

A faint, light-colored world map is visible in the background, centered on the Atlantic Ocean. The map shows the outlines of continents and countries. A horizontal red band is overlaid across the middle of the map, containing the main title text.

# CHINA (SHANGHAI) PILOT FREE TRADE ZONE

SHANGHAI WAIGAOQIAO FREE TRADE ZONE UNITED DEVELOPMENT CO., LTD.  
April/2015

# CSPFTZ New Process----Expansion

## China ( Shanghai ) Pilot Free Trade Zone-28.78km<sup>2</sup>

- A** Shanghai Waigaoqiao Bonded Logistics Park  
Land area : 1.03km<sup>2</sup>
- B** Shanghai Waigaoqiao Free Trade Zone  
Land area : 10km<sup>2</sup>
- C** Shanghai Pudong Airport Free Trade Zone  
Land area : 3.59km<sup>2</sup>
- D** Yangshan Free Trade Port Area  
Land area : 14.16km<sup>2</sup>

## Expanded Areas of China ( Shanghai ) Pilot Free Trade Zone-91.94km<sup>2</sup>

- E** Lujiazui Financial Zone  
Land area : 34.26km<sup>2</sup>
- F** Jinqiao Development Zone  
Land area : 20.48km<sup>2</sup>
- G** Zhangjiang High-tech Zone  
Land area : 37.2km<sup>2</sup>

