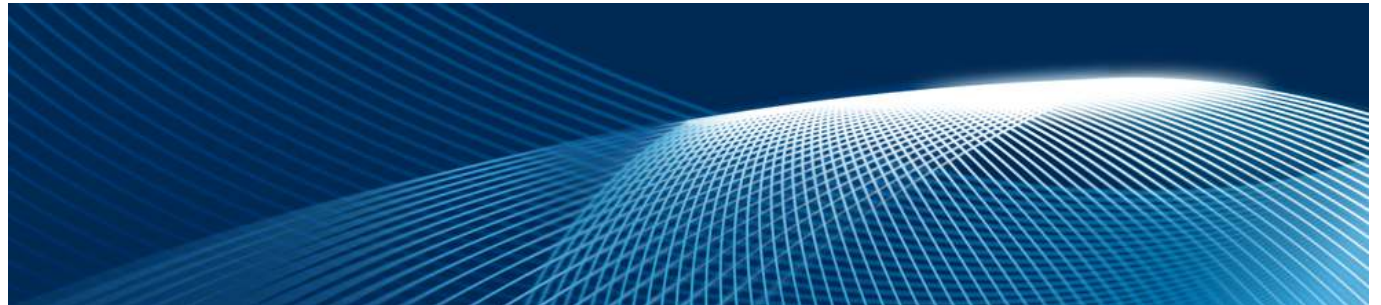


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Transformation in China: New Opportunities and Challenges

March 2008



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A Look at the Asia Pacific

	Australia		Philippines
	China		Singapore
	Hong Kong		South Korea
	India		Sri Lanka
	Indonesia		Taiwan
	Japan		Thailand
	Malaysia		Vietnam
	New Zealand		Mauritius
	Pakistan		



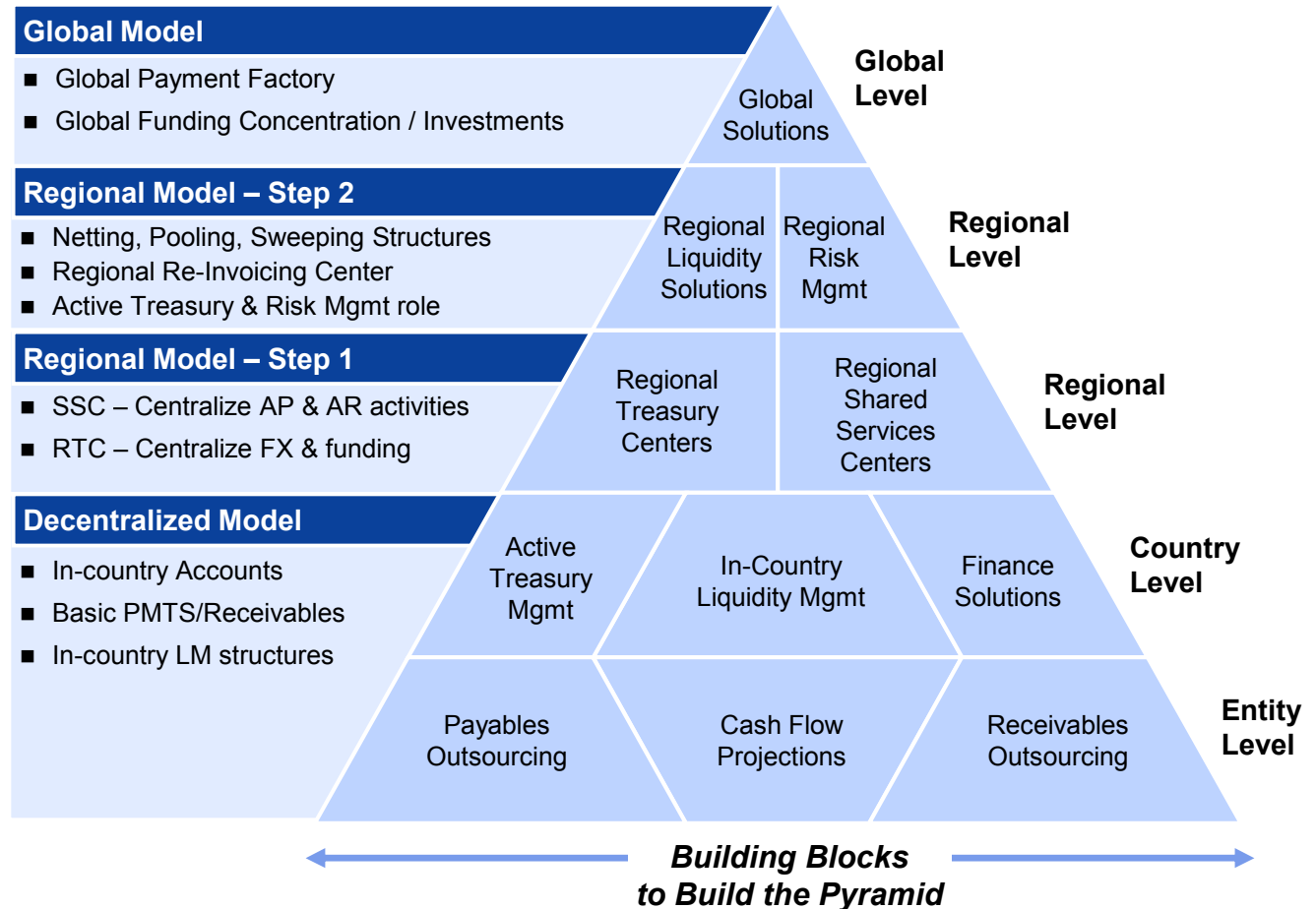
Market Trends – Regional Treasury Centres

