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November 7-10, 2010 | San Antonio

Introduction to Bank Financing in China and Japan

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Calgon Carbon

Calgon Carbon Corporation (CCC) is a United States based industrial company that manufactures products to make “Water and Air Safer and Cleaner”. CCC is uniquely positioned to help countries enhance the standard of living for all residents.

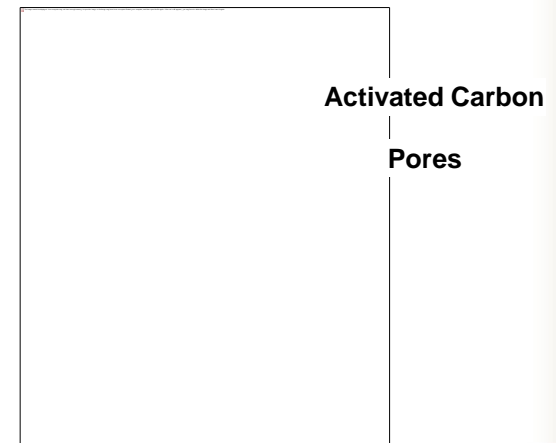
Calgon Carbon

- **Removes impurities from water, air, and industrial processes**
 - Activated Carbon
 - UV Light Technology
 - Ion Exchange Technology
 - Carbon Adsorption Technology

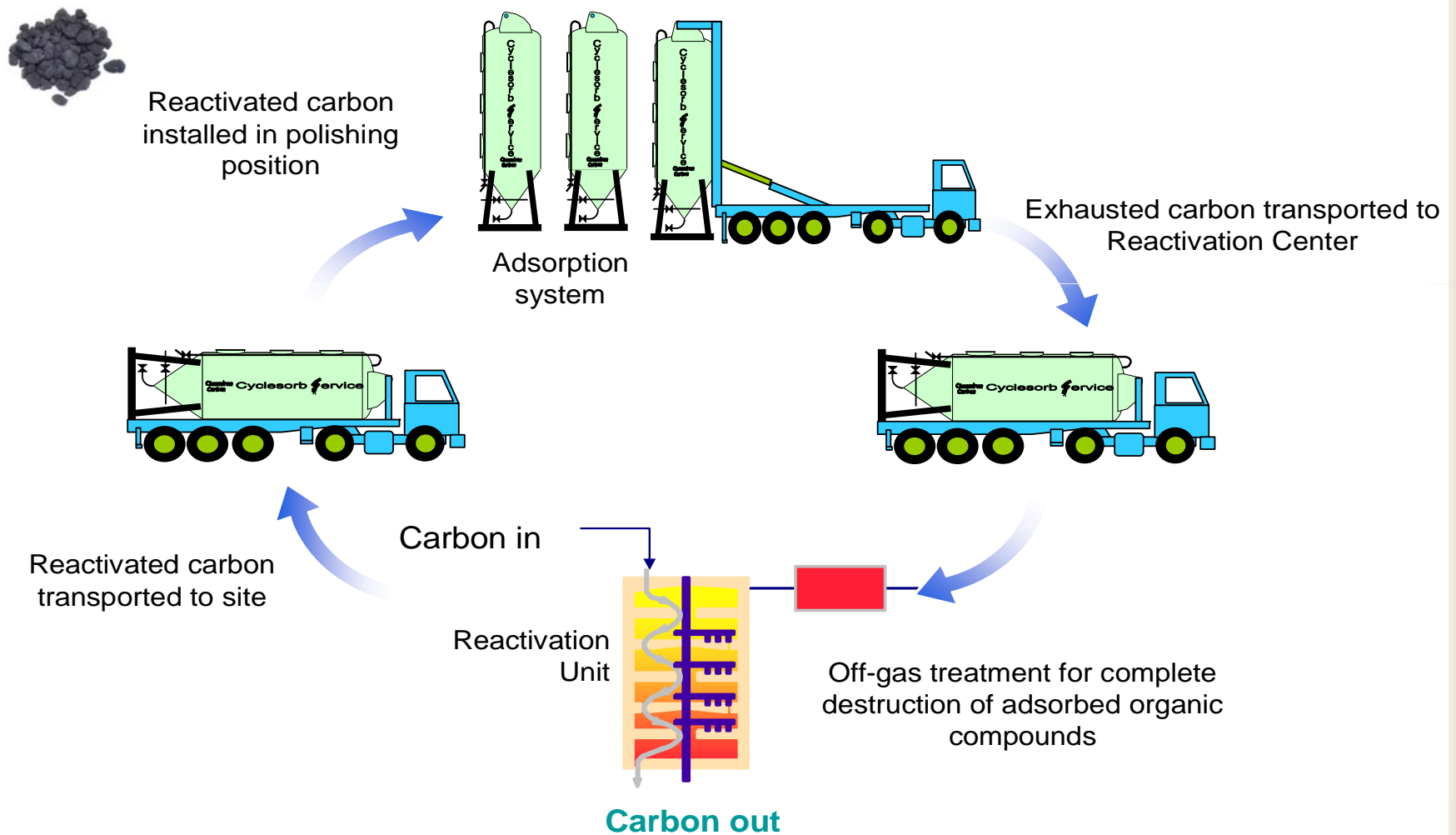


Activated Carbon

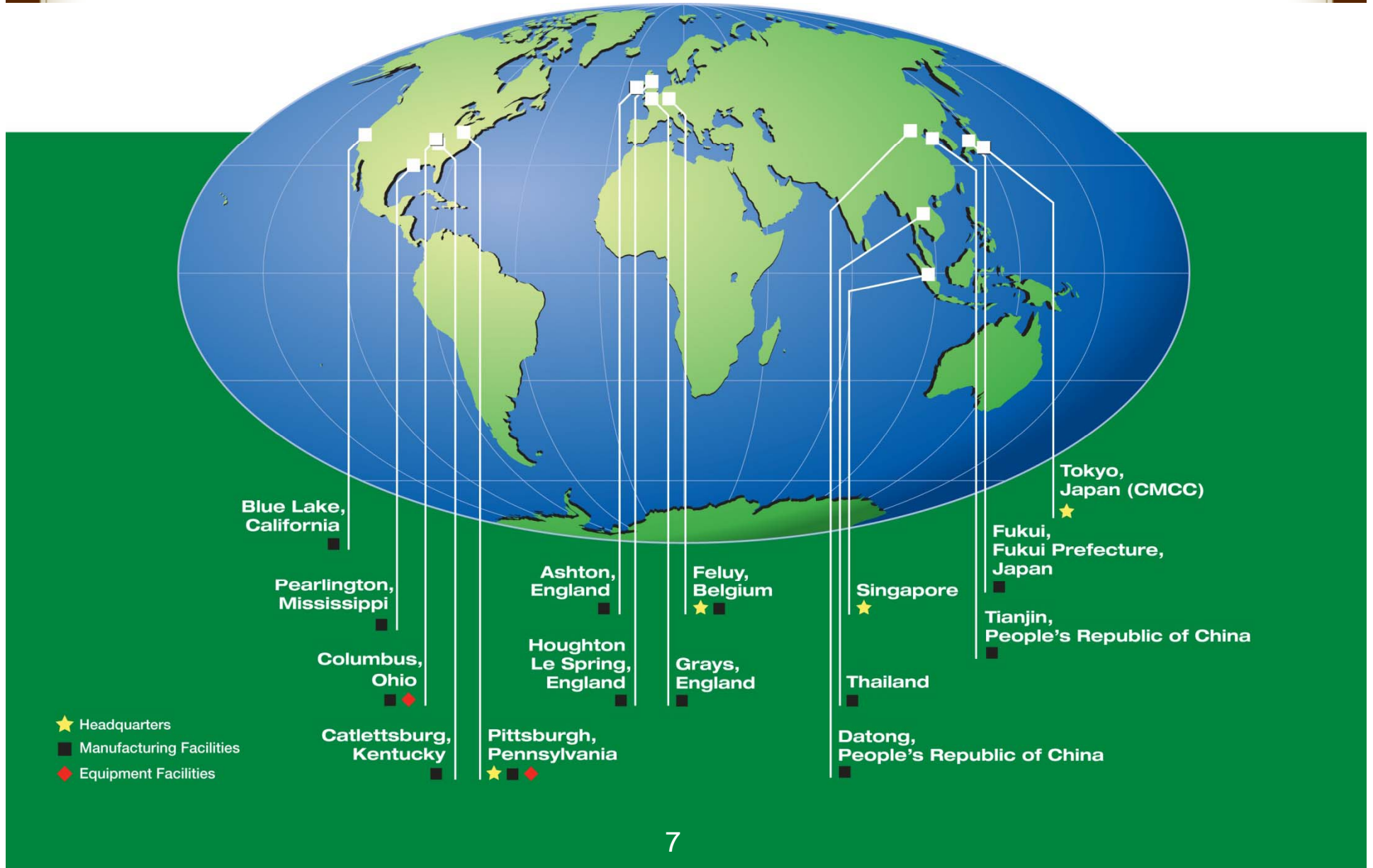
- Calgon Carbon's manufactured activated carbons are bituminous coal-based carbons that remove organic compounds and other contaminants from drinking water.
- Create highly porous particles that are able to "adsorb" contaminants into their pores as liquids or gases passes through.
- Activated Carbon's filtration properties make it particularly effective in removing substances that impact the taste, appearance, and odor of water, making it especially useful in potable water applications.