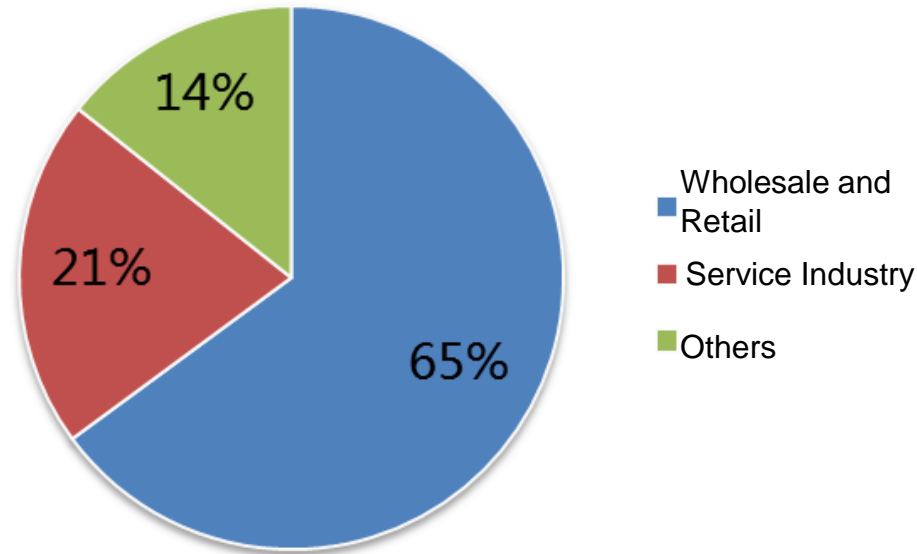


## Current Status of CSPFTZ ---- As of Dec 31 2014

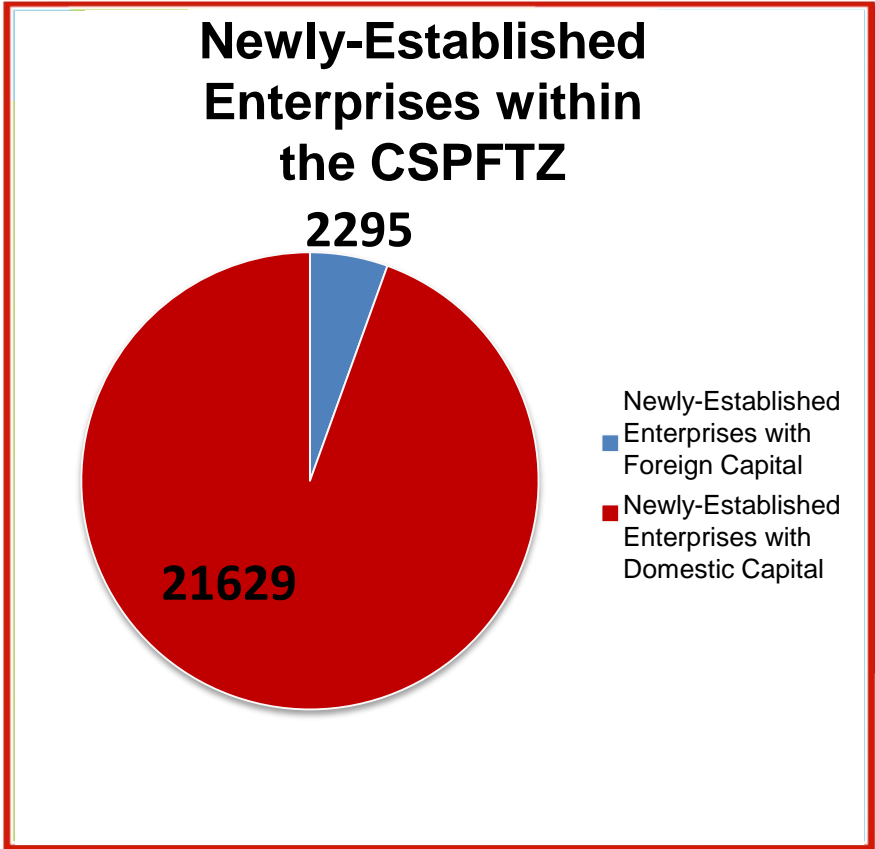
- Number of visitors **300,000** persons
- Daily visits of CSPFTZ Website **1.8** million
- Newly-established enterprises **15028** enterprises
- Foreign banks and domestic banks **47** banks
- Existed companies **23924** banks

# Current Status of CSPFTZ ---- As of Dec 31 2014

### Industrial Category



### Newly-Established Enterprises within the CSPFTZ



# CSPFTZ Policy Innovation

Investment  
Management

Service  
Trading

Trade  
Supervision

Finance  
Innovation

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China (Shanghai) Pilot Free Trade Zone

“New Elements”

# CSPFTZ Policy Innovation----Investment Management

## Negative List

	2013 Version	2014 Version
Restrictive Measures	152 Items	110 Items
Prohibited Measures	38 Items	29 Items

### *2014 Version VS 2013 Version :*

1. Further Opening Up : Canceled 14 items, released 19 items
2. More Transparent : 55 management measures of no specific restrictions in version 2013 of the substantially reduced to 25
3. Synchronized with the international regulations

**Special Administrative Measures (Negative List) on Foreign Investment Access to the China (Shanghai) Pilot Free Trade Zone (2013)**

**Special Administrative Measures (Negative List) on Foreign Investment Access to the China (Shanghai) Pilot Free Trade Zone (2014 revised)**

# CSPFTZ Policy Innovation----Service Trade



**I Financial Services** : ① Banking Services ② Health Insurance ③ Financial Leasing

**II Shipping Services** : ① Ocean Transport ② International Ship Management

**III Business Services** : ① Value-Added Telecommunication ② game machines and amusement appliance

**IV Professional Services** : ① Legal Services ② Credit Investigation ③ Travel Agencies ④ People Mediation ⑤ Investment Management ⑥ Engineering Design ⑦ Construction Services

**V Cultural Services** : ① Performance Agencies ② Entertainment Venue

**VI Social Services** : ① Education, training ② medical services

## CSPFTZ Policy Innovation----Trade Supervision

To support the development of China (Shanghai) Pilot Free Trade Zone, State Customs Bureau promulgated 14 reform policies for facilitating trading and exploring new trading functions within the zone.