Considerations

- Economy of scale
- Regional presence
- Cost structure
- Adequate location
- Business Environment

Characteristics

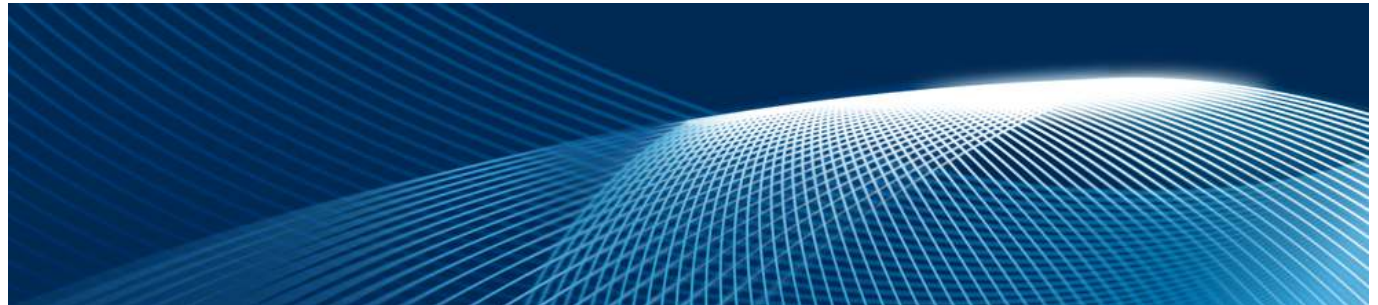
- Separate group entity
- Tax optimized or tax neutral entity located in a tax efficient location
- Operating as separate profit centre
- Financial management, treasury transaction & support services for group entities.