Service Model Incorporates CCC's Manufacturing and Reactivation Strengths



CCC's Operations Are Global



Why Bank Financing in China and Japan?

- 2009 AFP Conference
- Two pending acquisitions in Europe and Japan
- Build a new facility in China
- Amend US Credit Agreement
 - Obtain as much flexibility as possible
 - Collateral outside of the US
 - Guarantees
 - Obtained pre-approval from US Bank Group for certain acquisitions and financing

Prepare for Meeting with Bankers

- Obtain referrals
 - Existing bank group
 - Investment bankers
 - CFOs and Treasurers
 - Finance employees in China and Japan
- Understand cultural differences

Prepare for Meeting with Bankers

- Schedule Meetings
 - Face to face meetings are expensive due to travel but relationship building is important
- Understand treasury needs because the bankers will want to build a banking relationship

Bank Meetings

- Have a backup plan in the event communication is difficult
 - Bring an employee that can interpret or speak on your behalf
- Tell your story and provide general information about your company
- Provide detailed company information and forecast
- Understand your goal and be as flexible as possible
- Get your banker involved early, they understand the local rules and regulations

Bank Financing in Japan

Cross-border Syndicated “Samurai Loan”

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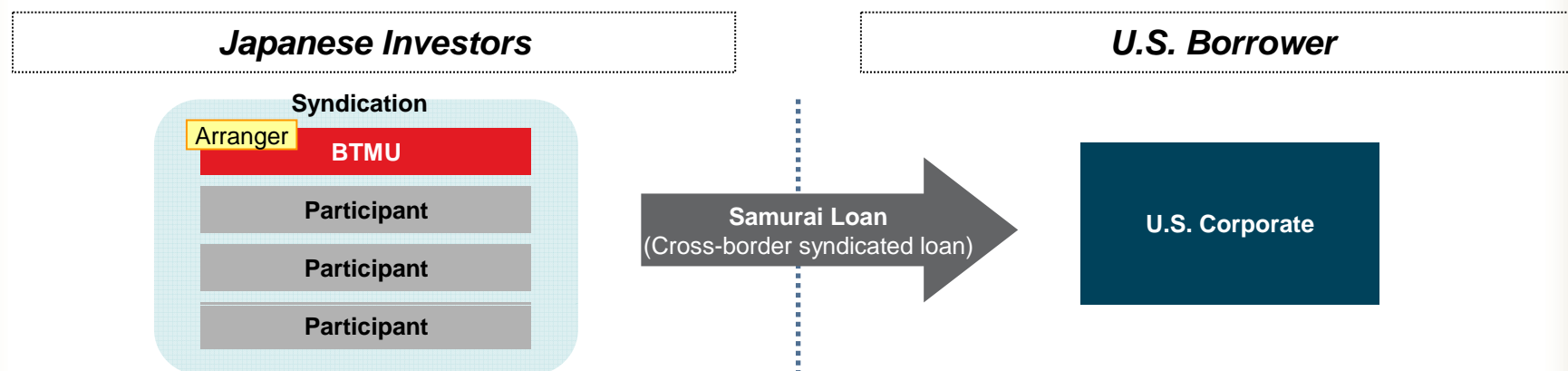


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Brief Review of the Characteristics of a “Samurai Loan”



- Features

- Drawn term loan
- Syndicated by BTMU to Japanese domestic & regional banks, on a best effort basis
- Amounts ranging from JPY 10-30 Billion+
- 3 to 5 year bullet maturities
- Available in Yen (BTMU group can swap back to US\$, Euro and other currencies)
- English documentation (with Japanese translation) under Japanese Law
- Lenders driven by yield rather than relationship
- Provides U.S. Borrowers with investor diversification, natural JPY hedge
- Withholding tax exempt under US-Japan tax treaty

Driving Factors for Samurai Loan Borrowers

- Additional source of cost effective liquidity
- Diversification of funding sources
- Net investment hedge of JPY asset

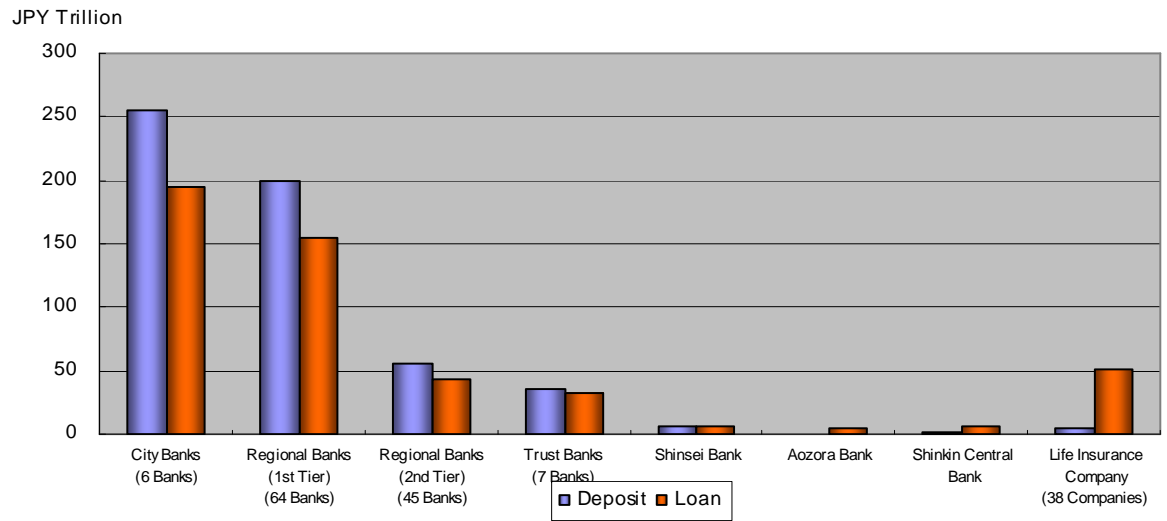
Target Borrowers for Samurai Loan Investors

- BBB or better rated borrowers.
- Preferably Corporates having operations in Japan or strong Japanese connection.
 - A company well-known to the Japanese market will definitely have an easier syndication.
- Corporates in defensive sectors, such as utility, foods and medical sector, are the most preferred by Japanese investors.
 - Market for financial institutions remains highly limited post-Lehman.
- Either the Borrower or the Guarantor shall be listed.
- Either the Borrower or the Guarantor shall have an external credit rating either from Moody's or S&P.

Investor Base for Samurai Loans

- Core Investors:
 - Large financial institutions (e.g., regional banks, specialty banks, and leasing companies)
 - **Potential commitment amount by each investor: \$30-100MM**
- Regional Banks / Second-Tier Regional Bank / Insurance Companies / Finance Companies:
 - Regional banks and other financial institutions are also potential investors, depending on the structure
 - Potential commitment amount by each investor: \$5-20MM
- Background / Incentives of Samurai Loan Investors:
 - Investors seek foreign transactions due to limited domestic lending opportunities
 - Samurai Loans provide higher yield compared to domestic Japanese lending transactions

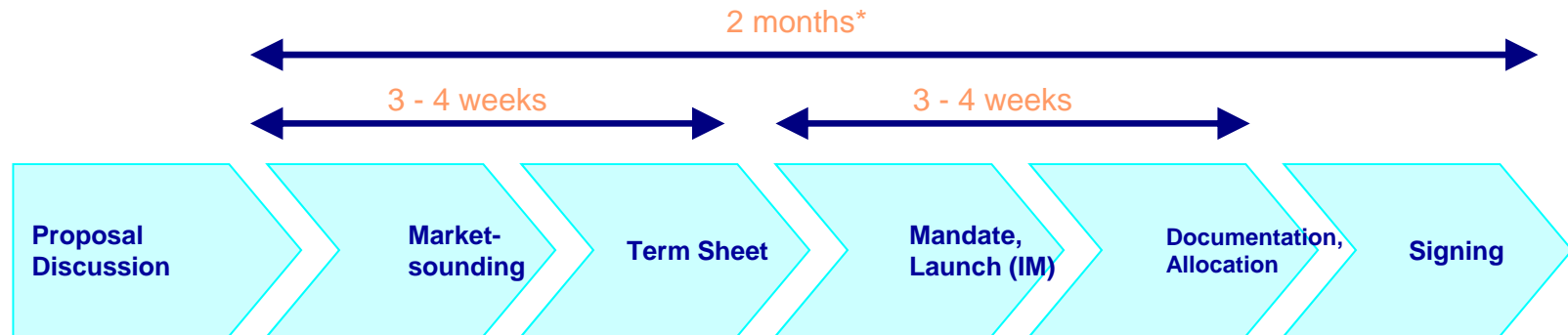
Deposit / Loan Volume of Japanese Investors as of 2009