### Main Points

**In bond first, declaration later**

**Self-transportation for goods within zones**

**Manual verification with work order**

**Bonded demonstration and business**

**Maintenance service for overseas and domestic market**



# Financial spots in the expanded areas of the SPFTZ

Expanded area: **120km<sup>2</sup>**  
Enterprises increase to  
**58,000**

Original areas of the  
SPFTZ

Waigaoqiao

Financial support in  
**offshore business**

Jinqiao Development  
Zone

Financial support in  
**advanced**

Lujiazui Zone

The **core** area of  
financial zone

SH World Expo  
Zone

Extension of  
financial innovation

Zhangjiang High-tech  
Zone

Innovations in both  
finance and **High-tech**

1

**Free Trade Accounting Unit**

10 Chinese-funded banks, including Bank of China, ICBC, CCB, SPD Bank, Bank of Shanghai, etc.  
2 Foreign-funded banks: HSBC, NCB

2

**Capital account convertibility**

Centralized operations and management of MNCs' foreign exchange  
Free settlement of foreign exchange capital funds

3

**Interest rate liberalization**

Liberation of the upper limit of interest rate under current accounts for small amount foreign currencies

4

**Cross-border use of RMB**

RMB Loan for enterprises in FTZ  
RMB cash pooling  
RMB outbound investment

5

**Reform of foreign exchange management system and risk management**

1

**Accelerate the RMB account convertibility**

- Foreign currency for FTA Unit
- Cross border two-way stock investment
- Promote personal capital account convertibility (Individual overseas investment)

2

**Increase cross-border use of RMB**

- Trade, industry investment, financial investment
- Further optimize RMB repatriation mechanism

3

**Expand two-way opening-up in financial industry**

- Breakthroughs in the proportion of shares in Chinese-foreign equity for Joint stock company
- 2 or 3 private-owned banks with special business mode

4

**Build up a an international financial market**

- Crude oil futures
- Subsequent products of Shanghai Gold Exchange
- Financial Assets Trade Platform in the PFTZ

5

**Optimize financial monitoring**

# Outbound investment in the SPFTz

## Set up Investment Entity (within 1 month)

- Subscribing system for registered capital
- Optional organization modes

## Filing System for Outbound Investment (within 5 working days)

- Sensitive Industries, like 'large scale land development', 'basic telecommunications', media industry, and etc. excluded
- Submit simply filing documents, like 'Investment Entity Certificates', 'Project Structure', 'Intension for Project', and etc.

## Currency Exchange and Payment (can be within 1 working day)

- Apply for outbound investment foreign exchange registration certificate and handle currency exchange and payment procedures at bank directly
- SAFE Delegated authority to bank

# Outbound investment data

## Overview

- ❑ Total investment projects : 280
- ❑ Total investment : \$ 9.039Billion

## Advantages

- ✓ shorter procedures
- ✓ less authorities to go through
- ✓ more financing channels
- ✓ more project information

## Nationalities

India	2
Indonesia	2
Canada	3
Israel	4
The U.K.	4
Australia	15
Singapore	17
U.S.A	37
The British Virgin Islands	40
Cayman Islands	53
Hong Kong	76

# Outbound investment case

July, 2014

Acquisition firm

HONY CAPITAL

Founded in 2003, it is a PE company under Lenovo, with a total investment scale of 46 billion RMB

Acquisition Price:  
900 million Pounds

Object firm

PIZZA EXPRESS

Under the global catering guru GONDOLA, it was founded in 1965 and has 435 stores in the U.K. and 70 stores in other parts of the world (22 stores in China).