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China

Best Practices



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China

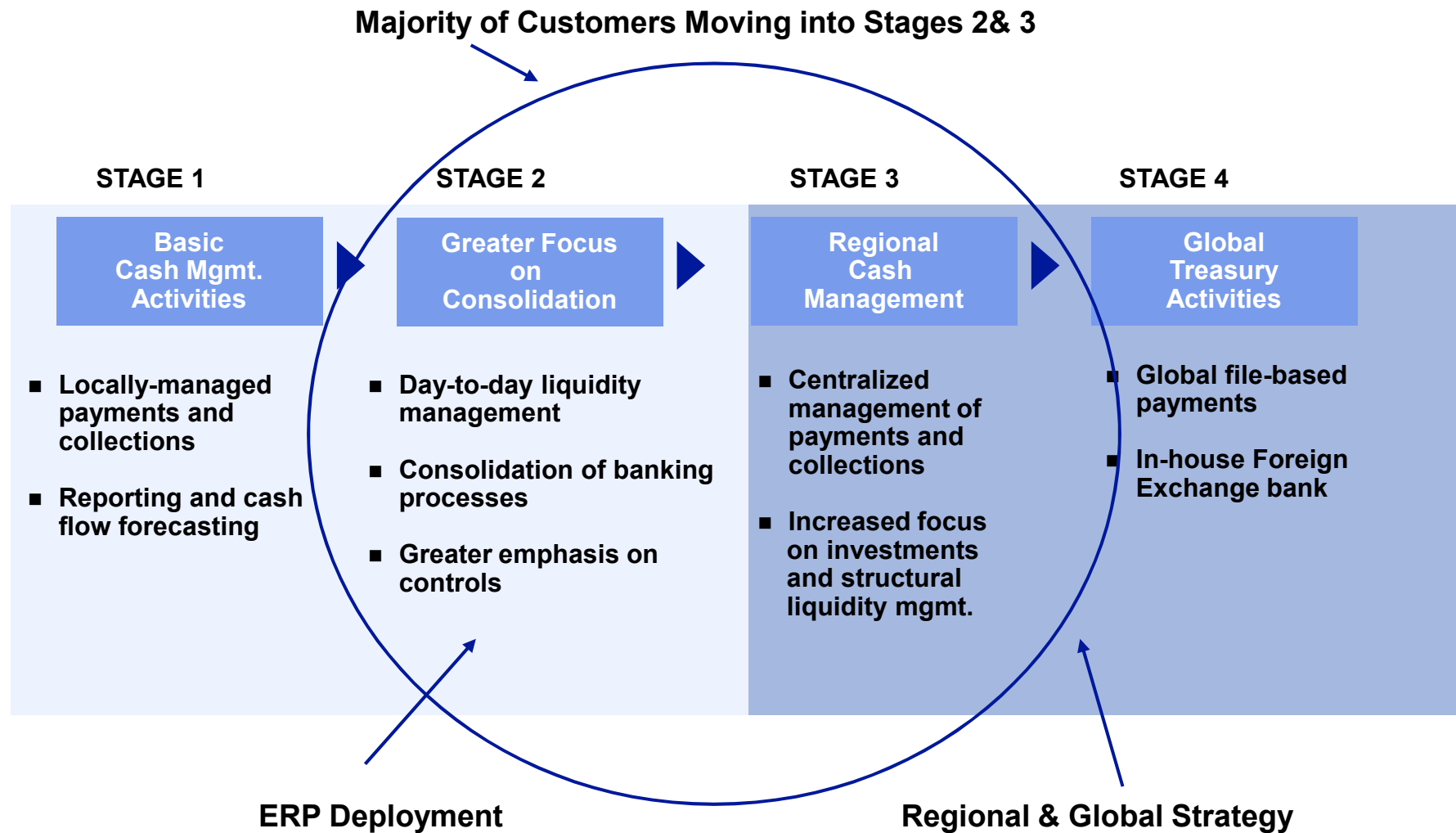


Checklist to Treasury Success in Asia

How.... To Get The Basics Right!

- Optimize domestic cash management
- Reduce cash in transit
- Outsource non-core activities
- Centralize payments
- Optimize / Repatriate excess cash
- Regional / Global liquidity management
- Choose the right bank as Partner**