Comparison of Samurai Loans to Other Products

	Syndicated Loans	Bilateral Loans	Samurai Loans	Samurai Bonds	Public Bonds	JPY- Private Placement
Size	Large	Small	Medium	Medium to Large	Large	Small
Maximum Tenor	3 years	3 years	3 to 5 years	3 to 5 years	2 to 30 years	5 to 10 years
# of Participants	> 5	1	3 to 10	Broadly distributed	Broadly distributed	One or more
Pricing	Highest	Low to Medium	Medium	Medium to High	High	Medium to High
Disclosure	Private	Private	Private	Public	Public	Private
Documentation	Bank standard	Bank standard (more streamlined)	Bank standard	Public standard	Public standard	Private standard
Legal Fees	More expensive	Least expensive	Less expensive	Absorbed by underwriters	Absorbed by underwriters	Least Expensive
Fixed Rate Financing Capabilities	Yes, with swap	Yes, with swap	Yes, with swap	Generally fixed rate, but floating available	Generally fixed rate, but floating available	Generally fixed rate, but floating available
Benefits	Defines relationships	Customized	Taps new investors	Usually quite deep with long tenors for high rated names	Usually quite deep with long tenors for high rated names	Longer tenor than bank market
Disadvantages	time consuming	Exhausts capacity of one lender / need multiple deals.	Limitations on size	More expensive than loans. Complicated preparation process.	Cannot be amended or prepaid	Expensive to prepay
Upfront Fees	High	Modest	Modest	High	Modest	Modest
All-in Cost	Highest	Modest	Modest	High	Modest	High

Syndication Process for Samurai Loans



- **Step 1:** Initial discussion with the borrower in considering Samurai Loans.
- **Step 2:** Market-sounding to refine the potential facility amount and applicable pricing.
- **Step 3:** Discussion on Term Sheet, based on the outcome of market sounding.
- **Step 4:** Mandate & launch of syndication. Information Memorandum (“IM”) required.
- **Step 5:** Discussion on Documentation and Allocation. 3 - 4 weeks are required for the internal credit approval process of the investors.
- **Step 6:** Closing.

Bank Financing in Japan

Japan Securitization Market

Asian Securitization Market

Estimated Total Outstandings of Securitization Transaction in Asia-Pacific

Country	US\$ equivalent (mil.)	% of total Asia-Pacific market outstandings
Australia	200,000	44
Japan	180,000	40
South Korea	30,000	7
India	20,000	5
Hong Kong	6,000	1
Singapore	5,000	1
China	5,000	1
Taiwan	4,000	1
Thailand	1,000	0
New Zealand	500	0
Balance of other domestic markets	0	0
Asia-Pacific total	451,500	100

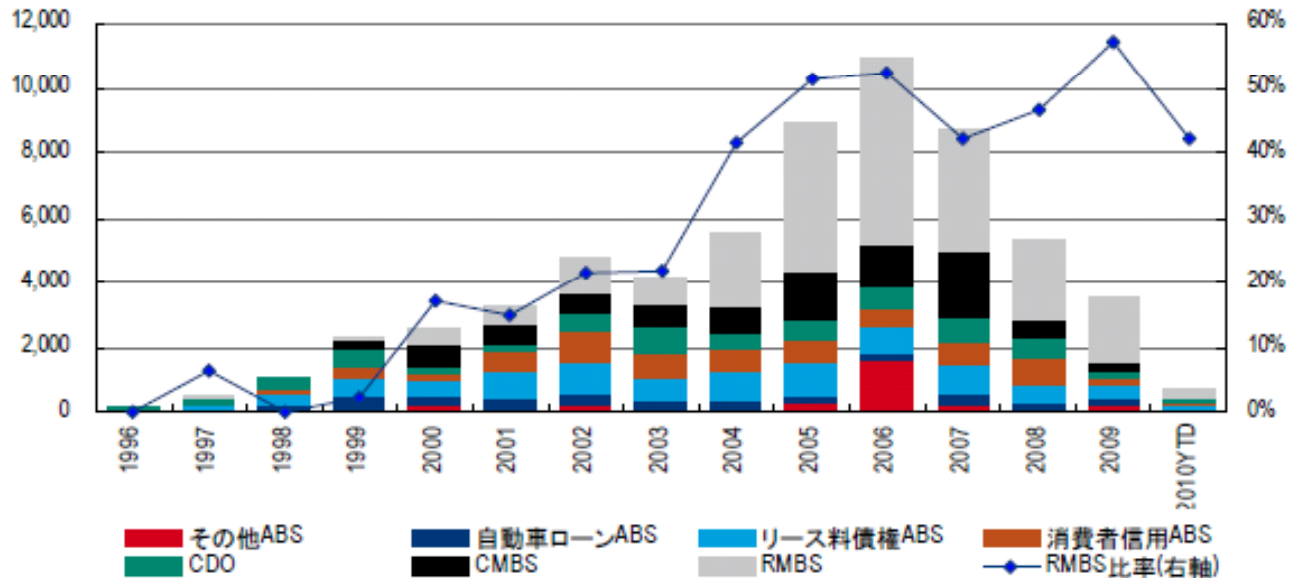
Data as at October 2009.

Source: Moody's Investor Service

- Japan is one of the most active securitization markets in Asia.

Japan: Market Overview

ABS - New Issuance Volume

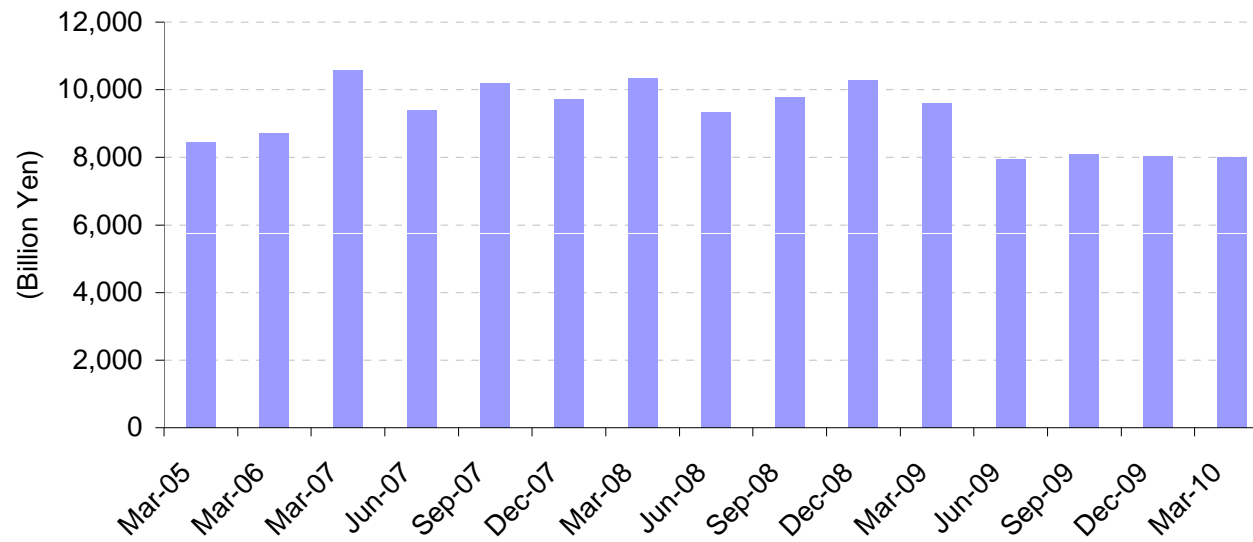


Source: Bank of America Merrill Lynch

- RMBS continues to be the major asset class. The Japanese Housing Finance Agency (100% government-owned) is the largest, most frequent issuer.
- The performance of Auto Loan ABS, Lease ABS and RMBS (conforming loans) continues to be stable. CMBS and CDO have suffered major downgrades.
- ABCP is the primary method used for securitization.

Japan: Market Overview

ABCP and Asset Backed Loan - Outstanding Balance



Source: Securitization Forum of Japan

- During the 2nd half of FY2008, leasing and captive finance companies increased fund raising through securitization.
- After March 2009, liquidity problems eased, and large corporations have been able to issue corporate bonds and CP at low cost. Due to sluggish domestic demand, the volume is now approximately 80% of its peak.