Set up a cross border investment funds management headquarter in the SPFTZ

LBO

50% : Bond Financing

50% : Joint Financing

SPV company Set up

Filing in FTZ Administration

Currency exchange and overseas payment

RMB Investment



- + 00H Inter CD 10yr 8.21%
- + SP500 Div Yield POC 3.21%
- + 1 year CD 1.68%
- + 5 year CD 2.28%

COMMODITIES				
SPOT GOLD	1368.08	1365.25	0%	08/01
SPOT PLATINUM	1723.33	1736.45	+0.1%	17:42:08
SPOT PALLADIUM	732.41	724.22	+0.22%	17:40:04
SPOT SILVER	26.15	22.62	+0.08%	13:00:20

# CHINA'S FREE TRADE ZONES

YANG DU



THOMSON REUTERS™

April 2015

# Agenda

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China's pilot of Free Trade Zones



Free Trade Zones in China



Impact of China FTZs

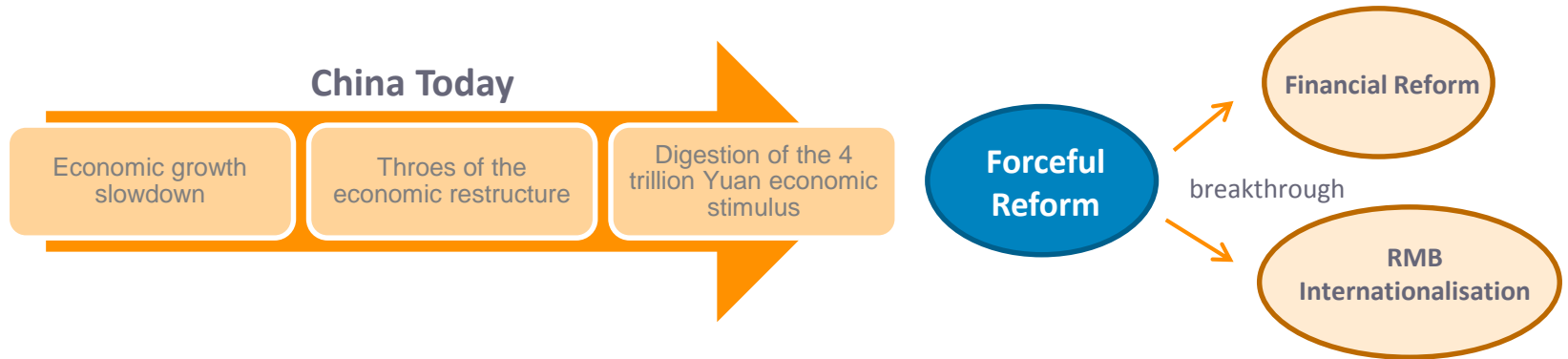


# History of Free Trade Zones Development in China

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# Impact of China FTZs



## Traditional Currency Internationalisation

Capital account open is a MUST for a currency's internationalisation

## Innovative RMB Internationalisation

Separate from

RMB Free Convertible

Capital Account Control

Circulation first, convertibility follows when time comes

Let RMB circulate under the capital account but keep the control of its convertibility to protect domestic macro economy

# Free Trade Zones in China

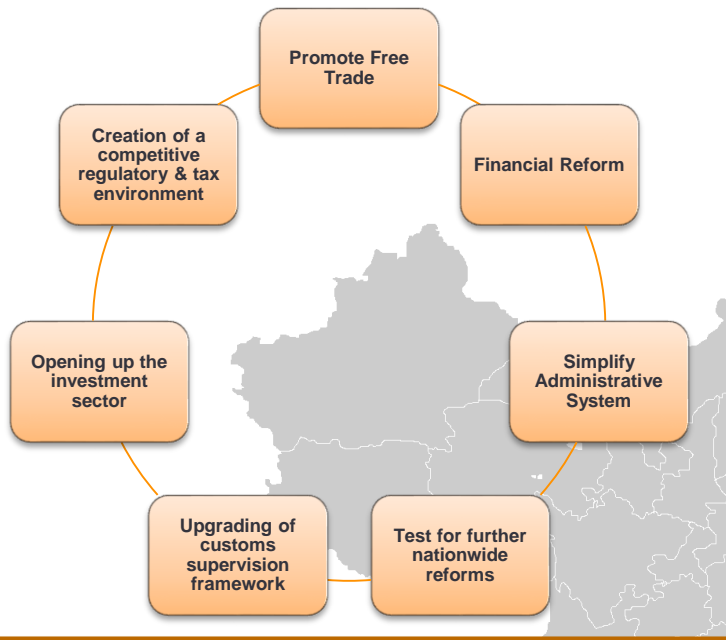
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- New Free Trade Zones opening in:
  - Tianjian
  - Guangdong
  - Fujian
  - Shanghai FTZ to expand – including Lujiazui, China’s financial centre
- The new zones will be based on the Shanghai model, but will also include **“local characteristics”**
- Having numerous FTZs, China would like to create mutual competition within the various areas driving growth & innovation, essentially setting up a new competitive market within China’s borders
- Many more cities & provinces are applying for FTZ approval in future years



