Smart Strategies for U.S. Companies Investing and Doing Business in China

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Speakers

EYE ON CHINA

- Moderator
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- Panelists (Listed in alphabetical order)
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  - H. Timothy Lopez, Associate General Counsel, A.O. Smith Corporation
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Presenter: Z. Julie Lee

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Drafting Effective and Enforceable Contracts

- Draft Effective and Enforceable Contracts.
  - The best contract is the one that both parties will adhere to without the involvement of courts or arbitration commissions.
  - No matter in which country a U.S. company does business, it is imperative that the U.S. company work scrupulously with its legal advisor to ensure that contracts are clear.

Drafting Effective and Enforceable Contracts

EYE ON CHINA

- Understand the Mandatory Provisions of Chinese law.
  - If a party includes in a contract standard disclaimer language excluding or limiting the party's liabilities, the disclaimer must be highlighted through the use of font, symbols and other means; and, at the request of the other party, the party including such disclaimer must explain the meaning of the disclaimer.
  - Special considerations in a technology transfer agreement.
  - Special considerations in an exclusive distributorship agreement.

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Drafting Effective and Enforceable Contracts

EYE ON CHINA

- Negotiate Enforceable Contracts
  - Include a special section dealing with service issues in contracts with Chinese partners.
  - Align your partner's goal with yours.
  - Find creative solutions when dealing with unfamiliar Chinese legal restrictions, e.g., escrow and holdback arrangements.

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Drafting Effective and Enforceable Contracts

- Negotiate Enforceable Contracts (*cont'd*).
  - Think short-term as well as long-term.
  - Special considerations in dispute resolution section.
  - If both English and non-English versions of contracts are prepared, need to make sure the non-English version is accurate even though English version controls.

Drafting Effective and Enforceable Contracts

- Negotiate Enforceable Contracts (*cont'd*).
  - Actively manage the negotiation process and leverage your international business experience.
  - May need to explain standard international business practice to a business partner not sophisticated on international matters.

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Drafting Effective and Enforceable Contracts

- Effectively Manage a Signed Contract.
  - Maintain constant communication.
  - Monitor how the other party performs its obligations.
  - Understand that an agreement alone may not bring the desired outcome.
  - Learn the art of enforcing a contract in a foreign country.
  - Understand that important governmental policies can trump valid contracts or even provisions of law.

Special issues facing Private Equity Funds in China

- Current PE Investment Environment in China.
  - Chinese government issued policies in the past two years encouraging PE investment in China, including allowing foreign PE funds to set up RMB funds in China.
  - The traditional PE model of investing in a company, making improvements to its management, introducing new and advanced technologies and then selling at a profit becomes more attractive to Chinese policy makers.
  - Intense competition from local firms.

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Special issues facing Private Equity Funds in China

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- Common Investment Structure for U.S. Dollar Funds.
  - Direct acquisition by PE funds of equity interests in expansion or late-stage Chinese companies.
  - Indirect acquisition by PE funds through offshore SPVs of equity interests in start-up or expansion Chinese companies.
  - Creative structure through offshore SPVs, onshore foreign invested enterprises, and related-party contracts.

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Special issues facing Private Equity Funds in China

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- Common Issues Faced by PE funds in China.
  - Conduct effective due diligence before acquiring a target in China.
  - Keep up with evolving legal requirements.
  - Understand and bridge gaps in culture, valuation and management strategy.
  - Effectively manage investor-company relationship (a typical PE investment in China takes a non-controlling 15-40% stake in an operating company).

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Dealing with Relationship with Employees

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- Non-Disclosure Agreements.
  - NDAs are permitted to protect confidential information from unauthorized disclosure or use during and following termination of employment.
  - Although initially difficult for employers to prevail in labor arbitration, trend now is increasingly favoring employers.