China: Evolution of Cash Management Models



Market Challenges for A/R Reconciliation

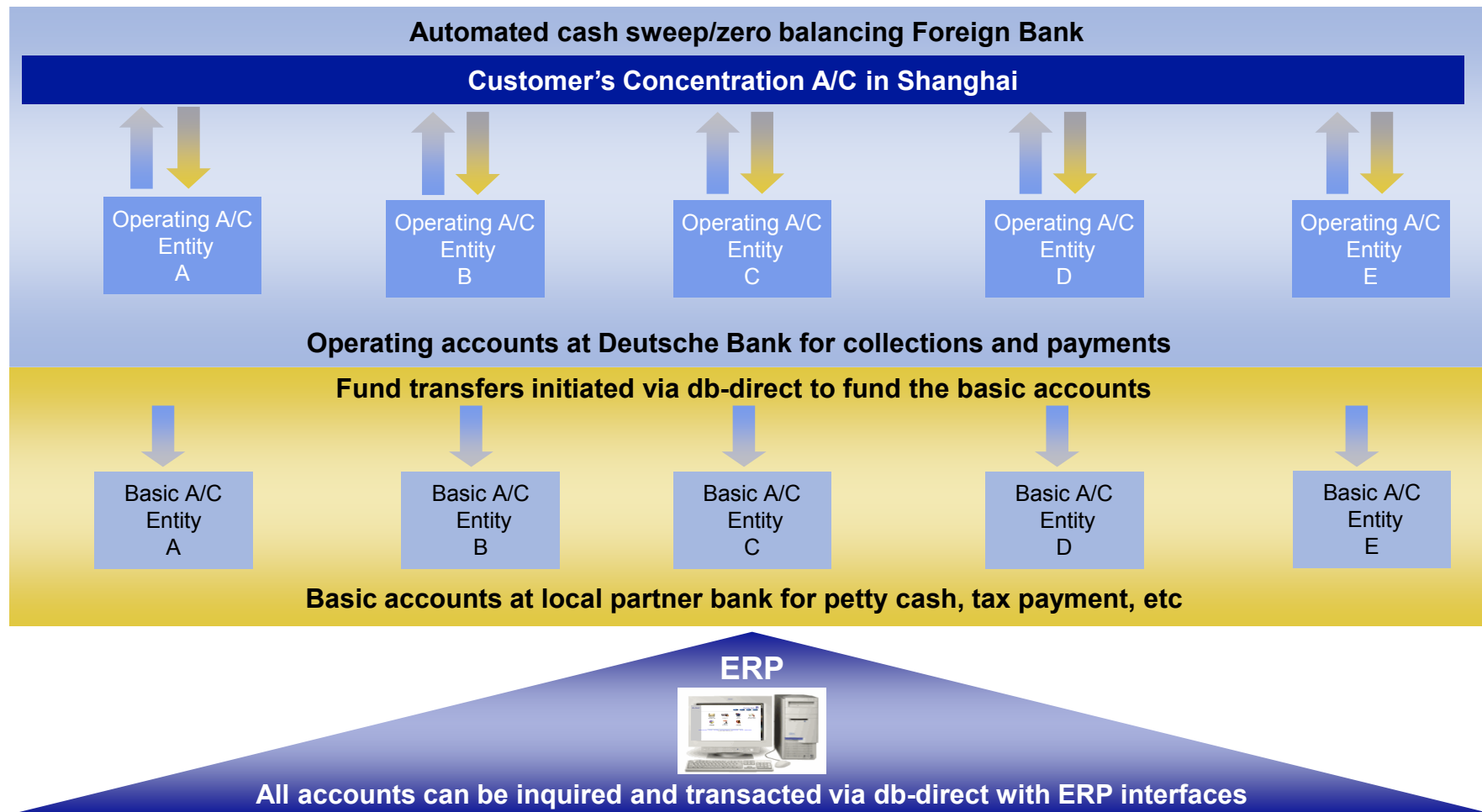
Problems or inefficiencies faced by customers for A/R reconciliation

- Limitations in clearing house support of payment details
- Limitations in paying banks capabilities
- Limitations in payers adhering to a strict discipline
- Identification of the payer (which is the first step for any A/R reconciliation) is extremely difficult

