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STRICTLY CONFIDENTIAL

Private Placement Bond Market in China

November 2010

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SECTION 1

Overseas Practice

What is private placement bond?

- **Generally issued to few qualified institutional investors**
- **No approval or registration procedure**
- **Few disclosure requirements**

Public offering VS private placement

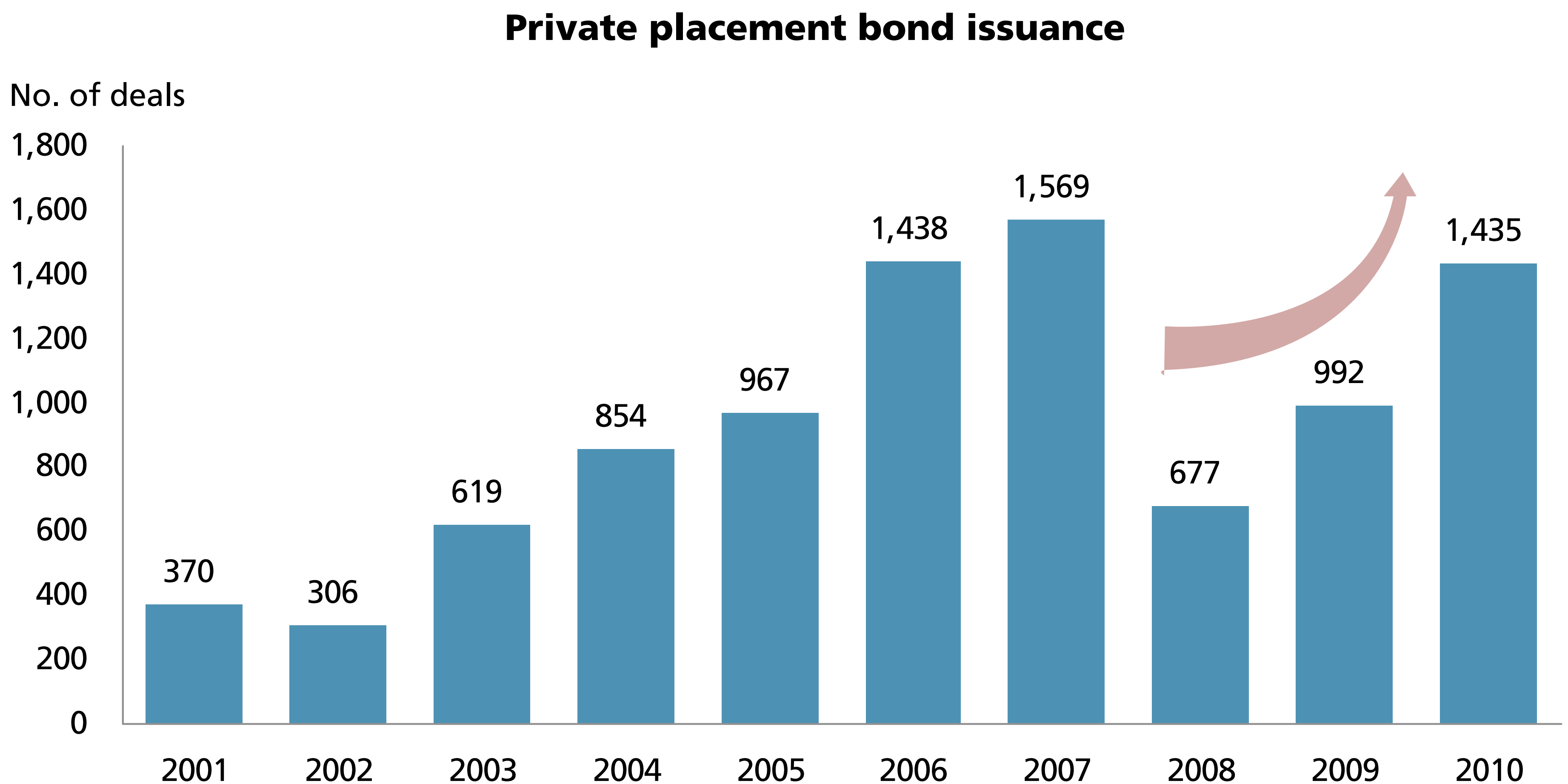
	Public offering	Private placement
Regulation	• Generally registered	• No registration requirement
Issuer	• Comply with required issuer qualifications	• Generally not required
Investor	• Institutional investors like bank, insurance company • Individual investors	• Qualified institutional investors