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Dealing with Relationship with Employees

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- Non-Competes.
  - Traditionally used for employees with access to competitively harmful information.
  - Was not codified in PRC law until passage of Labor Contract Law (effective 1/1/08).
  - Non-competes may be used in labor contracts for up to a maximum of 2 years after termination of employment.
  - May only be enforced against senior management and technical personnel.

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Dealing with Relationship with Employees

- Non-Competes (*cont.*).
  - Special compensation must be paid.
  - LCL silent on calculation of amount of consideration.
  - Calculation still left up to local implementing regulations, many of which are also silent.
  - Good rule of thumb: in the absence of specific local rules, 4-6 months' salary for each year of non-compete term.

Dealing with Relationship with Employees

- Liquidated Damage Clauses.
  - The LCL authorizes employers to include liquidated damage clauses in labor contracts for employee training expenses.
  - Meant to punish employees that leave soon after receiving special training (overseas, academic, etc.).
  - Employers might consider special training for technical staff as incentive to remain employed.

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Dealing with Relationship with Employees

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- Employee Inventor Reward and Remuneration.
  - The revised PRC Patent Law imposes an obligation on an employer to “reward & remunerate” an employee inventor “at a reasonable rate.”
  - Patent Law expressly provides that a “Chinese entity” and an employee inventor may agree by contract on the reward and remuneration.
  - Employers are strongly encouraged to include specific reward & remuneration provisions in the company’s policies and procedures and labor contracts.

Dealing with Relationship with Employees

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- Employers Be Ready.
  - Since 2009, there has been a sharp increase in labor disputes, especially against FIEs.
  - “Free of charge” arbitration system provides easy access.
  - Prior system required at least RMB 500 filing fee which likely weeded out weak claims.
  - New system encourages disputes regardless of merits of the case.
  - HR best practices for labor disputes in China.

Follow-up Information

EYE ON CHINA

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Current trends impacting U.S. companies investing and doing business in China

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- In the past 5 years, M&A has become a more popular way for foreign companies to invest in China – there are less and less “green field" projects.
- China tightened conditions precedent to tax-free reorganizations: reasonable commercial purpose of the reorganization (i.e. not with reduction in, exemption from or delay in payment of taxes as the main purpose), target shares to be acquired must be not less than 75%, 85% of the consideration must be in the form of shares, no change of substantive business within 12 months after the M&A, no transfer of shares by the main seller within 12 months after the M&A.

Current trends impacting U.S. companies investing and doing business in China

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- Circular 698 reporting requirement to be complied by seller/transferor poses challenge and uncertainty of PRC tax treatment of capital gains realized from sale of shares of offshore holding company.
- The costs of operation in big cities have increased dramatically, esp., the land and labor costs. More and more international companies are moving their manufacturing facilities inland or to smaller cities.

Current trends impacting U.S. companies investing and doing business in China

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- Due to change in planning by local governments (normally the commercial or residential real estate projects approved or sponsored by the local government with higher margins), many manufacturing facilities of international companies are being asked to move to new sites where land prices are lower.

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Special issues involved in acquiring equity interests in Chinese companies

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- Offshore acquisition vs. onshore acquisition -- PRC regulatory approvals required/avoided?
- Offshore acquisition: flexibility in transaction structure, e.g., payment schedule, earn-out, escrow arrangement, holdbacks, better exit mechanism down the road, etc.
- 10% withholding tax on the capital gains from an onshore equity transfer and taxes (income, business, VAT, etc.) in respect of onshore asset sale are unavoidable.

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Special issues involved in acquiring equity interests in Chinese companies

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- Equity deal (faster but with succeeded liabilities) v. asset deal (good for targets with substantial liabilities, but if special licenses are required and are not easy to obtain, this approach should be reconsidered); related tax issues.
- The buyer shall be clear about what it is purchasing; such as manufacturing capacity, sales network, brands, market share, and key employees. The deal structure and documentation shall be designed to reflect what buyer is purchasing.