Liquidity Management in China – Market Background

- Direct inter-company lending is not allowed in China
- Group liquidity can be optimized through use of entrustment loan and cash pooling scheme
- Entrustment Loan: bilateral or multilateral entrustment loan structure with a bank acting as an agent
- Automated Cash Sweep (zero or target balancing): structure under the entrustment loan framework
 - Local currency (RMB): No pre-approval is required
 - Foreign currency (FCY): Pilot program by SAFE (State Administration of Foreign Exchange) & Shanghai Pudong city government in Oct 2005 for qualified MNCs with regional headquarters domiciled in Pudong district
 - SAFE approval is required for FCY physical cash sweep

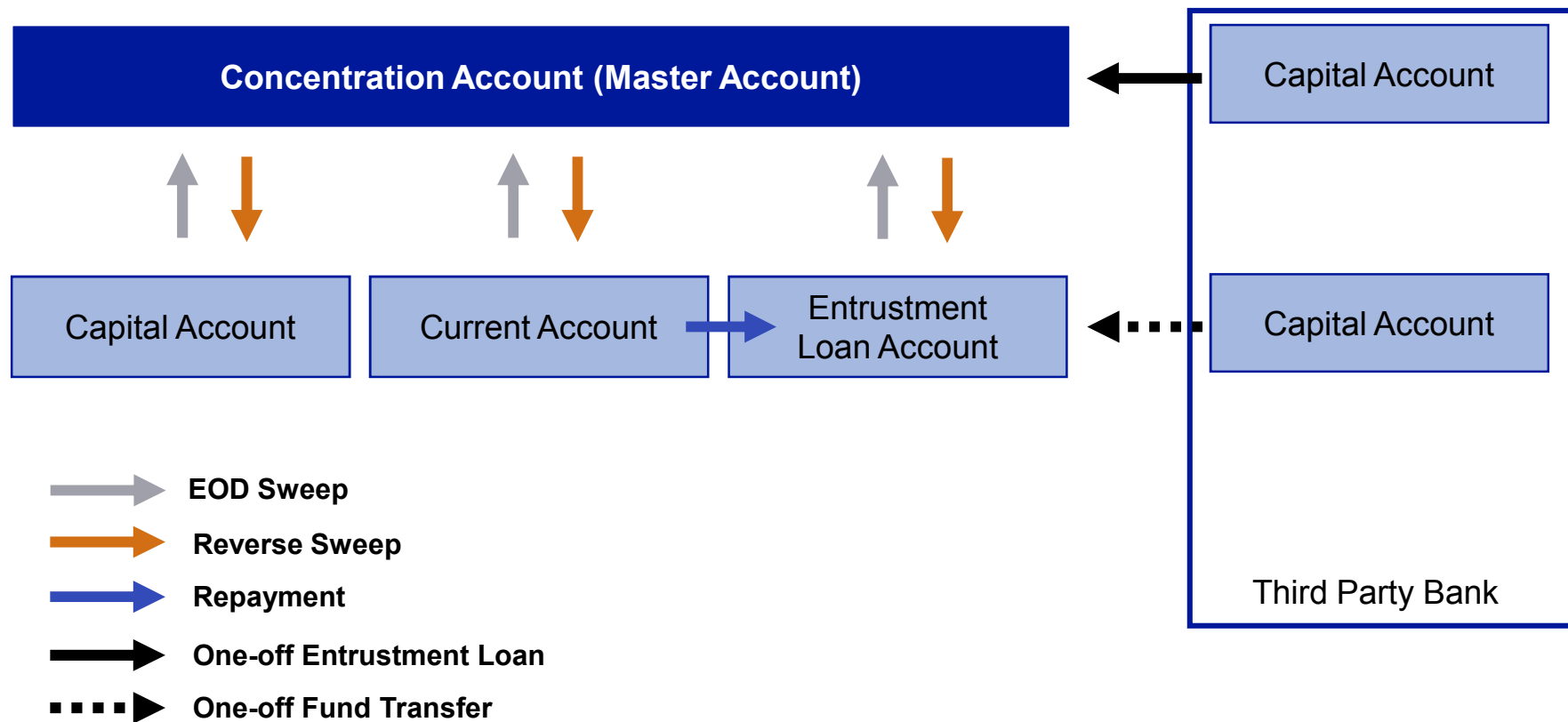
Efficient RMB Cash Pooling Scheme



RMB Cash Sweep Scheme

- Works under Entrustment 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
- Fully automated solution
- Daily/weekly/monthly sweeping