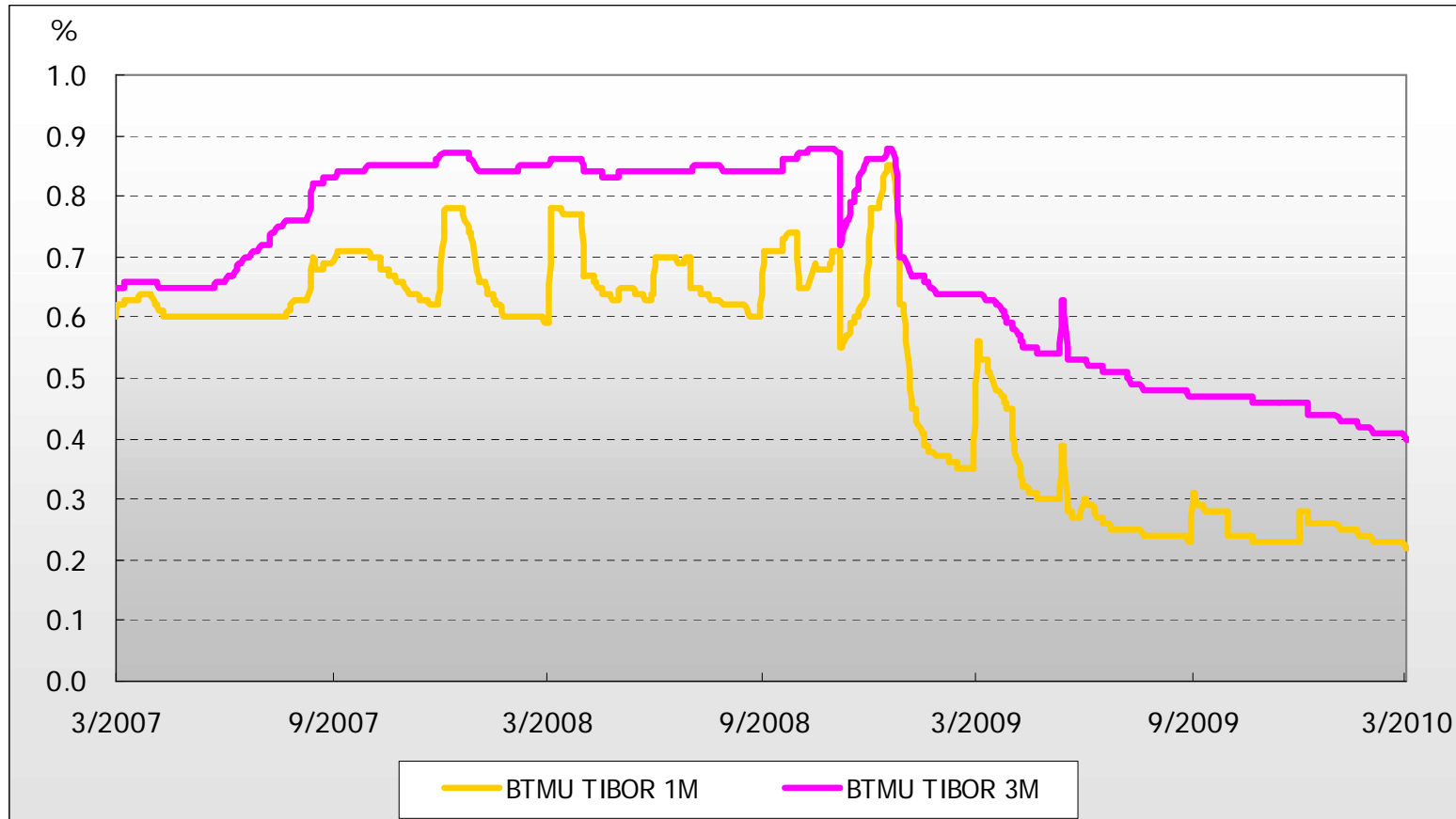
Japan: Current Position

General Securitization Buckets

Asset Type	
Trade Receivables	59%
Lease Receivables	28%
Credit Card Receivables	6%
Auto Loan Receivables	5%
Others	2%
	100%

Japanese Market Overview

ABCP Pricing



- ABCP have been priced at approximately TIBOR flat.

An ABCP Securitization Facility Overview

One-Step Transfers

- A one step sale process has been generally adopted in Japanese structuring ABCP receivables securitization transactions vs. a two step process in the U.S. via an SPV. In Japan, the Sellers sell the accounts receivable directly to the CP conduit.
- The transaction is structured in this manner to minimize the risk that the bankruptcy court will treat the transaction as a secured lending in case of an Originator bankruptcy, and possibly cause a delay or ultimately a shortfall in the collection of credit extended by the Purchaser. Consequently, a more attractive funding cost is attainable.

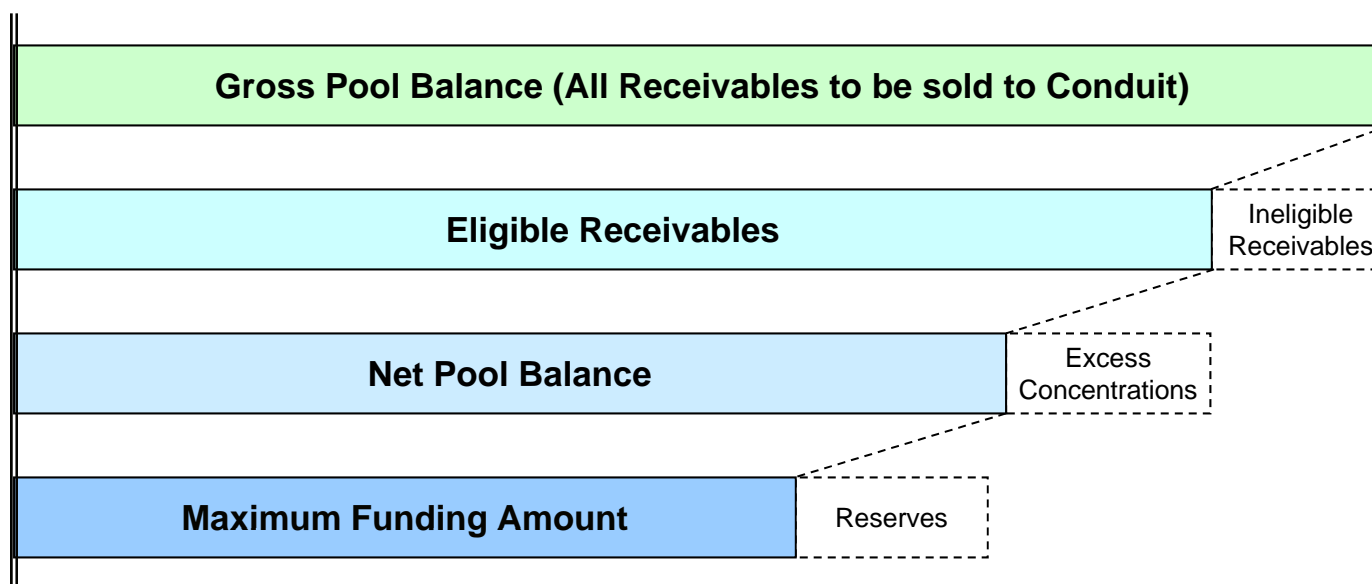
Ownership Interest

- As a result of the sale of the receivables to the CP Conduit, the CP Conduit will possess each receivable purchased from the Seller. The CP Conduit's percentage ownership interest in such receivables fluctuates based on the amount financed and the amount of over-collateralization required.

Transaction Credit Enhancement and other Reserves

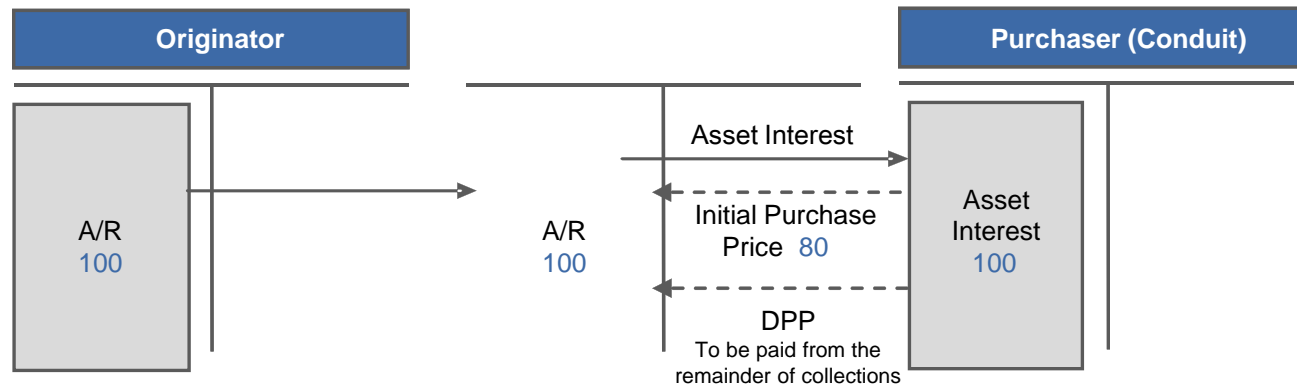
- Over-collateralization through reserves are utilized to cover Losses, Dilution, Yield, and Servicing Fee during a Liquidation of the portfolio.