Public offering VS private placement

	Public offering	Private placement
Credit rating	• Credit rating required	• Not necessary but many issuers prefer credit ratings to reduce financing cost
Resale	• Allow trading in exchange market and selling to individual investors	• Resale between qualified institutional investors
Disclosure	• Strict public disclosure required	• No public disclosure required, but disclosure to bond holders is necessary

Overseas private placement bond market

Overseas private placement bond market has gradually recovered since financial crisis



Source: Bloomberg, From 2001-2010

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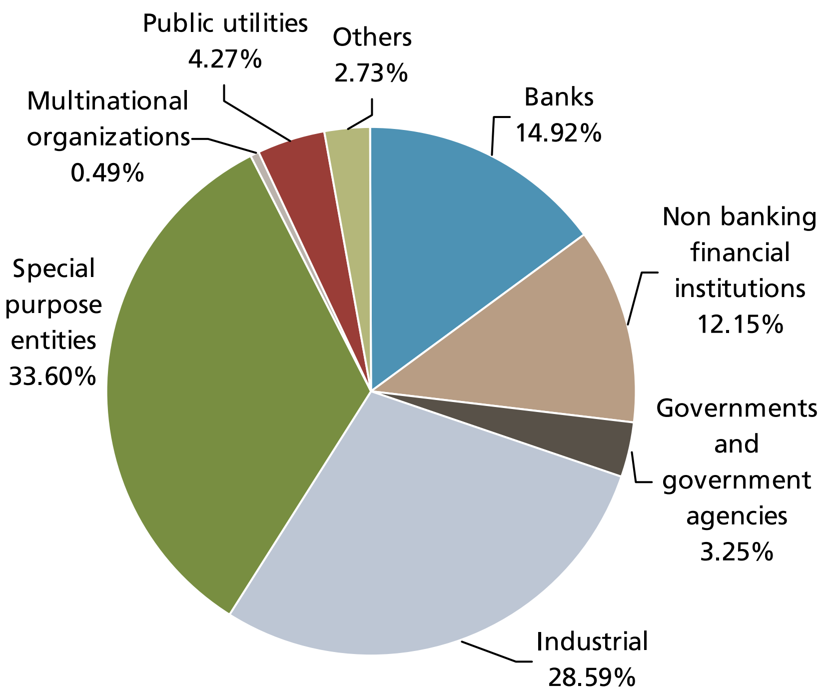
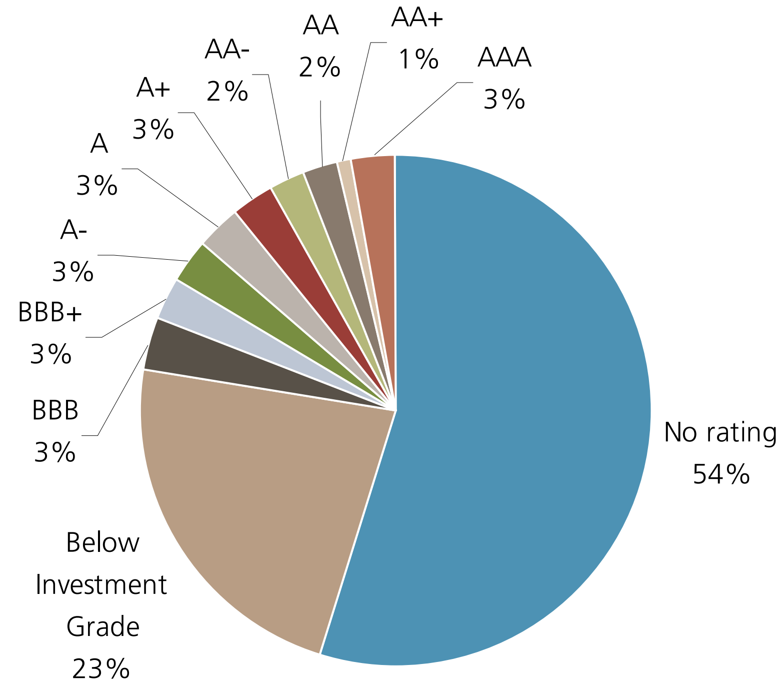
Issuers