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China's foreign exchange control regulations and what they mean to U.S. companies in China

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- China’s foreign exchange authorities regulate inbound and outbound remittances, which regulations vary depending on whether the nature of the transaction involves the transfer of capital (capital account item) or expenditures incurred in the ordinary course of business (current account items).

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- Typical capital account items are as follows:
  - Proceeds from foreign exchange loans, and repayments of principal of foreign exchange loans; and
  - Registered capital of FIEs contributed by the foreign investor in foreign exchange.

China's foreign exchange control regulations and what they mean to U.S. companies in China
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- If the foreign exchange transaction falls within the category of cross-border payments in the ordinary course of business, the items are classified as "current account items"; these typically include:
  - Interest payments on foreign exchange loans;
  - Insurance premiums payable in foreign exchange;
  - Construction expenses payable in foreign exchange;
  - Repatriation of dividends by an FIE; and
  - Other income and expenditure items incurred in the ordinary course of business of the FIE in question.

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China's foreign exchange control regulations and what they mean to U.S. companies in China

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- All cross-border transmissions of proceeds are under the supervision of the State Administration of Foreign Exchange (SAFE) and banks in China.

Considerations on capital structure and available financing options for investments in China

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- China mandates a fixed ratio between the registered capital (i.e., investors' equity investment) and total investment of each PRC company ("total investment" being the total funding required for operating the business of the PRC operating company).
- Under the PRC foreign exchange and other regulations, the difference between the registered capital and total investment ("Debt Financing Ceiling") is the maximum amount of debt financing the PRC operating company can borrow from its foreign shareholder or another overseas party. Borrowing from a Chinese domestic bank may exceed the Debt Financing Ceiling, depending on the Chinese bank's policy.

Considerations on capital structure and available financing options for investments in China

EYE ON CHINA

- U.S. companies investing in China should anticipate beforehand as accurately as possible the funding need of their PRC operating subsidiary, thereby structuring their equity investment in the PRC operating subsidiary accordingly. Where additional funding needs arise in the future, the registered capital and total investment of the PRC operating subsidiary needs to be increased upon approval of the PRC approval authorities, in order to inject more capital into the PRC operating company.

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Managing employer-employee relationships in China

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- PRC labor law is becoming increasingly pro-employee, e.g., Labor Contract Law imposes more restrictions on employers.
- PRC law requires that employers sign labor contracts with full-time employees. There are three types of labor contracts:
  - fixed-term labor contracts, which are contracts with defined expiration dates;
  - open-term labor contracts, which are contracts without defined expiration dates; and
  - project based contracts, which expire upon completion of job assignments.

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Managing employer-employee relationships in China

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- An employee is entitled to request an open-term contract if (i) he/she has worked for his/her employer for not less than ten years consecutively; or (ii) he/she has concluded two fixed-term employment contracts consecutively.
- Changes to the terms of a labor contract.
  - Employee consent is required to make changes; however, an employer may change an employee's work position, if the employee cannot perform the previously-assigned work due to performance issues or health problems.

Managing employer-employee relationships in China

EYE ON CHINA

- Generally speaking, the PRC regulations make no difference between senior personnel and junior employees. Therefore, the employment contract with senior personnel shall be customized, for example, to include confidentiality and non-competition clauses.

Challenges and opportunities arising from the current economic situation in the United States and China

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- Continued RMB appreciation against USD will make it more expensive for US companies to acquire Chinese companies, but potentially create more US exports to China.
- Continued RMB appreciation and Chinese aspiration to "go international" will further drive China's outbound investment into the US, thereby more China investment in the US economy.
- Increasing land price and labor costs coupled with RMB appreciation poses more challenges to US manufacturers who contemplate setting up a manufacturing operation in China.

Challenges and opportunities arising from the current economic situation in the United States and China

EYE ON CHINA

- The continuous improvement of China's vast infrastructure and urbanization process will create tremendous investment opportunities in China for Chinese and US investors.