Reference: How is the funding availability calculated?



- Ineligible Receivables generally include defaulted and delinquent receivables, government receivables, foreign receivables and affiliate receivables. Such are deducted from the Gross Pool Balance to calculate Eligible Receivables.
- Net Pool Balance is calculated as the amount of Eligible Receivables **minus** Excess Concentrations, which are the excess amounts of receivables beyond a certain predetermined percentage (e.g. 2-5%) of Eligible Receivables for individual obligors.
- Reserves are calculated and determined based on the total portfolio's performance, which is reviewed monthly and typically run between 15% and 30%.
- Maximum Funding Amount will be equal to the Net Pool Balance **minus** such Reserves.

Selling an entire financial asset to ABCP Conduit could be treated as “sale”.

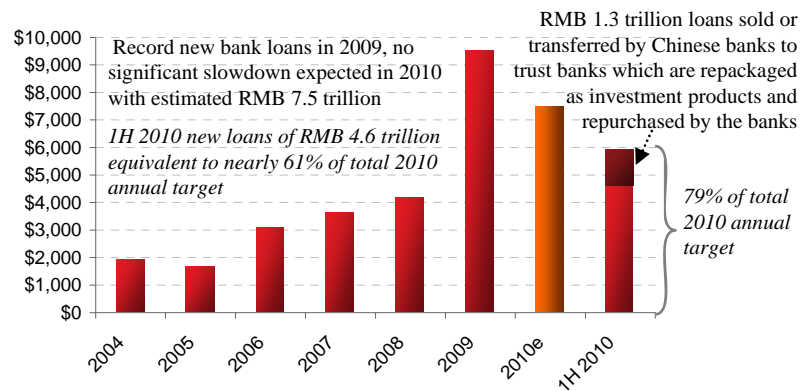


- Under the new structure, the Seller will sell all the receivables to the ABCP Conduit (“Purchaser.”) The purchaser will pay the Initial Purchase Price to Seller at the transfer but withhold the payment of the Deferred Purchase Price (“DPP.”)
- DPP will be repaid from the collection of underlying asset after the deduction of principal payment, interest payment, and any costs.
- The ABCP Conduit is not required to pay DPP until it receives collections. The economic effect and basic structure is essentially the same as if the Purchaser would purchase only the discounted amount

China Banking Update

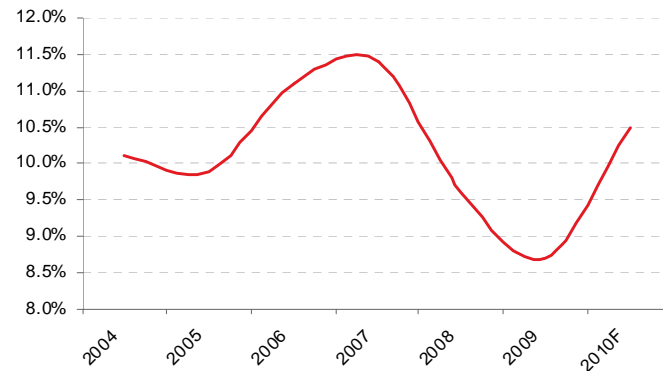
Recent Monetary Policy Actions

New RMB Bank Loan – Annual Total (billions of RMB)



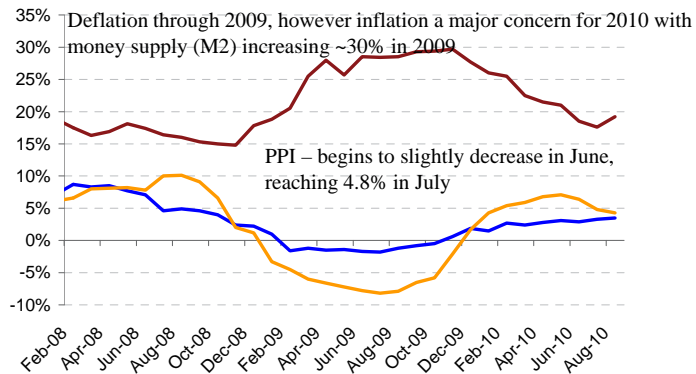
Source: People's Bank of China

China Annual GDP Growth

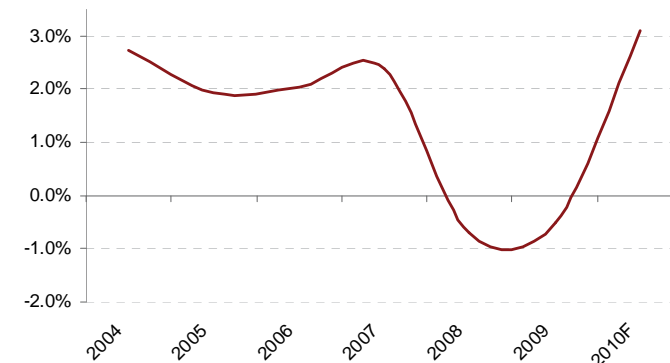


Source: World Bank, IMF

Money Supply and Inflation – Monthly (annual % change) Japan Annual GDP Growth



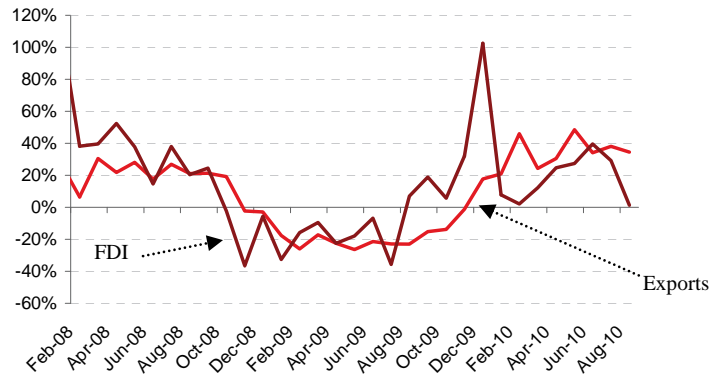
Source: National Bureau of Statistics



Source: World Bank, IMF

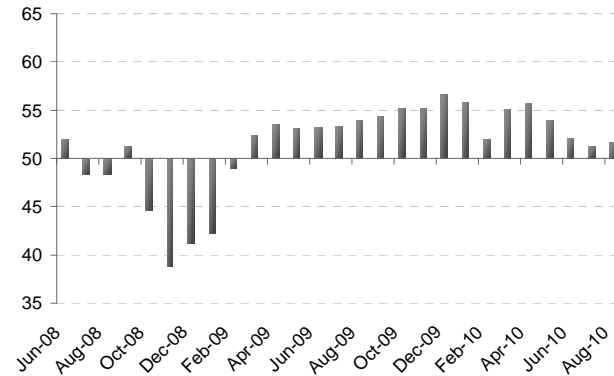
Chinese Macro Environment

Exports and FDI – Monthly (annual % change)



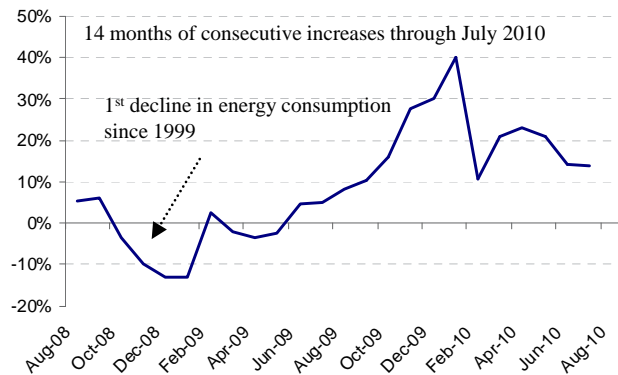
Source: China Statistical Bureau

China Manufacturing Purchasing Managers Index



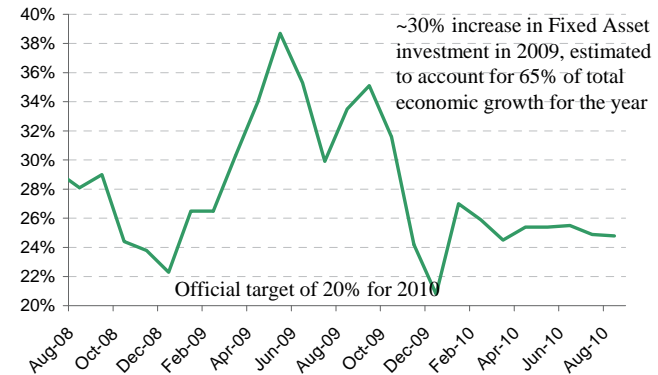
Source: China Federation of Logistics and Purchasing

Electricity Consumption – Monthly (annual % change)



Source: National Energy Administration

Fixed Asset Investment – Monthly (annual % change)



Source: China Statistical Bureau

People's Bank of China – Interest Rates at 9/1/10

Unit: %p.a.	Rate (before adjustment)	Rate (after adjustment)
RMB benchmark deposit rates for financial institutions		
Demand deposit	0.36	0.36
Contractual deposit (O/N)	1.17	1.17
7-day notice deposit	1.35	1.35
3-month	1.98	1.71
6-month	2.25	1.98
1-year	2.52	2.25
2-year	3.06	2.79
3-year	3.60	3.33
5-year	3.87	3.60
RMB benchmark loan rates for financial institutions		
6-month	5.04	4.86
1-year	5.58	5.31
1 to 3-year	5.67	5.40
3 to 5-year	5.94	5.76
Over 5-year	6.12	5.94

- Banks are permitted to lend at no less than the posted PBOC rate * 90%
- Rates are changed according to government policy. In 2007 rates increased across the board by almost 100 bps over a 12 month period. The last rate movement in China (noted above) occurred on December 22, 2008.