# Positioning of the New FTZs: Making Full Use of Geographic Location and Carry Special Local Features

## Objectives of China FTZs



### Tianjin FTZ (Tianjin Port, Tianjin Airport, Binhai New Area)

- Focus on financial leasing and cross-border financing
- Develop & drive innovation for shipping industry
- Focus on trade relations with Asia Pacific countries
- Offshore financial service centre for North China

### Expanded Shanghai FTZ (Lujiazui, Jinqiao, Zhangjiang High-tech)

- Expansion of Shanghai FTZ notably includes the Mainland's defacto financial centre, Lujiazui
- Lujiazui likely to play a central role in reform implementation
- Potential revision of the negative list to allow for more than 49% foreign ownership in JV FMCs in 2015

### Fujian FTZ (Pingtan, Xiamen, Fuzhou)

- Focus on enhancing trade with Taiwan & promote closer cross-strait cooperation
- Pilot policies to facilitate investment from Taiwan
- Financial centre serving cross-straits businesses

### Guangdong FTZ (Guangzhou Nansha, Shenzhen Qianhai & Shekou, Zhuhai Hengqin)

- Focus on bolstering mainland cooperation with HK & Macau, offering reform on high-end financial services to serve these locations

# Impact to the Chinese financial system

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## Objective:

Deepen innovation and opening up of financial services. Accelerate the innovation of financial systems. Under proper risk control, the China (Shanghai) Pilot FTZ will pilot RMB capital account convertibility, interest rate liberalisation and the cross-border use of RMB

### Capital Accounts Opening

Based on the capital account definition of IMF, there are 43 capital accounts subject to control in China.

These being:

- 1) Foreign direct investment shall be subject to approval & overseas investments are also restricted
- 2) Chinese residents shall not have foreign debts, and foreign debts are subject to scale management
- 3) China's capital market shall not be open to foreign capital, which may participate in the market by special channels, such as QFII

### Policies Announced In

RMB Internationalisation

Interest Rate Liberalisation

Foreign exchange rate liberalisation

Opening up of the capital accounts

# Shanghai Pilot Free-Trade Zone

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- Recognised as a crucial economic reform initiated by China's new leadership.
- From a Chinese perspective, it is to express a large statement of intent to liberalise the RMB and the future of trade with China
- Laboratory for ambitious free market reforms from financial and currency restrictions to administrative controls on foreign investment
- Chinese officials said the SFTZ simplifies FX procedures & makes it easier for companies operating in the zone to borrow funds offshore
- FTZs essentially seen as pockets of offshore areas within Mainland China

## Negative List

- Chinese authorities rolled out “negative” list of investment guidelines
- List provides details of investments in sectors which are explicitly prohibited to foreign investors
- The list was updated in July 2014, further relaxing restrictions on foreign investment in financial industry, manufacturing & transportation services

