Leveraging RMB for the Benefit of Your Global Business

Moderator:
Lewis SUN
Head of Sales, Global Payments and Cash Management
HSBC Bank China

Panelists:
Gloria Griesinger
Assistant Treasurer, Global Treasury & Pensions
Cummins

Rachel Maio
Financial Director, Regional Headquarters
Dover Corporation

Elizabeth Suter
Director, Treasury Operations
Thermo Fisher
Cummins

A global power leader that designs, manufactures, sells and services diesel engines and related technology around the world.

- Headquarter: Indiana US
- Founded: Feb.1919
- 2012 global revenues: $17.3 billion  China revenues: $3.04 billion
- Largest foreign investor in China’s diesel industry. Biggest and fastest growing overseas market
- Partnership with key Chinese OEMs
- 26 legal entities, +300 authorized dealers
• Over $12.8B in revenue
• >$1.7B in annual free cash flow
• 39,000 employees in 40 countries
• 350,000 customers in 150 countries
• >$32B market cap
• Addressing an $85B market

• Most comprehensive product offering in our industry
• Unparalleled commercial reach
• Technology leader
• Strong financial track record
• Leading brands

The World Leader in Serving Science
Dover Corporation (NYSE: DOV) is a diversified global manufacturer with annual revenues of over $8 billion. For over 50 years, Dover has been delivering outstanding products and services that reflect its market leadership and commitment to operational and technical excellence. Dover focuses on innovative equipment and components, specialty systems and support services through its four major operating segments: Communication Technologies, Energy, Engineered Systems and Printing & Identification. Headquartered in Downers Grove, Illinois, Dover employs 35,000 people worldwide.
RMB internationalisation

1. A global trade currency
2. A global investment currency
3. A global reserve currency

Confidence in RMB

77% believe RMB will account for one-third of China’s trade by 2015

RMB – The Road Ahead

- One third of China’s total trade flows is expected to be settled in RMB by 2013-2015, worth more than $2 trillion dollars
- Making RMB one of the world’s top three trading currencies by that time
- Surge in global RMB denominated non-trade transactions (ODI and FDI investments)
- RMB two-way volatility rather than RMB appreciation
- Further financial reform and pave ways for RMB full convertibility in the longer term

RMB as world payments currency

<table>
<thead>
<tr>
<th></th>
<th>Jan 2012</th>
<th></th>
<th>July 2013</th>
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<tbody>
<tr>
<td>EUR</td>
<td>44.04%</td>
<td>EUR</td>
<td>36.56%</td>
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<tr>
<td>USD</td>
<td>29.73%</td>
<td>USD</td>
<td>36.44%</td>
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<tr>
<td>GBP</td>
<td>9.00%</td>
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<td>8.28%</td>
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<tr>
<td>JPY</td>
<td>2.48%</td>
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<td>2.70%</td>
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<tr>
<td>AUD</td>
<td>2.08%</td>
<td>AUD</td>
<td>1.96%</td>
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</tr>
<tr>
<td>CAD</td>
<td>1.81%</td>
<td>CAD</td>
<td>2.05%</td>
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<tr>
<td>CHF</td>
<td>1.36%</td>
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<td>1.59%</td>
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<tr>
<td>SEK</td>
<td>1.05%</td>
<td>SEK</td>
<td>1.03%</td>
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<tr>
<td>SGD</td>
<td>1.03%</td>
<td>SGD</td>
<td>0.98%</td>
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<tr>
<td>HKD</td>
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<td>0.94%</td>
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<tr>
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<td>THB</td>
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<tr>
<td>DKK</td>
<td>0.54%</td>
<td>DKK</td>
<td>0.83%</td>
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<tr>
<td>RUB</td>
<td>0.52%</td>
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<td>0.62%</td>
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<td>ZAR</td>
<td>0.48%</td>
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<td>0.53%</td>
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<td>HUF</td>
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<td>0.47%</td>
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<td>NZD</td>
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<tr>
<td>MXN</td>
<td>0.31%</td>
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<td>0.43%</td>
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<td>TRY</td>
<td>0.27%</td>
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<td>0.40%</td>
<td></td>
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<tr>
<td>CNY</td>
<td>0.25%</td>
<td>CNY</td>
<td>0.35%</td>
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Source: SWIFT Tracker July 13
Note: SWIFT Tracker data does not include USD cleared through CHIPS