Lending Services

- Commercial banks offer comprehensive lending services in mainland China
- Local currency lending - Traditional lending activities:
 - Short term bilateral or multi-borrower credit lines
 - Medium and long term floating and fixed rate loans
 - Syndicated Loans
 - Bill discounting and bank draft discounting on a selective basis

RMB Loan Rates (last changed 2008/12/22)

Tenor	Rate
6 months or less	4.86%
12 months	5.31%
1 to 3 years	5.40%
3 to 5 years	5.76%
5 years or more	5.94%

- Domestic Foreign Currency Loans - Onshore USD loan facilities.
- Offshore Foreign Currency Loans - Loans from offshore to onshore borrowers. Such offshore loans are subject to: a) SAFE approval, b) withholding tax, c) sufficient investment gap.
- Third Party Entrusted Loans – Companies that have excess RMB cash and are willing to lend. BTMUC (or another bank) typically guarantees the transaction for the benefit of the lending party. The transaction structure also requires the presence of an “Entrusted Bank”.
- Bank Guarantees - Bank Guarantee facilities are available for bid, performance and other purposes.

Borrowing options in China

- **I. Borrowing from Offshore (from Bank or inter-company)**

- Restrictions on Currency Conversion: Converting the proceeds of Offshore Debt to RMB requires prior approval by SAFE.
- Restrictions on Amount: Offshore debt outstanding cannot exceed the difference between a company's Registered Capital and Total Investment (as defined in the Certificate of Approval). This difference is known as the "Investment Gap" or simply the "Gap".
- Withholding Tax: Withholding tax on interest paid to offshore lenders is normally 10% (for offshore lenders from jurisdictions having a tax treaty with China) but is less for some jurisdictions (e.g. Hong Kong).
- Business Tax: A Business Tax of 5% is payable on interest paid to offshore lenders.
- Documentation and Operational Issues: The signed loan agreement between the offshore lender and the onshore subsidiary needs to be registered with SAFE within 15 days of signing (and before funds are sent into China). A special foreign debt account must be established at a bank through which SAFE will track the amount of loans extended. When converting the foreign currency loan proceeds to RMB, the Borrower will need to provide proof of RMB cash requirements to SAFE to effect the exchange with the Borrower's bank. Upon every principal and interest payment, the Borrower needs to obtain SAFE approval to convert RMB back into foreign currency to repay the Lender. The Borrower will need to keep very good records of how the converted foreign currency is used in order to receive quick approval at the time of payment.

- **II. Borrowing from Onshore – Foreign Currency (from Bank)**

- Advantage: Funding in USD and other foreign currencies is generally available; Rates can be reasonably competitive with global markets, though there have been spikes in onshore USD cost of funds from time to time. There are no restrictions on the conversion of RMB income to foreign currencies for the purpose of repaying foreign currency loan principal and interest.
- Disadvantages: Onshore foreign currency loan proceeds cannot be converted to RMB, they can only be used to settle foreign currency obligations (such as the import of machinery or raw material....but cash is fungible); exposure to currency mismatches that could suddenly (and often negatively) effect in-country operations.

Borrowing options in China

- **III. Borrowing from Onshore – RMB (from Bank)**

- Advantages: Natural hedge for net investment in China; no restrictions on amount, thus companies can structure the ratio of debt (foreign currency and local currency) and equity according to their needs.
- Disadvantages: Regulations could change again, creating temporary dislocations of availability, which could affect corporate funding and strategic objectives.

- **Use of Offshore Guarantees**

- Guarantees from Offshore Parents

In April 2005 new regulations were introduced restricting the use of corporate guarantees from offshore. In December 2005 the authorities realized the problems the new regulations created and revised the policy. Now there is no limit on the amount of onshore bank loans (including foreign and local currency) that can be secured by offshore guarantees. However, if an offshore guarantee is called honored, the amount paid by the guarantor will be classified as a type of “Offshore Debt”, and the rules regarding Offshore Debt would apply. (These rules stipulate that the sum of short, medium and long term Offshore Debt, plus the honored offshore guarantee, cannot exceed the difference between total investment and registered capital (the “Gap”). The portion of Offshore Debt that exceeds the Gap amount cannot be registered with SAFE. Without registration of this Offshore Debt, the subsidiary company will not be permitted to send the funds out of China to repay its parent company. The Guarantor may be forced to engage in an equity-for-debt conversion with its subsidiary. The authorities will resolve this type of problem on a case-by-case basis.

- **Withholding Taxes** – 10% is the standard withholding tax on interest, royalties, capital gains, and dividends for countries with no tax treaty with China. Hong Kong, Singapore, and some other jurisdictions have treaties which may lower withholding tax on certain categories of payments.

Past Government Action to Influence Economy

- **2007: Concerns on overheating, inflation and speculative inflows**
 - Inflation beginning to rise sharply in 3Q/4Q driven by food price increases.
 - Offshore funding by banks halted and sharply reduced through regulation.
 - Interest rate and bank reserve rates requirements increased.
 - RMB appreciation ~10% per annum rate.
 - Bank loan freeze implemented October 2007.
- **1H 2008: Inflation continues to rise; social stability concerns**
 - Inflation levels becoming problematic; peak consumer inflation of 8.7% (23% food inflation) in Feb '08.
 - Loan quotas of ~10% annually staggered growth for 2008 implemented.
 - Further cuts to bank offshore funding.
 - RMB appreciation continues through 1H08.
 - Further interest rate and bank reserve rate increases.
- **2H 2008: Demand weakness becoming apparent; policy begins to reverse**
 - RMB appreciation halted.
 - Cuts to interest rates (6 mo lending rate 4.86%) and reserve requirements (to 15%).
 - Bank loan quotas repealed, massive injection of liquidity into market.
 - RMB 4 trillion government stimulus package announced.
- **2009: Major slowdown in key export and foreign investment areas**
 - Huge injection of liquidity into market to fuel bank lending (RMB loan margins jump).
 - Commercial and residential real estate activity booms.
 - Government investment in infrastructure implemented immediately.
 - GDP growth target of 8% met easily (actual 8.7%).

Trends in China's Banking Markets

Loans for Investments in Fixed Assets

- In order to avoid Borrowers misappropriating loan proceeds and apply it for purposes other than agreed, CBRC announced provisional measures to be effective as of October 2009.
- **Main points**
 - 1) Lender must carry out an independent and comprehensive risk appraisal of loans.
 - 2) Control of the Borrower's Accounts is provided for in the loan agreement
 - 3) Any drawdown in excess of 5% of total investment or over RMB5 million must be paid directly to the relevant counterparty (i.e. supplier) in accordance with the purpose stipulated in the loan contract.
 - "Entrusted Payments" = upon receipt of copy of Supplier's invoice, loan proceed credited to borrower's account but immediately transferred to supplier,
 - or, if another bank affects the payment, the lender must require the borrower to submit regular reports and proof of payments in line with project (exact interpretation may vary between banks).

Loans for Working Capital Purposes

- In order to avoid Borrowers misappropriating loan proceeds and apply it for purposes other than agreed, CBRC announced provisional measures to be effective as of February 2010.
- **Main points**
 - 1) Rules specifying regulatory requirements for loan application acceptance and investigation (particularly amount need to correspond to and be verified against true needs), risk to be appraised and approved, signing of contract, disbursement and payment, post-lending management.
 - 2) Basically each lender has to set own internal rules to comply with new measures.
 - 3) Currently banks finalizing implementation. Different interpretations to be expected.
 - 4) CBRC rules mention specific RMB working fund loan account, and specific undertakings/events of default to be included in documentation.