Foreign Currency Cash Sweep



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
- Formulates policies and regulations and manages 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

- Ceiling limit for account balance; exceeding limits triggers forced conversions within 90 days

Shareholder’s Loan Account

- Only for shareholder’s loan and require SAFE approval

Loan Structure Overview

Onshore Loans

RMB Loans

- All tenors possible
- Overdraft
- Interest rates are regulated by PBOC

FCY Loans

- No FCY overdraft is allowed
- Proceeds of the loan cannot be converted into RMB loan

Offshore Funds via Shareholders

FCY Loans

- Shareholder's Loan is subject to SAFE registration
- Sufficient borrow gap required to meet SAFE requirements
- Each conversion into RMB requires approval of SAFE upon transaction

Entrustment Loans (Onshore and Offshore)

- Inter-company financing is not allowed in China
- Loan contract between corporations, the money is passed on via the bank (acting as "entrustee")
- Interest rates can be chosen freely
- Structure can also be implemented with third party corporations (by guarantee from Deutsche Bank)
- FCY entrustment loans only allowed within a group
- Deutsche Bank is one of the first banks having obtained approval by the regulators for accommodating FCY entrustment loans

China: Settlement Infrastructure

Local Currency Settlements

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

China: Settlement Infrastructure

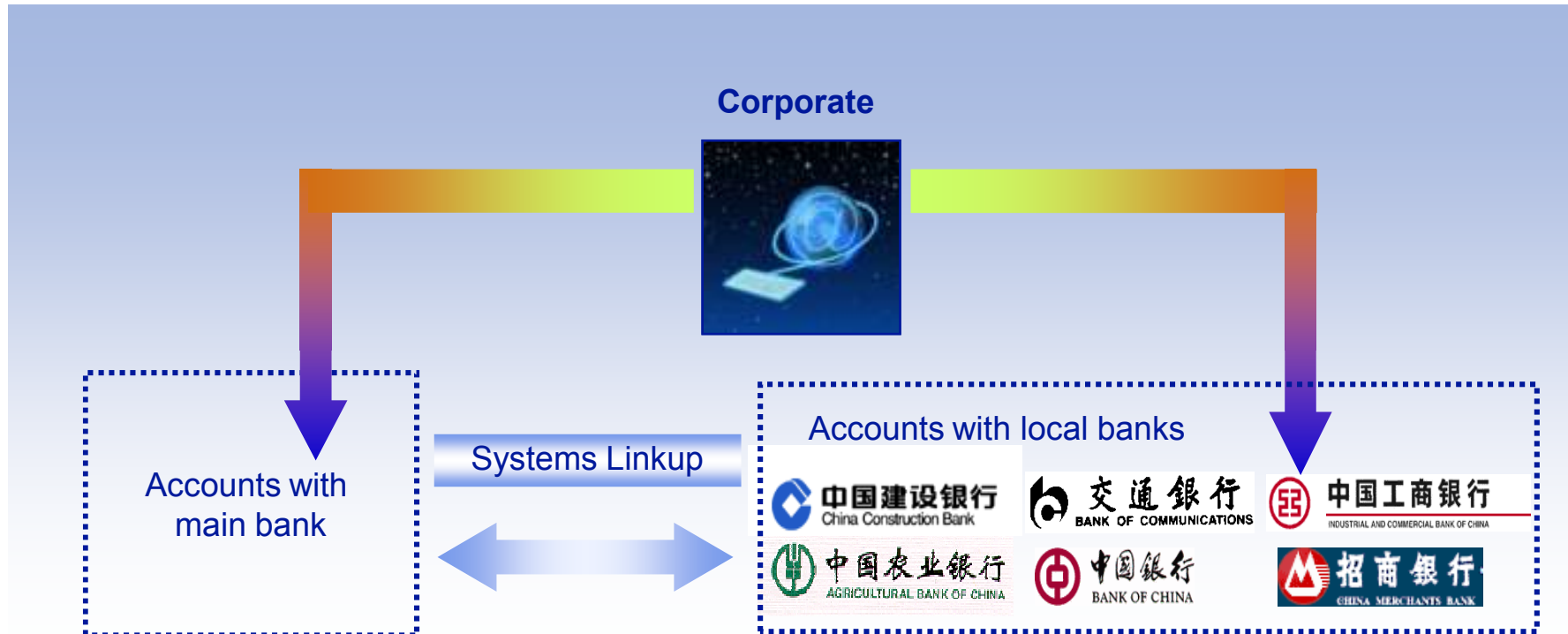
Foreign Currency Settlements

- Cross-border international transfers typically via SWIFT
- Demand Drafts
- PBOC developing a new system to handle domestic FCY clearing

China: Local Currency Settlement Instruments

Type of Transfer	Instruments	Availability of Funds
Intra-city transfer	Cash	Immediate
	Corporate cheque	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

China: One-Stop Electronic Banking Platform