Issuer type (by number of deals)



Issuer credit rating (by number of deals)



Source: Bloomberg, from 2001-2010

Investors

Taking US private placement bond market as an example

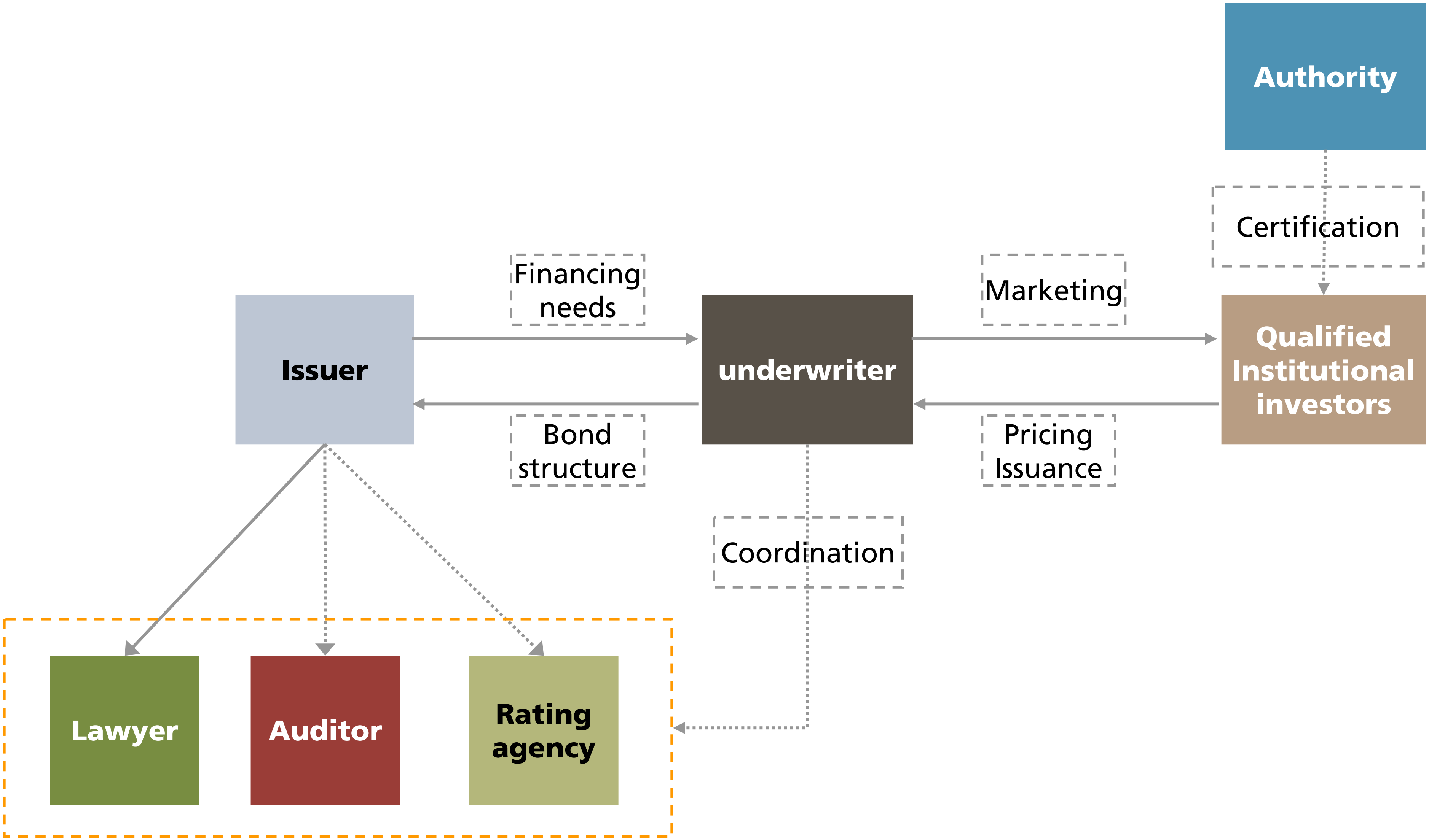
144A Private Placement

- Any bank or savings and loan association holding at least $100m securities and has an audited net worth over $ 25m
- Any insurance company, investment company, trust fund or business development company holding at least $100m securities
- Investors need accrue higher reserve ratios for bond investment

Traditional Private Placement

- Major investors are large institutional investors like insurance companies
- No listing or registration is required with better confidentiality
- Contributed to build up a cooperative relationship with long term institutional investors

Underwriters and other agencies



Sinochem Hong Kong US$2bn global bond offering

Sinochem HK's inaugural offering in the international bond market

The largest-ever international bond transaction from a Chinese issuer

The first-ever international bond transaction from a Chinese non-listed corporation

The largest multi-tranche Asian G3 corporate bond transaction since Aug 2009

- On November 5, 2010, **UBS acted as joint lead manager and joint bookrunner on a US$2 billion RegS / 144A 10- and 30-year dual tranche senior notes offering (the "Transaction") for Sinochem Hong Kong (Group) Co., Ltd. ("Sinochem HK" or the "Company")**
- This benchmark transaction **is the inaugural offering of Sinochem HK in the international bond market.** It is also **the largest-ever international bond transaction from a Chinese issuer, the first-ever international bond transaction from a Chinese non-listed corporation, and the largest multi-tranche Asian G3 corporate bond transaction since Aug 2009**