Trends in China's Banking Markets

- **Loan markets to remain robust in 2010, but growth at more contained levels vs. 2009**
 - No return to “Loan Quota” environment; new loans in 2010 expected to remain strong with ~20% increase or RMB 7.5 trillion new bank loans, compared to RMB 9.5 trillion in 2009 (32% growth), RMB 4.2 trillion in 2008, and 3.6 trillion in 2007.
 - New loans slowed considerably in 2H09 to RMB 2.2 trillion vs. RMB 7.4 trillion in 1H09; however 1H10 RMB loan volume currently tracking RMB 4.6 trillion (61% of 2010 annual target) not including RMB 1.3 trillion of loans sold or transferred by Chinese banks to trust banks which are repackaged as investment products and repurchased by the banks (combined 79% of 2010 annual target).
 - Lending at 90-95% of PBOC rate common place again for top rated companies.
 - Onshore USD availability and pricing has improved greatly; spreads often cheaper than US/Euro markets.
- **Some tightening of monetary policy expected in 2010**
 - Global economic recovery too fragile for drastic tightening in 1H 2010 despite inflationary pressures and property market bubbles.
 - Some liquidity pulled out in 2H09, with Government issuing notes directly to banks and numerous IPOs siphoning excess funds from bank market. SHIBOR rates rose from mid June '09 (1 week SHIBOR up from ~1% to ~1.8% as of August 2010).
 - Bank reserve requirements for the Big 5 Chinese banks increased a total of 1.5% in 2010 with hikes of 0.5% each in Jan, Feb, and May. Further increases to reserve requirements likely (currently 16.5% for large banks) to pull further liquidity from the market.
 - Potential for further interest rate hikes in 2H10.
- **RMB / USD exchange rate under pressure; modest appreciation expected in 2H 2010**
 - De facto peg of ~6.83 (maintained since July 2008) was removed by the Chinese central bank in June 2010; rather than allowing a major revaluation, the bank will maintain a 50 bps daily trading band and will set daily reference rates for the currency to allow it to appreciate slowly against the dollar (RMB has appreciated .73% against the USD since then). USD has depreciated ~15% against major currencies thus RMB has weakened by a similar magnitude, increasing international pressures to allow appreciation.
 - “Keeping the Yuan’s value basically steady is our contribution to the international community.” – Premier Wen Jiabao, 12/27/09
 - Appreciation of 3% expected in 2010 (all in 2H); BTMU 12 month estimate of 6.65 RMB/USD, other such as Goldman Sachs and UBS are predicting 5% appreciation in 2010.
 - No significant appreciation until exports show sustained recovery, which is not likely until 2H 2010.
- **Concerns growing on real estate bubbles and speculative lending**
 - Increase in down payment requirements for real estate purchases, removal of mortgage interest rate incentives for 2nd houses.
 - Rumors of authorities raising core Tier 1 bank capital requirements to 8-9% (currently 7%).
 - New regulations requiring banks to disperse loan proceeds directly to supplier. Fundamental purpose is to keep funds out of speculative investing activities such as real estate and equity investments.

Follow-up Issues

- Provide for additional time to close financing.
 - Timing is slower than US Banks
- Collateral
- Guarantee
- Compliance with senior credit agreement
- Syndication strategy
- Capital requirements in China

China Banking Update : Appendix

Economic Update

- **Economic growth driven by stimulus and capital spending**

- Government spending stimulating domestic demand.
- Manufacturing PMI, industrial production and fixed asset investment continue to rise.
- Deflation in 2009; however future inflation a big concern (inflation of 3.3% in July 2010).
- Quarterly GDP moderated during 2Q10 with growth of 10.3%, slightly down from 11.9% for 1Q10 and 10.7% for 4Q09 (8.9% for 3Q09, 7.9% for 2Q09 and 6.1% for 1Q09).
- GDP growth forecast by the IMF upwardly revised to 10.5% from 8-9% for 2010; surpassed Japan as world's 2nd largest economy in 2Q10.

- **Massive government stimulus initiatives**

- “Moderately loose” monetary policy.
- New bank loans of 9.5 trillion for 2009 (1st 8 months of 2009 > than all of 2007 and 2008 combined).
- Huge injection of liquidity in market – M2 up ~30% y-o-y for 2009, interbank rates remain low.
- In June 2010, China's central bank loosened its de facto currency peg with USD (which was in place since July 2008); RMB 4 trillion stimulus program.

- **Questions on sustainability of expansion**

- GDP growth in 2009 driven by government spending; domestic consumer consumption remains low at ~36% of GDP (vs. 60-70% in Europe and USA) due in part to lack of sufficient social safety net.
- Economists estimate 88% of 2009 GDP growth is driven by fixed-asset investment.
- IMF downwardly revised 2011 GDP growth to 9.6% from 9.3% as China could take further measures to slow credit growth and maintain financial stability.
- Electricity consumption negative from Oct '08 through May '09; first decline since 1999.
- Exports and related investment segments remains weak.

- **Risk of asset bubbles and bad bank loans**

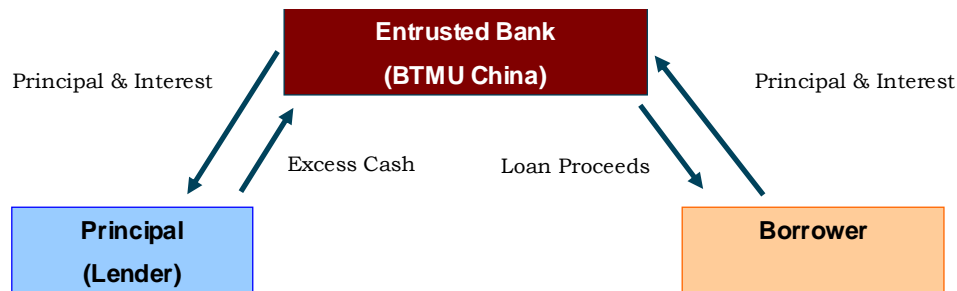
- Shanghai Stock Exchange up ~100% for 2009; average P/E ratio relatively high at ~19.5x as of August 2010.
- Real estate prices climbing, clear signs of bubbles in major cities (such as Shanghai, Shenzhen, Beijing).
- Concerns of future high inflation levels.
- Return to non-performing loan cycles of the past (estimated at 39% of bank assets in 1999)?

Entrusted Loans (inter-company)

- An Entrusted Loan is the mechanism through which an entity in China can transfer (or lend inter-company) cash to another entity. Chinese regulations strictly prohibit the direct transfer or lending of funds between legal entities.
- The Entrusted Bank (BTMU China) serves as the administrative agent for the transaction, collecting and dispersing funds. The entity with excess funds (the 'principal') entrusts the bank to lend the funds to a borrower designated by the principal.
- Terms and conditions are negotiable between the lender and borrower, however interest rates need to be "reasonable" relative to market rates.
- Both the Lender and the Borrower are required to open account with the Entrusted Bank
- An Agent Fee will be charged by the Entrusted Bank.
- Relevant stamp duties and other taxes need to be paid by lender (or borrower).

Regulatory Considerations:

- The Principal may only use its own excess funds; use of borrowed funds to fund an Entrusted Loan is prohibited.
- The maximum amount that a Principal can lend through an Entrusted party is limited to the amount of net worth as stated on the most recent audited financial statement.
- Purpose is limited to working capital uses only.

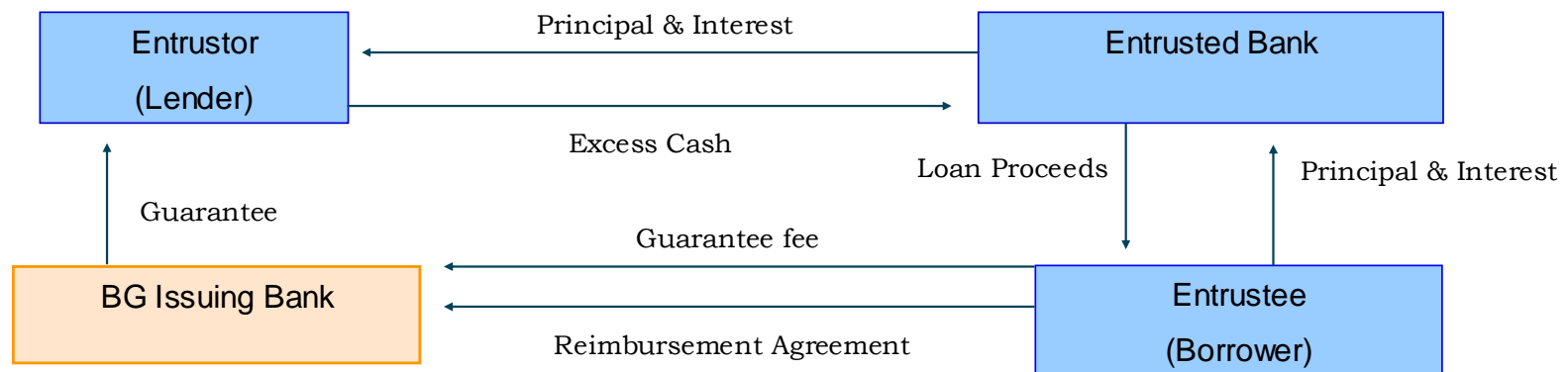


Third Party Entrusted Loans (as investor)

- A higher yield can be achieved relative to RMB deposits by lending funds to a third party through a BTMU arranged Third Party Entrusted Loan. BTMU will introduce borrowers and facilitate closing of transaction.
- BTMUC (or another institution) typically guarantees the transaction, thus the lender does not take on any credit risk of the actual borrower but bank risk.
- The Entrusted Bank (can be BTMU or another institution) serves as the administrative agent for the transaction, collecting and dispersing funds
- Current regulations stipulate that the Entrusted Bank and Bank Guarantee Issuing Bank must be different banks.
- Terms and conditions are negotiable between the lender and borrower. The borrower pays all costs associated with the arrangement.