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Follow-up Information

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China Country Overview

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Geographic overview and regional centers of development in China

- **People's Republic of China founded in October 1949**
- **Population:** 1.328 billion – 2008 (est.)
- **Territory:** 9.6 million square kilometers (1/15 of the world's land mass)
- **Administrative divisions:** 23 provinces, 5 autonomous regions, 4 centrally administrative municipalities[1] and 2 special administrative regions (Hong Kong and Macau)
- **National language:** Putonghua (Mandarin)

✓ **Number of fortune 500 companies : 43**

✓ **Foreign direct investment in China: USD 92.4 billion in 2008**

✓ **China investment overseas: USD 55.9 billion in 2008**

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Source: National Bureau of Statistics of China, Ministry of Commerce of PRC

[1] A municipality carries the same rights as a province

Banks in China (as of Dec. 31, 2009)

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State Council

CBRC | **PBOC** | **SAFE**

The "Big 5"

- Industrial and Commercial Bank of China
- Agricultural Bank of China
- China Construction Bank
- Bank of China
- Bank of Communications

Emerging as important global players.

Policy Banks (Non-commercial Banks): 3

- China Development Bank
- Agricultural Development Bank of China
- The Export-import Bank of China

Execute government policies using financial tools in their respective sectors.

Joint-stock Commercial Banks: 12

City Commercial Banks: 143

Some have established national coverage and are respectable competitors to the Big 5.

Rural Banks: 387

Rural Cooperatives: over 3,000

Locally Incorporated Banks with Foreign Ownership: 37

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Establishing business in China

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China ranks 83rd out of 178 economies for ease of doing business, according to a World Bank 2008 study. Dealing with licenses, paying taxes and starting a business – respectively ranked 175th, 168th, and 135th – are some of the most challenging aspects of doing business there.

Establishing business in China

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- Setting Up an Entity in China
  - Three (3) basic types of foreign direct investments
    - Wholly Foreign-Owned Enterprise (WFOE or WOFE) or Foreign Invested Commercial Enterprise (FICE)
    - Equity joint venture or cooperative joint venture (JV)
    - Representative office
- Key Regulatory Considerations
  - Setting up operations and opening bank accounts in China require extensive documentation, multiple approvals and can be very time consuming

Establishing business in China

EYE ON CHINA

- Foreign Exchange Control Regulations
  - State Administration of Foreign Exchange (SAFE)
  - China's currency, the Renminbi (RMB) is not convertible outside of China (but see pages 13 & 14 for new regulations). Conversion between RMB and other currencies in China is regulated.
  - FX conversion of capital account items requires SAFE approval
  - All cross-border payments and receipts require supporting documents

Key treasury issues and challenges in China

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- Account services
  - Accounts all seem to be designated for specific purposes
  - Cannot open certain accounts outside of my location of incorporation
- Payables
  - My vendors ask for a variety of payment methods, such as domestic wires, checks, bank drafts or cash
  - I am asked to present lengthy supporting documents for every single FCY payments

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Key treasury issues and challenges in China

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- Collections
  - My clients use a variety of payment methods, such as domestic wires, checks, bank drafts or cash.
  - My clients insist on us opening bank accounts at their preferred locations and banks for paper instrument and cash deposits. I end up with too many bank accounts.
  - I don't have visibility of account information and control of funds. I also have great difficulty reconciling incoming proceeds and A/R records.

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Key treasury issues and challenges in China

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- Liquidity
  - Regulated interest rates. Deposit rates for RMB and FCY (below USD3MM equivalent) are capped. RMB lending rates have floors.
  - My cash rich subsidiaries cannot lend directly to my cash poor subsidiaries
  - I have limited investment options for RMB and onshore FCY
  - Tighter liquidity in the market in the foreseeable future
- Foreign Exchange Control Regulations
  - Moving money in and out of China is so difficult!
  - I have lots of cash trapped in China. How can I move it out?