- The transaction reflects **UBS' solid partnership with Sinochem HK and Sinochem Group, participating in 3 DCM/M&A transactions for the Group in the past 12 months**
- The initial pricing whisper was set at "low-200s" for the 10-year tranche and "mid-200s" for the 30-year tranche. Despite benchmark US Treasury yield declines and uncertainty over the Federal Reserve QE2 program details, the orderbook grew steadily and ended multiple times oversubscribed to allow the joint bookrunners to announce the formal guidance at T10+212.5-225bps/T30+240bps area, and final guidance at T10+210bps area/T30+230bps area (+/- 2bps)
- The bond was priced at tight end of guidance on the back of robust investor demand. Final orderbook was 2.9x oversubscribed at US$4.4bn for the 10-year tranche and 6.9x oversubscribed at US$3.45bn for the 30-year tranche, with participation from over 310 high quality accounts globally
- The proceeds of the issue will be used for working capital, refinancing of short term loans, capital expenditures and general corporate purposes

Key Information

Pricing Date	5-Nov-10
Issuer	Sinochem Overseas Capital Company
Guarantor	Sinochem Hong Kong (Group) Co., Ltd.
Security	US$ Senior Notes
Issuer Ratings	Baa1 / BBB+ / BBB+
Issue Ratings	Baa1 / BBB+ / BBB+
Maturity Date	12-Nov-20 / 12-Nov-40
Size	US$2,000,000,000
Format	RegS / 144A
Coupon	4.50%(10yr) / 6.30%(30yr)
Yield	4.567%(10yr) / 6.336%(30yr)
Offer Price	99.467(10yr) / 99.519(30yr)
Denomination	100K+1K
Listing	Hong Kong
Governing Law	New York Law
Joint Bookrunner	UBS

中化香港(集團)有限公司
SINOCHEM HONG KONG (GROUP) CO., LTD.