General requirements:

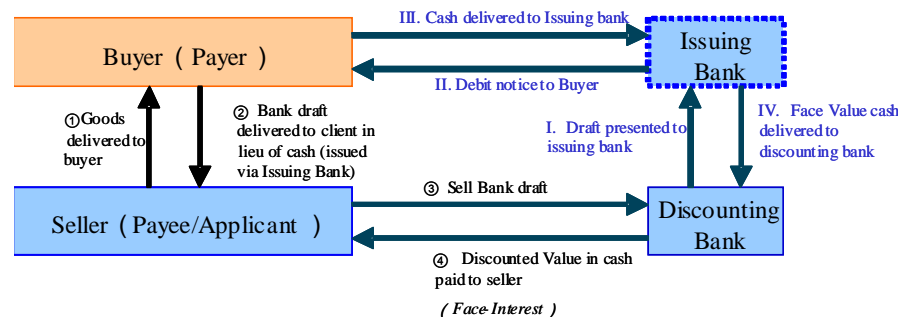
- Minimum tenor of 6 months (although break clauses can be negotiated)
- Desirable minimum amount of RMB 75 million



Banker's Acceptance Draft Services

- BTMUC offer Banker's Acceptance Draft Discounting with recourse and without recourse.
 - Discounting allow the client to improve receivable turnover ratios and can be an effective way to reduce interest expense by maintaining lower working capital levels.
- Overview: Banker's Acceptance Draft is a bill issued by a locally incorporated bank allowing the holder to unconditionally collect the face value amount from the issuing (or endorsing) bank at maturity date.

Diagram of Bank Draft Issuance and Discounting Process



- Drafts are very commonly issued as a form of payment for business transactions in China.
- Tenor is typically 3 or 6 months (maximum tenor is 6 months)
- All bank drafts are endorsable to others
- Bank drafts are commonly discounted (sold) to a Bank at price discounted to face value. Discount fee is not regulated and is typically expressed in a per annum percentage. Due to lack of regulation, the market price is often well below the regulated RMB borrowing rates thus providing an attractively priced working capital financing alternative.

Efforts to internationalize the RMB

- **Bilateral currency swap arrangements**
 - In place with S. Korea, HK, Malaysia, Belarus, Indonesia and Argentina totaling ~\$100 billion.
 - Arrangement is for PBOC to lend RMB to foreign central banks, which in turn would channel funds to local banks and business who want to import goods from China and invoice in RMB.
- **Offshore RMB settlement programs announced for HK and ASEAN nations**
 - First transaction took place in Hong Kong in July 2009. By November 25th 2009 173 transactions completed amounting to only RMB 230 million; by end of November amount reached RMB 10 billion.
 - Bank of China (Hong Kong) Ltd. has been the sole clearing bank.
 - Effectiveness of RMB settlement programs yet to be seen as non-convertibility of RMB is major barrier. Volumes expected to be limited to largely offsetting purposes.
 - Agreements with ASEAN countries are developing.
- **Issuance of RMB debt in Hong Kong**
 - Chinese and select foreign sponsored banks have issued RMB notes in Hong Kong.
 - Standard Chartered, Bank of East Asia and HSBC have all issued RMB short-tenor debt in June 2009.
 - HSBC's China subsidiary issued RMB 1 billion 3 year floating rate notes at 38 bp over 3 mo SHIBOR. At the time, the interest rate was about the same rate as the regulated 3 mo deposit rate.
 - However there is a lack of secondary market for RMB debt and the amount of RMB deposits held in Hong Kong is relatively small at RMB 53.4 billion since June 2009.
- **RMB denominated Bonds**
 - In August 2010, PBOC announced its consideration for foreign central/commercial banks to invest offshore RMB in the inter-bank bond market under its approved quota.
 - McDonalds became the first foreign multinational to issue an RMB denominated bond. (RMB 200 million 3% notes issuance due September 2013)

Accounts - RMB

- **RMB Account Concepts**

- Basic Settlement Account – For receipts, payments, and cash withdrawals. Permitted transactions can vary by location. Each company is allowed one RMB Basic Account.
- Ordinary Settlement Account – similar to a Basic Account however drafts/checks can be processed for receipts and payments, though electronic receipts and payments are far more common. Cash withdrawal is NOT allowed from a Settlement Account. Companies can have an unlimited number of ordinary RMB settlement accounts.

- **RMB Settlement**

- The national inter-bank settlement system (CNAPS) has improved significantly over the past few years providing for rapid remittance times (nearly instantaneous) between BTMUC and all branches of local banks.

- **RMB Deposit Rate**

- The maximum deposit rate continues to be strictly regulated by the PBOC; lower rates can be offered.

- **RMB Lending Rate**

- The minimum limit of the RMB lending rate (PBOC rate times 90%) continues to be regulated by PBOC. However, the upper limit of the lending rate, has been abolished. Banks can now charge a premium for higher risk transactions.

Accounts - Foreign Currency

Foreign Currency Account Concepts

- Separate foreign currency accounts need to be opened for specific purposes
- Capital Purposes (Capital Injection, Foreign Debt, Onshore Foreign Currency Loan)
 - Capital and liability related.
 - Transactions strictly controlled / Cross-city capital injection account is prohibited in some provinces.
 - Prior SAFE approval is required for any exchange of foreign debt raised from outside of China.
- Current Purposes (Settlement account)
 - Generally related to payments/receipts occurring in daily business (e.g. import settlement).
- Foreign Currency Settlement
 - All foreign currency denominated banking transactions must be supported by relevant documentation (e.g. procurement contract, commercial invoice and custom clearance certificate for import payment).
 - Before executing the payment instruction, bank is required to obtain relevant documentation from the client and complete a compliance check. (This restriction reduces the efficiency of e-banking for foreign currency payments).
 - Subject to actual circumstances (e.g. company wants to make import settlement via a bank not located in the same city), prior SAFE approval may be required regardless of the category of transaction.
 - Current regulations make it difficult for a Chinese subsidiary of a foreign company to make non-trade related reimbursement to the parent company (e.g. reimbursement by the China subsidiary of salary payment made by the parent company to the expatriate seconded to the China subsidiary).
 - Certain China subsidiaries, such as China Holding Companies, that have been granted “Multinational Corporation” status are less restricted to make such payments

Capital Contributions

Registered Capital & Capital Contribution Schedule for non-acquisition Investment by Foreign Invested Enterprises

Total Investment		Minimum Registered Capital Requirement According to Total Investment	Schedule for Contribution of Registered Capital
< USD 3 MM	< USD 0.5 MM	70% of Total Investment	Within One Year
	USD 0.5 - 1 MM		Within One Year and a Half
	USD 1 - 3 MM		Within Two Years
USD 3 - 10 MM		50% of Total Investment, not less than USD 2.1 MM	Within Three Years
USD 10 - 30 MM		40% of Total Investment, not less than USD 5 MM	Examined and Approved by Relevant Authorities in Light of the Actual Situation
> USD 30 MM		33.34% of Total Investment, not less than USD 12 MM	

Note: In September 2006 China implemented new regulations covering all acquisitions of domestic companies or assets by Foreign Invested Enterprises ("FIE"s). MOFCOM is now the lead agency for all M&A activity.

Capital Contributions (continued)

Registered Capital & Capital Contributions Schedule for Foreign Invested Entities (“FIE”s)

- In the case that investment contributions are to be paid in one lump sum, the investor(s) shall make the full payment of the investment contributions within 6 months from the date of the issuance of the Business License.
- In the case that investment contributions are paid by installments, the first installment paid by the investor(s) shall not be less than 15% of the total amount of the investment contributions and must be paid within three months from the date of the issuance of the Business License.
- This Regulation applies to Chinese-Foreign Contractual Joint Ventures and Wholly Owned Foreign Enterprises (“WOFE”s).