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Key regulatory constraints on conducting cash management business in China

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- "Location driven" regulations on account services and pay/receive activities
- "Purpose specific" account regulations leading to multiple accounts opened for particular purposes
- Payment business is heavily regulated in China and product innovation in basic services is rare
- Interest rates are regulated
- Regulations are changing quickly with little grace period provided for companies and banks to adjust

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Main clearing systems in China

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China National Advanced Payment System (CNAPS)

- High Value Payment System (HVPS) - launched in 2003; RTGS
- Bulk Electronic Payment System (BEPS) - launched in 2006, for amount below RMB20,000

"Big 5 Banks" internal electronic clearing systems

- The only "national clearing systems" available before CNAPS
- In place for 10+ years
- Before CNAPS, foreign banks used to appoint the Big 5 Banks as their RMB clearing agents

Local clearing house

- Run by PBOC at city level
- Clear paper based instruments for intra-city transactions: checks, credit notes, promissory notes
- Typically two clearing sessions every day (M-F) in most cities

Check Image System (CIS)

- Launched in 2007 with national coverage
- With truncation technology, allowing checks to be cleared inter-city
- Funds settlement leverages the CNAPS infrastructure

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Key account types in China

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- Because of banking regulations, accounts in China are purpose-specific. The table below describes the four most common account types held by foreign corporations in China.

Account	Currency	Purpose	Inflow	Outflow	Regulatory requirements
Basic account	RMB	For all transactions, including cash withdrawals and payroll disbursements	RMB collection via local wire, checks, credit notes and cash	RMB payment via local wire, checks, credit notes and cash	One account per legal entity in city of incorporation. PBOC approval required to open
General account	RMB	Serves same purpose as basic account with exception of cash withdrawals and payroll	RMB collection via local wires, checks and credit notes	RMB payment via local wires, checks and credit notes	Multiple accounts can be held, but not in the same bank branch as basic account
Capital account	Foreign currency	Receive capital investments from overseas parent and for paying expenses & fixed asset purchases	Approved capital injections	Approved transactions	Account must reside in city where legal entity is incorporated. SAFE approval required for most account transaction activities
Current account[1]	Foreign currency	Settle cross-border payments for normal business activities (e.g., imports, exports)	Receipts from current account transactions (e.g. export of goods & services)	Payments for current account transactions (e.g. import of goods & services)	Supporting documents of underlying transaction required (e.g., invoice, customs clearance form) before processing

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[1] Under China's Foreign Exchange Control Regulations, ERVA (Export Revenue Verification Account) must be opened with a current account if the account holder has incoming receipt related to merchandise export. Any FCY fund received will be credited to the ERVA first, then transferred to client's current account only after compliance check.

How to get money in to /out of China

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- Capital Account Transactions — *everything needs SAFE approval*
  - Money-In
    - Capital injection/increase
    - Loans provided by overseas lenders
    - Shareholder's loans
    - Proceeds for acquisition in China
    - Proceeds from overseas IPO or bond issuance
    - Repayment of approved loans to overseas borrowers
  - Money-Out
    - Divestiture
    - Repayment of foreign debt/interest
    - Repayment of shareholder's loans/interest
    - Proceeds for overseas acquisition
    - Approved loans to overseas borrowers

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How to get money in to /out of China

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- Current Account Transactions — *do not require SAFE approval, but require proper documentation*
  - Money-In
    - Export of services/goods
    - Commissions or premiums earned
  - Money-Out
    - Import of services/goods
    - Payment of Chinese staff T&E expenses overseas
    - Settlement of claims from overseas
    - Dividends & profit repatriation

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Repatriation of Profit, Capital and Foreign Debt

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Repatriation of Profit

- Only accumulated profit (after statutory provisions and payment of all tax due) can be repatriated
- Documents required for profit repatriation:
  - Audited financial statements showing accumulated profit
  - Tax receipt showing tax paid
  - Capital verification report from CPA certifying registered capital has been fully paid
  - Board resolution declaring the dividends
  - Certificate from CPA certifying that dividends declared meet all statutory requirements