Nov 2010
USD 2,000mm
4.500% due 2020 / 6.300% due 2040

Joint Lead Manager and Joint Bookrunner

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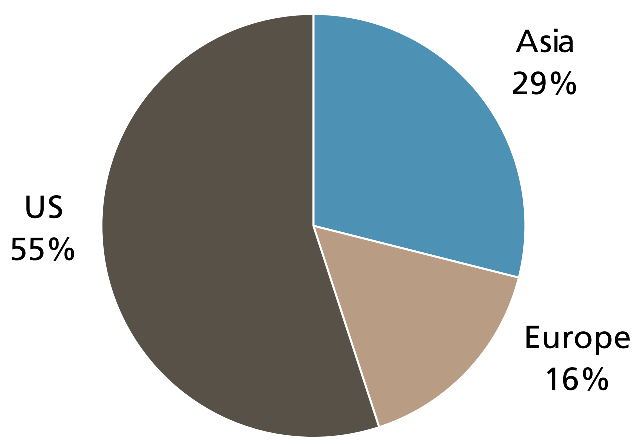
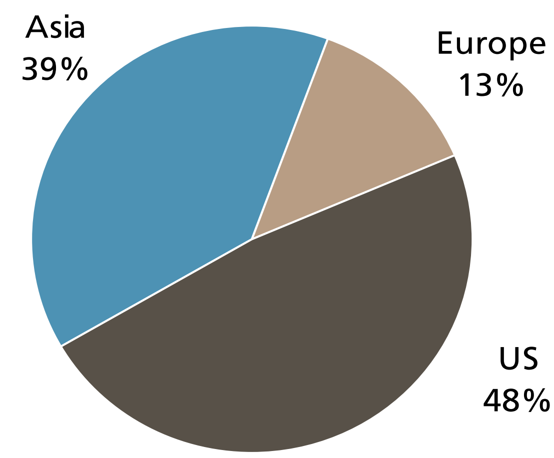
Distribution Analysis