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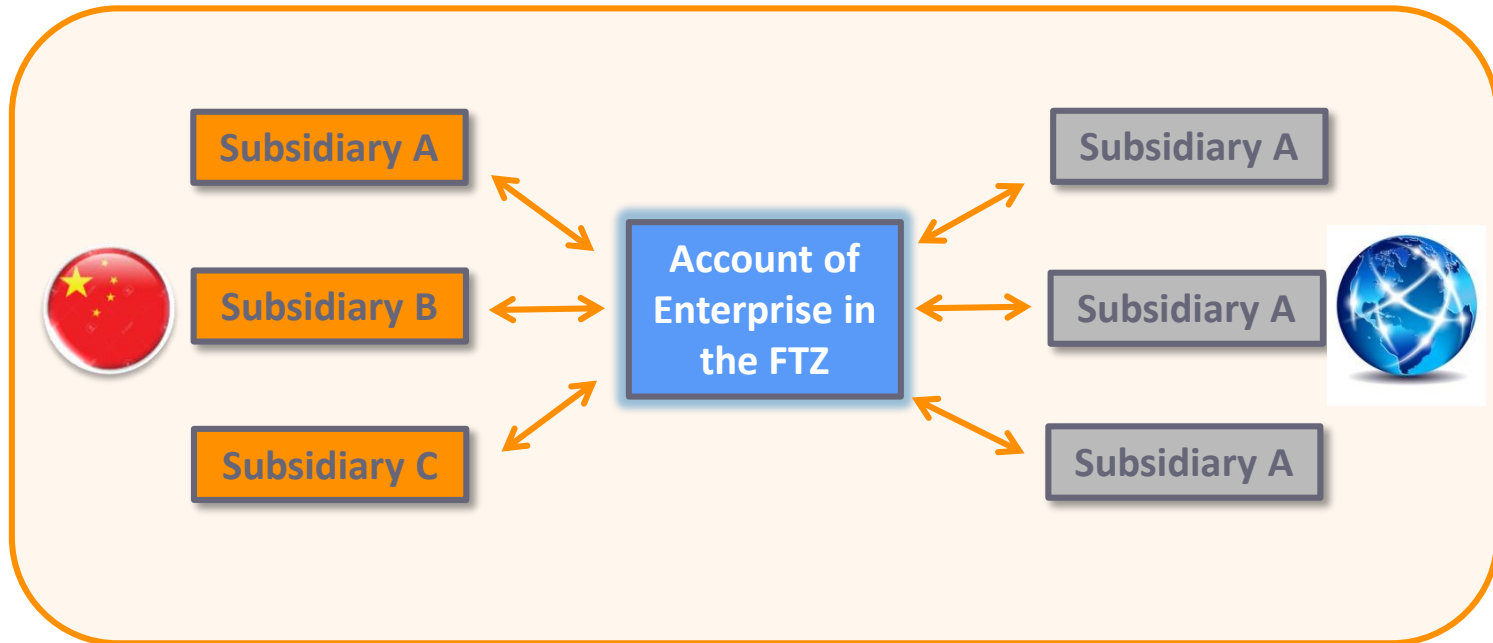
# Appendix

## Impacts in the financial and investment sectors

# Cross-Border Two-Way RMB Cash Pooling

## RMB Cash Pooling:

- Remove previous restriction on quota
- Free fund transfer between offshore and onshore, cash flows generated in production, operation and industrial investment activities
- No cash flows from financing activities at moment