Capital Repatriation

- Capital may be repatriated upon liquidation, or sale of shares or business

Approval and Repayment of Foreign Debt

- All foreign debt, including inter-company debt, are subject to SAFE approval and the "GAP" limitation (see pages 11 & 12)
- All principal and interest repayments are subject to SAFE approval

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Total Investment, Registered Capital & “Borrowing GAP”

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- Total Investment (TI)
  - What is the maximum Total Assets the Chinese subsidiary will require in the foreseeable future? Foreign investors are required to state the amount of TI in its application for approval.

Total Investment, Registered Capital & “Borrowing GAP”

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- Registered Capital (RC), for most industries
  - TI <=$3MM; min. RC = 70% of TI
  - $3MM < TI <= $10MM; min. RC = 50% of TI or $2.1MM, whichever is larger
  - $10MM < TI <= $30MM; min. RC = 40% of TI or $5MM, whichever is larger
  - $30MM < TI; min. RC = 1/3 of TI or $12MM, whichever is larger

Total Investment, Registered Capital & “Borrowing GAP”

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- Total Investment - Registered Capital = “Borrowing GAP”
- Net Short Term Foreign Debt + Gross Long Term Foreign Debt + Domestic Debt Guaranteed by Overseas Concerns:
  Total cannot exceed “Borrowing GAP”

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Total Investment, Registered Capital & “Borrowing GAP”

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- Definitions:
  - Short Term = 1 year or less; Long Term = over 1 year
  - Foreign Debt = debt borrowed offshore, including from parent, bank or other financial institution outside China
  - Gross Long Term Foreign Debt: includes debt that has been repaid; i.e. Long Term Foreign Debt use up “GAP” permanently
  - Debt includes contingent liabilities such as LCs and Performance Bonds issued on behalf of the borrower
  - Guarantee can be in the form of a guarantee, standby LC, pledge of guarantor’s assets or a comfort letter
  - Overseas Concerns include parent company, bank or other financial institution outside China

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Total Investment, Registered Capital & “Borrowing GAP”

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- Total Investment (TI) = Total funding (equity and debt) Chinese subsidiary can obtain from offshore sources (with the exception of genuine trade payables)
- Registered Capital (RC) = Equity contribution = Potential “trapped cash”
- Dilemma for foreign investors: How to ensure subsidiary has sufficient funding (i.e. high enough TI) without committing too much capital (i.e. RC), which leads to “trapped cash.” Solution: borrow from a bank in China since domestic debt is not subject to “GAP” limitation.

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Mitigating RMB Foreign Exchange Risk

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- Before June 22, 2010
  - Two basic rules of China’s Foreign Exchange Control Regulations
  - No trading of RMB outside of China
  - Offshore Non-deliverable RMB forward contracts (NDF)
  - On-shore deliverable RMB forward contracts

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Mitigating RMB Foreign Exchange Risk

EYE ON CHINA

- After June 22, 2010
  - Expanded RMB International Trade Settlement Scheme (see page 14)
  - Majority of exports to China can be settled in RMB
  - Merchandise imports from China can be settled in RMB if Chinese exporter is on approved list
  - Non-resident RMB account now permitted in China and Hong Kong
  - Development of Offshore RMB Market and hedging instruments in Hong Kong (CNH)

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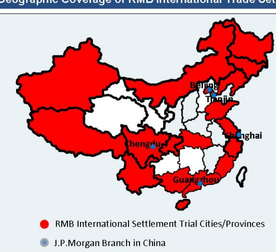
RMB International Trade Settlement

EYE ON CHINA

Geographic Coverage of RMB International Trade Settlement



- Companies located in the following 20 trial cities/provinces can participate in RMB international trade settlement, including:
  - Municipalities: Beijing, Tianjin, Shanghai & Chongqing
  - Provinces: Inner Mongolia, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Sichuan, Yunnan, Jilin, Heilongjiang, Tibet and Xinjiang
- No restrictions on corporations outside of China. Any overseas corporation can settle cross border trade in RMB with qualified companies in China