Distribution by Geography

10-year

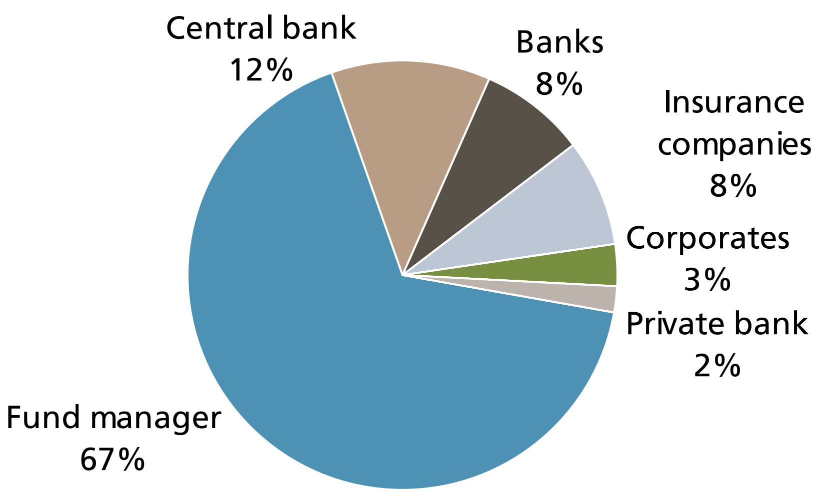


30-year

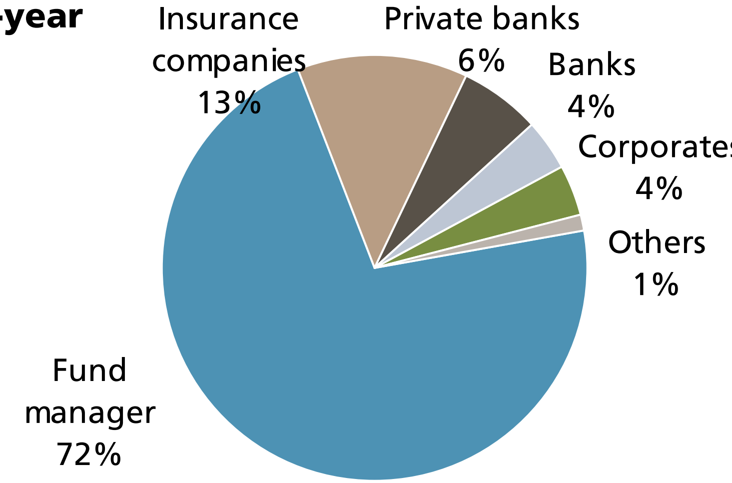


Distribution by Investor Type

10-year



30-year



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CITIC Pacific's US$150 million 12-year private placement

The transaction enabled the issuer to secure longer term maturity financing at a lower cost than public bond

- In August 2010, **UBS acted as the sole book runner and deal structurer for a US$ 150million 12-year private placement for CITIC Pacific**
- This private placement **transaction enabled CITIC Pacific to secure longer maturity financing than public financing at a much lower rate** (The maturity for this transaction is 12 years while the longest maturity issuers can normally obtain for US$ bonds via public financing is 10 years)
- With diversified business activities in both mainland China and Hong Kong, CITIC Pacific is listed in Hong Kong Stock Exchange as a constituent of the Hang Seng Index. The investor of this transaction is a large Chinese fixed income fund
- As the sole bookrunner for this transaction, UBS has solicited interest from investors at a very early-stage. After obtaining positive feedback, UBS immediately started the execution process, assisting both parties in terms discussion, deal structure design and documentation
- With CITIC Pacific's reputation and sound track-record in Greater China, the investor signed a "big boy letter" before the transaction, which effectively simplified the documentation process and due diligence process
- At the same time, as private placement transaction does not need to go through roadshow and marketing process, it significantly reduced the execution time and transaction costs. **From sign-off to closing, it only took the transaction two weeks to complete**
- This transaction has not only provided the issuer with more favorable interest and maturity financing, but it also reduced execution time and satisfied the investor's need for high-quality, long-term investment in the Great China region

Key information

Pricing date	August 2010
Securities	US$ Senior Notes
Maturity	12 years
Issuance size	US$150 million
Format	RegS Only
Coupon rate	6.900%
Sole book runner & Sole structurer	UBS Investment Bank