Slide 19

a8

I have reinserted this slide:

Pls put the Bullet points in notes

agirtaz, 2/5/2007

Newspaper Cutting China November / December 2007

China Tells Banks How To Parcel Out Lending Next Year

"...China's banking regulator has told commercial banks it will penalize them if they don't evenly spread out next year's lending, in the latest sign that the government considers administrative controls important in keeping the economy from overheating..."

Wall Street Journal, 28, November 2007

Tighter Policy Curbs Yuan Loan Growth

"...Yuan Lending by Chinese banks slowed in November under tightening measures designated to rein in growth..."

...New Yuan loans in November amounted to 87.4 billion Yuan compared to 136.1 billion Yuan in October and 283.5 Billion Yuan in September, Making a continual downward trend..."

China Daily, 14, December 2007

China Looks Set to Step Up Fight Against Overheating

"...will discuss how to deal with problems including rapid investment and lending growth and the swelling trade surplus. But the government hasn't said which policies it might set at the meeting..."

Wall Street Journal, 4, December 2007

China inflation at new high

"...The People's Bank of China announced last week that monetary policy would move from "stable" and "moderately tight" to "tight", primarily because of concern over inflation and possible overheating. China has lifted interest rates five times and reserve ratios 10 times this year, with little impact on the pace of economic growth or inflation"

Financial Times, 5, December 2007

China Acts to tighten Economy

"...The government's most important policy tool to keep construction in check is curbing the rate of growth in bank lending, from about 17 per cent year-on-year so far in 2007, to about 13 per cent in 2008. Such a tightening will have a limited impact on overall investment, as about only about a third to 40 per cent through bank lending..."