Eligible Transactions (from overseas perspective)

- Exports to China
  - Merchandise trade
  - Service trade
  - Other current account transactions
- Imports from China
  - Merchandise trade with qualified Chinese exporters on the government-approved list
  - Service trade
  - Other current account transactions

RMB Non-Resident Account (NRA)

- What is RMB NRA?
  - Non-resident corporations are allowed to open RMB settlement accounts with a RMB Domestic Settlement Bank in China to settle valid RMB payments and collections with their counterparties in China
- In the trial phase, any corporations outside China can open a RMB NRA with a Domestic Settlement Bank (subject to PBOC's approval)
- J.P.Morgan offers RMB NRA through its Shanghai branch and Offshore RMB Account through its Hong Kong branch.

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CHASE

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Local Incorporation in China

EYE ON CHINA

JPMorgan Chase is the first foreign bank to set up a Locally Incorporated Bank (LIB) head quartered in Beijing. The LIB currently has five branches in China.

- JPMorgan Chase Bank, N.A.—New York
  - JPMorgan Chase Bank, N.A.— Beijing Branch
  - JPMorgan Chase Bank (China) Company Limited[1]
    - JPMorgan Chase Bank (China) Company Limited—BJ Branch
    - JPMorgan Chase Bank (China) Company Limited—SH Branch
    - JPMorgan Chase Bank (China) Company Limited—TJ Branch
    - JPMorgan Chase Bank (China) Company Limited—GZ Branch
    - JPMorgan Chase Bank (China) Company Limited—CD Branch

[1]LIB's Moody's ratings
- LT bank deposits: Aa1
- ST bank deposits: P-1
- Subordinated debt: Aa2

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CHASE

JPMorgan Chase in China

EYE ON CHINA

- JPMorgan Chase has a long history in China
  - 1909 Underwrote China Huguang Railway debt
  - 1980 First foreign bank to establish a Rep. Office in the PRC
  - 1994 First China Branch opened in Tianjin
- 5 Branches with over 300 staff
- Solution driven full banking services
  - Investment Banking & Commercial Banking capabilities
  - Foreign currency & local currency (RMB) capabilities: RMB license since 2002
  - Understanding of local regulatory and business environment
  - Global relationship management approach: China based Relationship Managers dedicated to servicing US Commercial Banking clients

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JPMorgan Chase in China

EYE ON CHINA

- Products and Services
  - Financing: Foreign currency and RMB loans, standby LCs, guarantees
  - Treasury and Cash Management: Foreign currency and RMB accounts and deposit services, payments & receipts, RMB entrusted loans and cash concentration program delivered through branches and/or correspondents
  - Foreign Exchange: spot RMB/Foreign Currency exchange, RMB forward contracts
  - Trade Finance: import & export LCs & documentary collections, structured trade, confirmation & discounting, A/R discounting
  - RMB Money Market Fund

- Commercial Banking Branch (5)
- Fund Management Joint Venture (1)
- Securities Joint Venture (1)
- Securities Representative Office (2)
- Commodities Joint Venture (1)

Appendix

EYE ON CHINA

Current PBOC Benchmark RMB Loan Rates (effective Oct 20, 2010)

Tenor	(%)
< or = 6 months	5.10
6 month to 1 year	5.56
1 year to 3 years	5.60
3 year to 5 years	5.96
Over 5 years	6.14

Current PBOC RMB Deposit Rates (effective Oct 20, 2010)

Tenor	(%)
Current account	0.36
3 months	1.91
6 months	2.20
1 year	2.50
7 day call deposit	1.35
1 day call deposit	0.81
Contract saving	1.17

Follow-up Information

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Thank You!

感谢您！

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