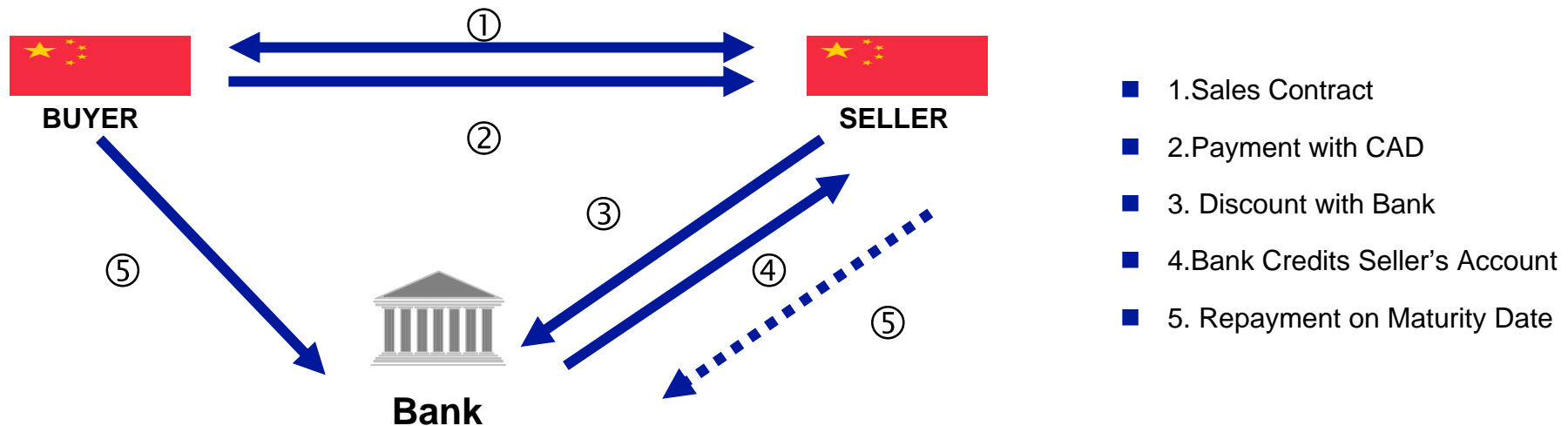
Entrust BAD Discounting



- An account payable solution to buyer to prolong its payment to suppliers.
- Discounting is based on buyer's credit line with the foreign bank and non-recourse to its suppliers.

Commercial Accepted Draft (CAD) Discounting

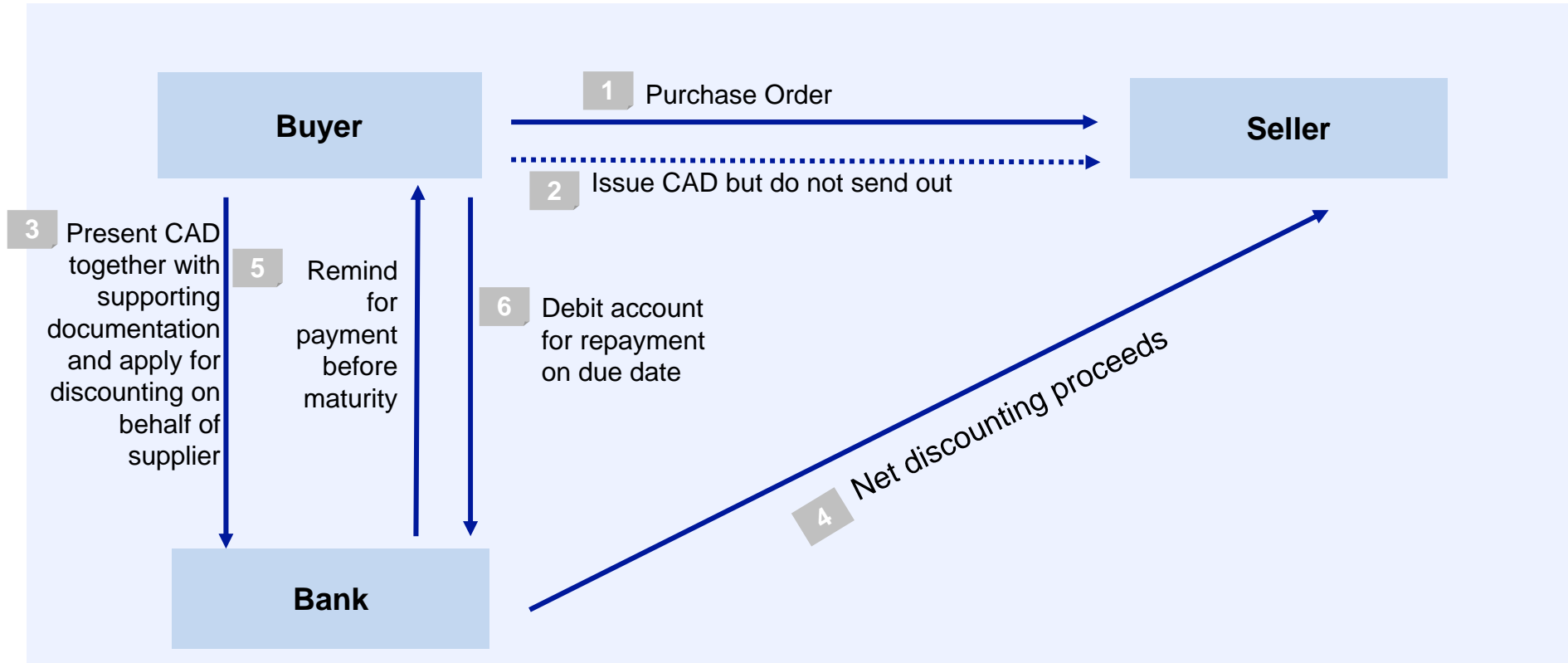
Commercial draft is a negotiable instrument in China carrying buyer's irrevocable payment obligation at maturity. It serves as corporate credit and payment promise. Maximum tenor for a commercial draft is 180 days.