Sole book runner and structurer

UBS

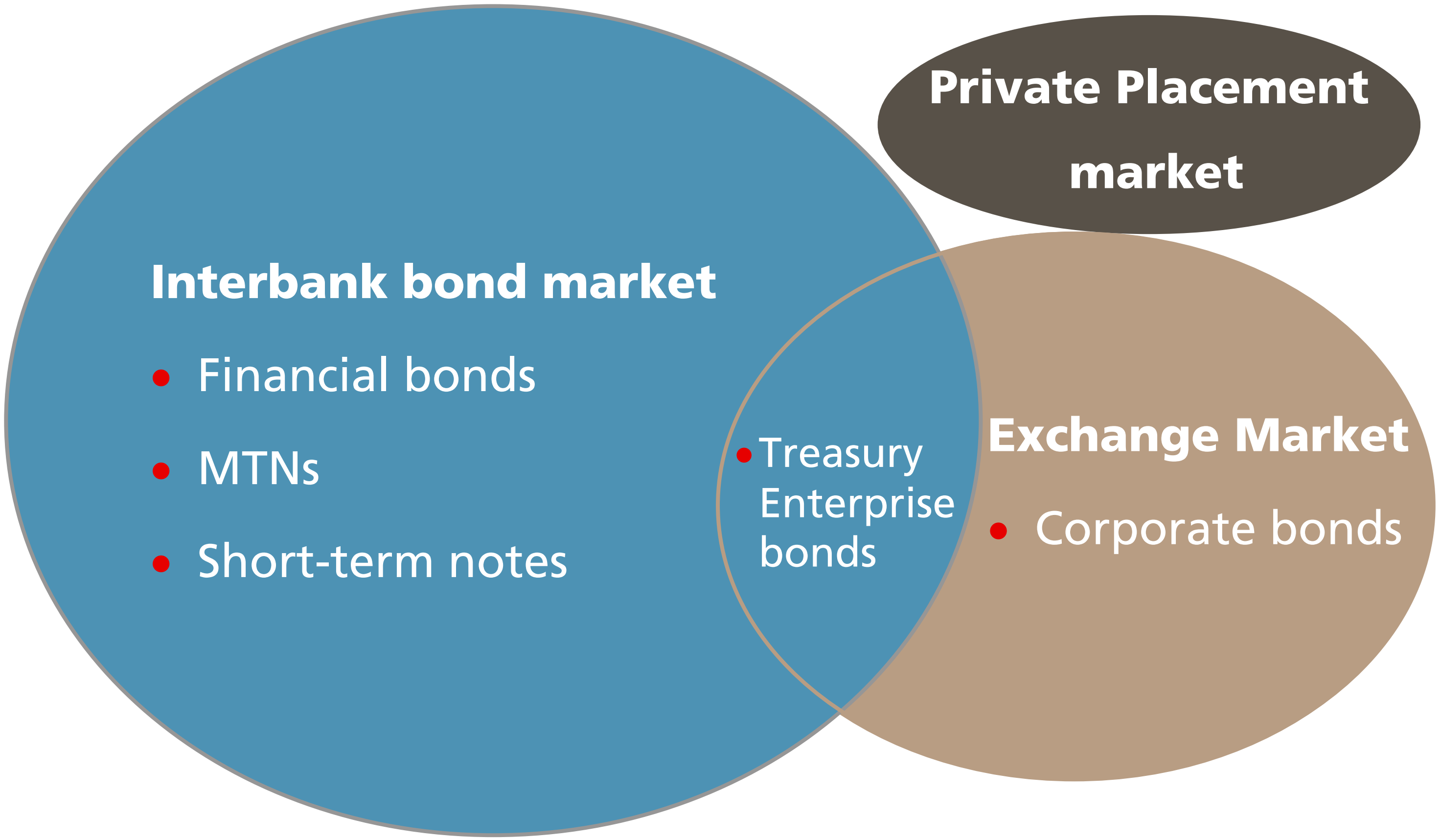
SECTION 2

Overview of domestic bond market

Domestic bond market milestone

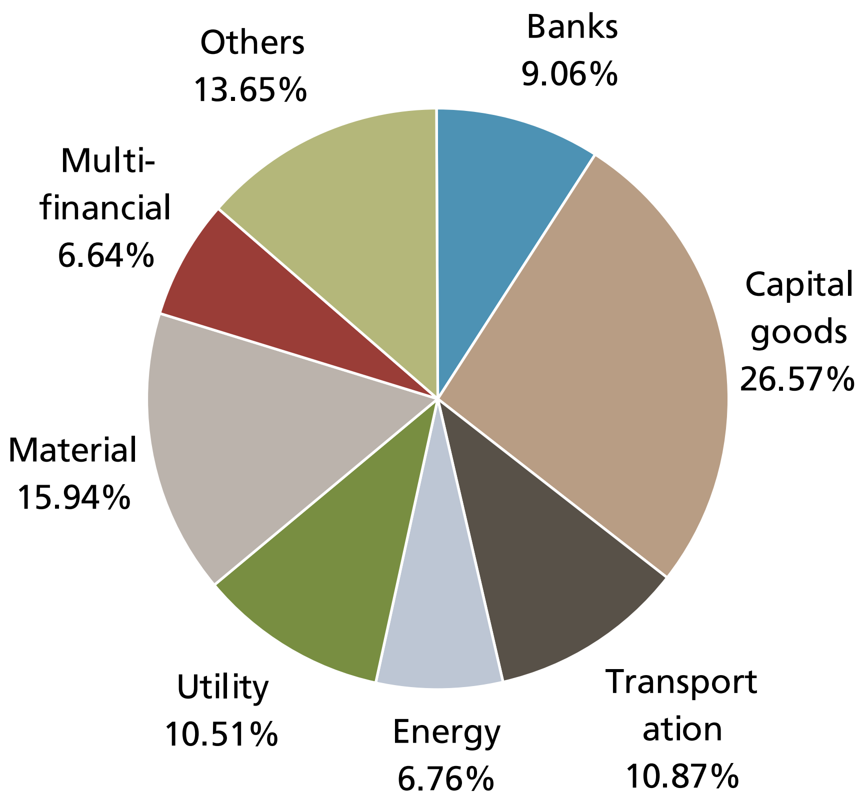
Oct 2010	Launch of China "CDS"
Oct 2010	Exchange bond market open to listed commercial banks
22 Apr 2008	MTNs
14 Aug 2007	Corporate bonds