Financial Times, 5, December 2007

China orders banks to freeze lending in Q4

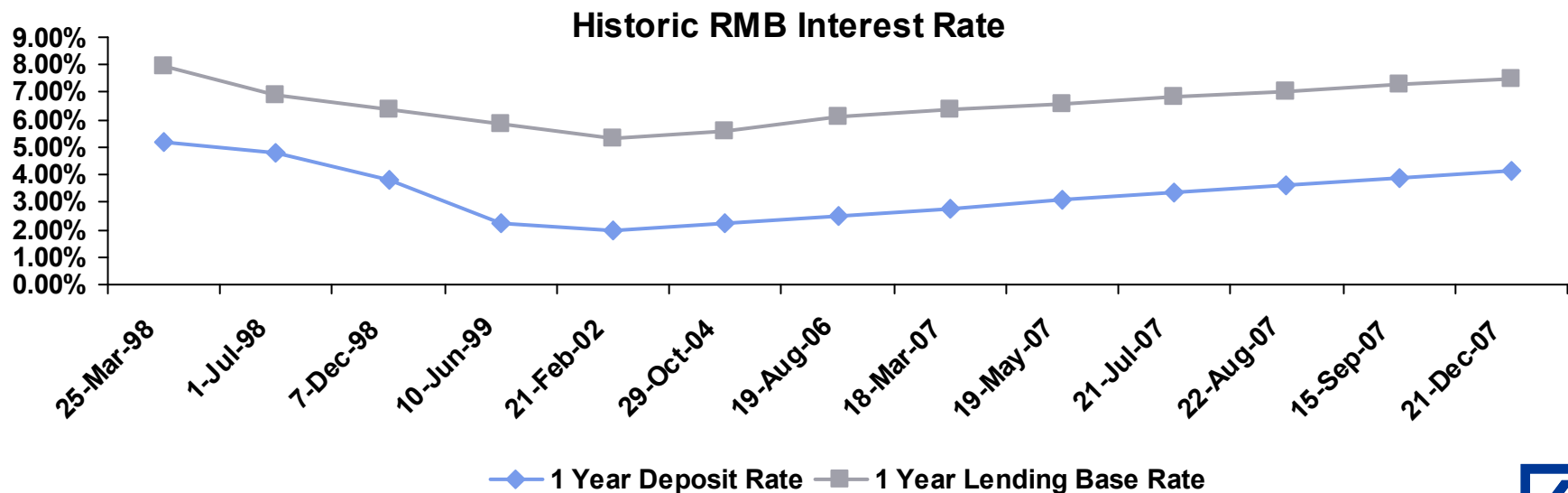
"...local and Chinese subsidiaries of foreign banks had been requested to ensure that their outstanding loans at the end of the year did not exceed their Oct 31 levels. The move was 'guidance aimed at supporting the macro-control measures being implemented'...."

Financial Times, 5, December 2007


Monetary Policy Instrument

- RMB interest rate has been raised 6 times in 2007.
- RMB deposit reserve ratio was increased 10 times from 9% to 14.5% in 2007.
- Direct issuance of RMB 200bn worth of MOF special bonds was provided as an additional liquidity tightening measures.

Forecast: PBOC will raise rate rates by 1-2 more times in the 1H 2008, and will be on hold in 2H as inflation is likely to remain at or above 5% in the coming months but will likely fall towards to 4% or below in 2H 2008. (DB insight view)



Tightening Monetary Policy in China

- China regulator strictly controlled the loan growth rate at 2007 year end. Loan growth rate targeted at 13% for 2008, significantly lower than 2007's 15% target.
 - China government gradually reduced banks short term foreign debts quota. By the end of March 2007, shall reduce to 30% and 60% of 2006's quota for local and foreign bank respectively.
 - IPO fund raising will increase substantially, with market cap peaked at RMB 35.6trillion.
 - Banks are regulated to raise down payment ratio for second home buyers and further increase the lending rate for mortgage loan.
- 
- RMB Market liquidity has been tight in 2H2007 with substantial increase on key indicators of 7-day repo and SHIBOR rates.
 - Banks have limited and/or reduced their RMB lending/discounting size since H2 of last year, and will keep regulator monitoring on lending size this year.
 - USD onshore funding cost has risen, which in turn affect RMB forward price.
 - Small real estate developers will be suffering from cash flow problems.

Balancing of Principles and Considerations in China

1. Largest developing country and fastest growing market;
2. “Reform and open-door” policy;
3. Transformation from planned economy to market economy;
4. WTO commitments;
5. “prudent (stable and healthy)” fiscal policy and “tight” monetary policy;

“Tight” Monetary Policy

- 1. The decision to follow a tight monetary policy is based on "the strong possibility of a resurgence in fixed asset investment, continued excessive supplies of money and credit, the still-unsolved problem of excess liquidity, and considerable inflationary pressure." –Premier Wen’s Work Report to the Congress on March 5, 2008.**
- 2. Contents of the “tight” monetary policy: eg. reform on the exchange rate formation system and foreign exchange administration system; reform on the credit structure: growth control of the medium and long term credit, esp. those for the high energy consuming, high pollution and excessive capacity industries; increasing credit support for the industries of agriculture, service, SMEs, innovation, energy saving, environmental friendly, and regional balancing development.**

Comments and Questions

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