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RMB onshore and offshore markets

**RMB**

**One** common currency named ‘Renminbi’ (though the ISO currency code is ‘CNY’)
**Two** markets with two terminologies (‘CNY’ / ‘CNH’) and market characteristics

**Largest Offshore Market (Hong Kong)**

- HK’s total deposits (RMB equiv.)
  - 6,737 billion (Jun13)

**Onshore Market (Mainland China)**

- China’s total deposit
  - RMB 103 trillion (Jul13)

<table>
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<th>Exchange Rate</th>
<th>CNY</th>
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<tr>
<td>Deposit Rate</td>
<td>2.6%~3% (3M – 1Y) (Regulated, but 10% price-up permitted)</td>
</tr>
<tr>
<td>Lending Rate</td>
<td>5.6%~6.0% (6M – 1Y) (Rate floor removed in Jul13)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deposit Rate</th>
<th>CNH</th>
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<td>(Unregulated; indicative on 4Jul13)</td>
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Source: PBOC, HKMA, HSBC

**Onshore Market (Mainland China)**

- RMB deposits
  - 698 billion (Jun13)
Rapid developments – Leading to new opportunities for corporates

Recent developments under the RMB internationalisation

**Policies**
- Simplified cross-border supporting documents
- Pilot on pay-on-behalf-of / Receive-on-behalf-of (POBO / ROBO)

**New Opportunities**
- Trade settlement in RMB
- Finance China Operations in RMB
- Dealing with excess RMB liquidity
- Cross-border RMB liquidity management

**RMB injection into China as capital or shareholder’s loan**

**One-way onshore to offshore RMB cross-border lending**

*Two-way cross-border lending between onshore and offshore*

**Automated cross-border sweeping**

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Cummins
RMB cross-border experience

• Dividend payment: WOFE in mainland China to HK
• Intercompany service fee: from China to the US
• Trade settlement: from HK to mainland Joint Venture
• RMB Investment in Hong Kong: Residual RMB invested locally

- Leverage the interest rate and exchange rate disparity in onshore and offshore RMB market to achieve cost saving
- Achieve natural hedging by using RMB for inter-co payments
- Looking into 3rd party settlement at the next stage
Cummins
A pilot scheme from SAFE
Allowing cross-border sweeping and netting

Cross-border Netting
Single Cross-border Payment or Receipt

Domestic Foreign Master Account
Border

Offshore Netting Center

Overseas Trading Partner A
Overseas Trading Partner B
Overseas Trading Partner C

Sub A
Sub B
Sub C
Domestic Transfers
Thermo Fisher
Structure in China Today - Drop Ship Domestic Customer

- Overseas Factory
- China Trading Co - Shanghai
- Customer in China (Customer I/E)

Goods

Invoice

Amount

Custom clearance require

SAFE Docu within 90 days

Invoice

Amount

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Stand By Letter of Credit Transaction Cycle

Place RMB on Deposit/ Application SBLC

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China Company

At Maturity: RMB Deposit Matures

Loan USD Disbursement

Thermo Fisher
Hong Kong Company

At Maturity: Loan Repay in USD or Renewed

Global Cross Currency Notional Cash Pool

USD

China Bank

SBLC USD Issued

At Maturity: SBLC Expires

Hong Kong Bank
Dover - Cross-border Cash Concentration

Dover Luxemburg Group Treasury Center

Dover China Entity 1
Dover China Entity 2
Dover China Entity n

Dover China Asia Pool Header

Dover Singapore Account

x-border Auto-sweep
Capped by borrowing/lending quota

Domestic Auto Sweep
Entrenched Loan

Border

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