# Overseas RMB Loan for Enterprises in the FTZ

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## Benefits to Clients

- More access to offshore capital/finance market
- Lower financing costs

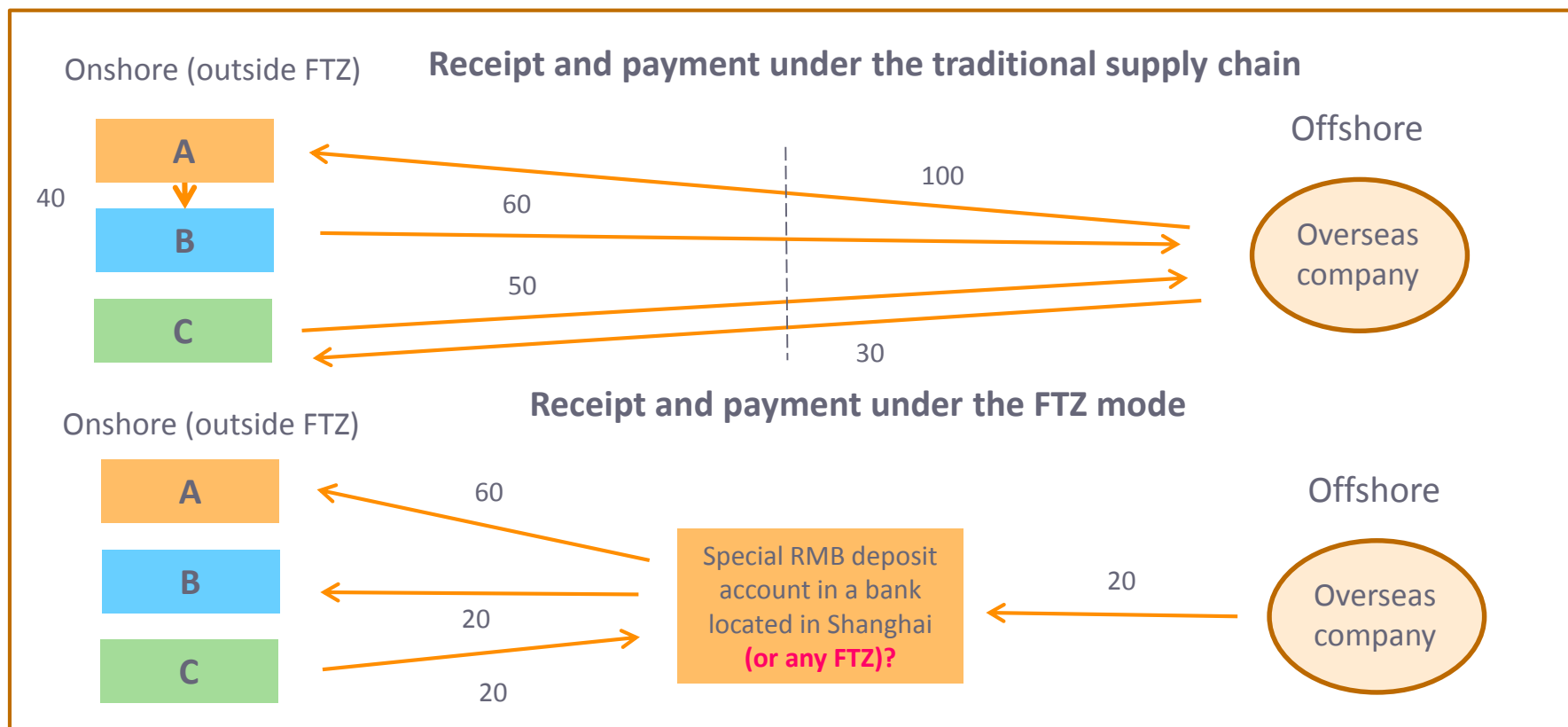
### Case Study: Cost comparison on 3 scenarios for a 1 – year RMB loan

	Loan Costs	Other Costs	Loan-to-deposit ratio & amount limitations
Enterprises registered in HK	Around 4.2% - 4.4%	Financing guarantee issuance fee > 1%	None
Enterprises registered in the FTZ	Around 5.2%	None	None
Onshore enterprises (outside the FTZ)	>= 6%	None	Strict limitations apply tight liquidity in the market