- 1. Sales Contract
- 2. Payment with CAD
- 3. Discount with Bank
- 4. Bank Credits Seller's Account
- 5. Repayment on Maturity Date

- An account receivable solution to seller to speed up its receivable collection.
- Discounting can be 1) with recourse or 2) without recourse to the seller
 - With recourse, is based on the seller's credit line with a bank.
 - Without recourse, is based on buyer's unadvised credit limit with a bank.

CAD Discounting



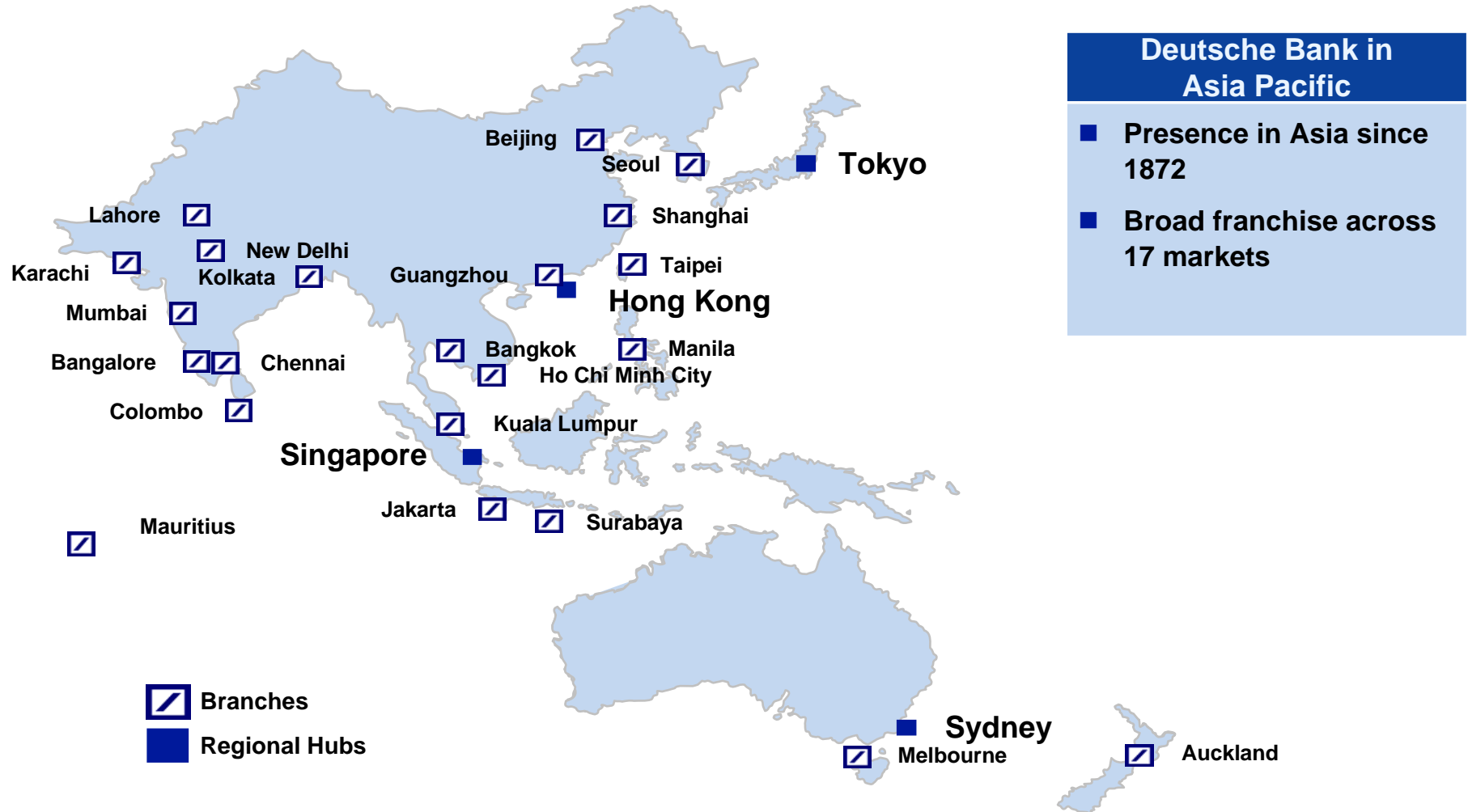
- An account payable solution to the buyer to prolong payment to the seller (supplier).
- Discounting is based on buyer credit line with a bank and non-recourse to its suppliers.

Other Financing Solutions in China

			Benefits	Disadvantages
RMB	1	Offshore loan	<ul style="list-style-type: none"> Low cost through offshore lower interest rates Wider offshore financing source to secure the funding arrangement Flexible loan repayment 	<ul style="list-style-type: none"> Need SAFE approval for registration and each conversion into RMB
	2	Revolving Bank Loan with Corporate Guarantee (Onshore)	<ul style="list-style-type: none"> High flexibility (Overdraft) Convertible to foreign currency for international payments 	<ul style="list-style-type: none"> Short term financing for working capital Interest rate is referenced to PBOC primary lending rates Interest cost higher than offshore due to local regulations (pricing against cost of fund)
	3	Syndicated Loan (Onshore)	<ul style="list-style-type: none"> Stable long-term financing Committed facility 	<ul style="list-style-type: none"> Additional costs to PBOC rate Lengthy documentation process

Asia-Pacific Network: Unique Deutsche Bank Footprint

17 markets – an average of 31 years in each



Questions



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