# Centralised RMB Cross-border Current Account Receipt and Payment

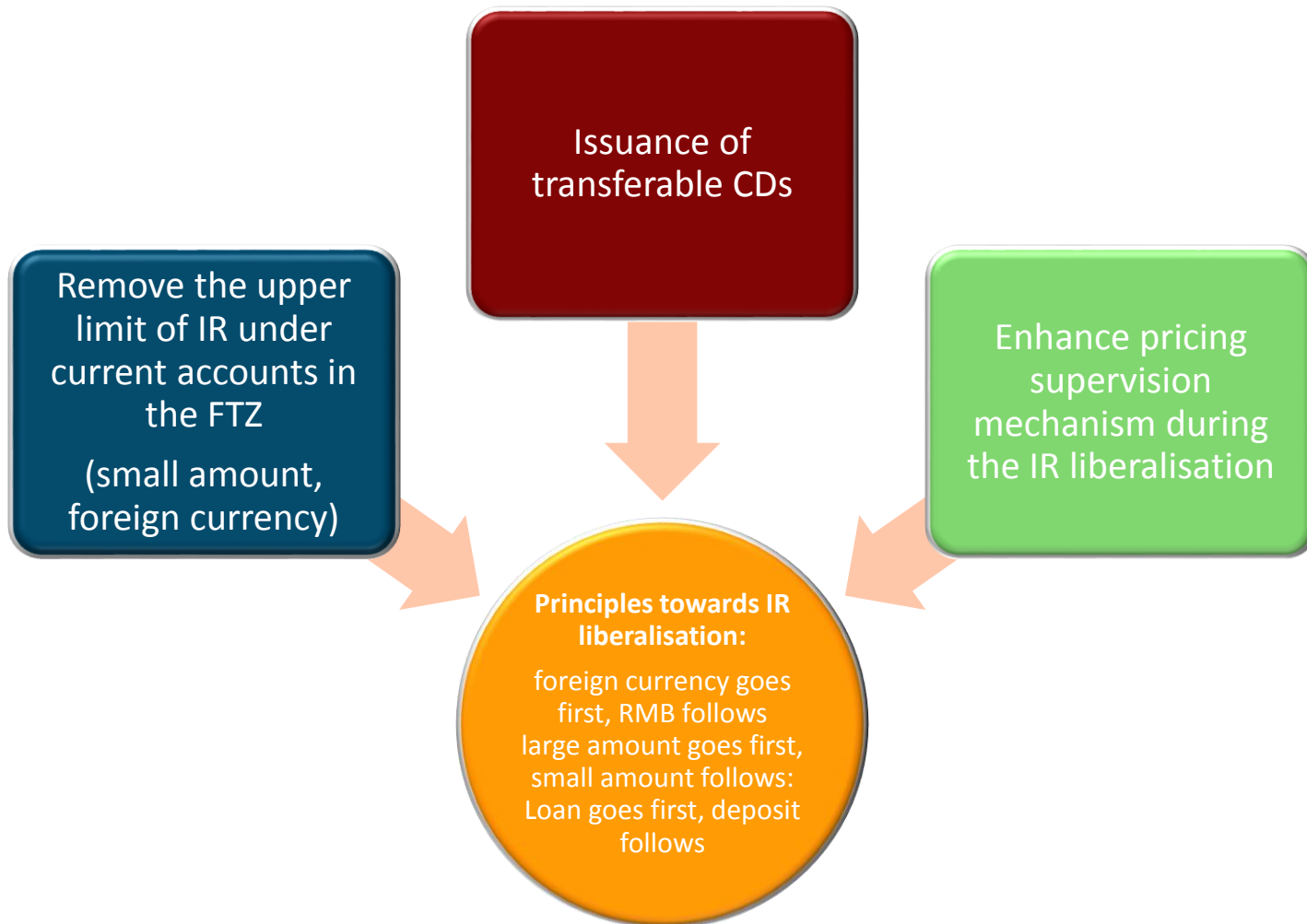
## Benefits to Clients

- Netting payments
- Efficient payments
- Less position management costs



# Interest rate liberalisation - FTZs

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# Cross-border foreign currency cash pooling

## Benefits to Clients

- Manage the foreign debt and lending quotas of all its members on a centralised basis
- Enhance the efficiency of cross-border capital use
- Reduce financial cost