2005	Short-term notes and "Panda bonds"
2004	Subordinated bonds of commercial banks
16 Jun 1997	Launch of interbank bond market
1994	Senior bonds of policy banks
1985	Senior bonds of commercial banks
1983	Enterprise bonds
16 Jan 1981	Treasury bonds

Domestic bond trading market

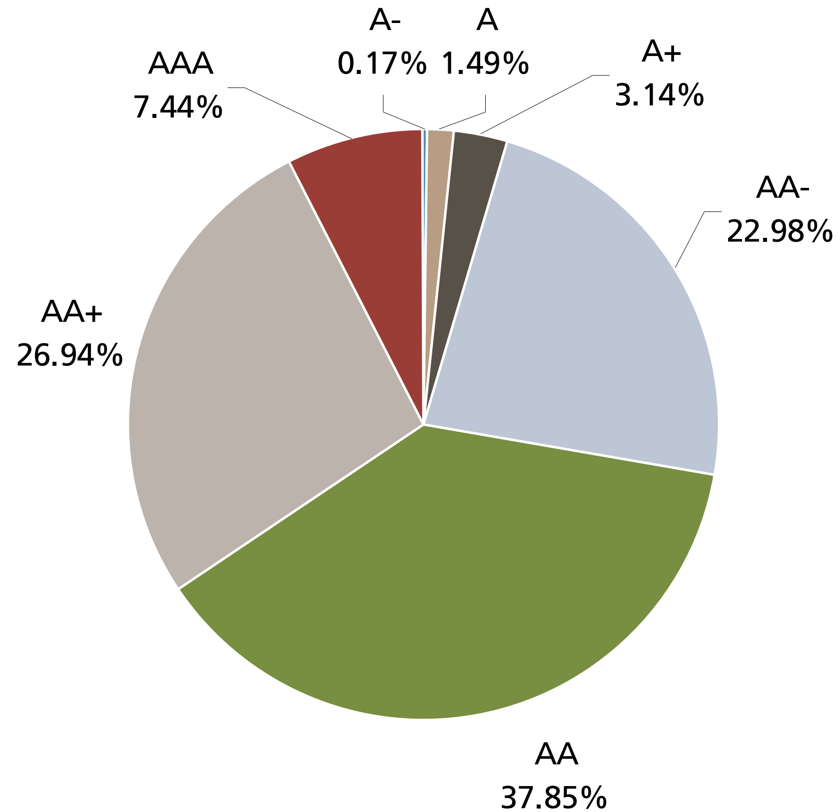


Issuers

Issuer type (by number of deals)



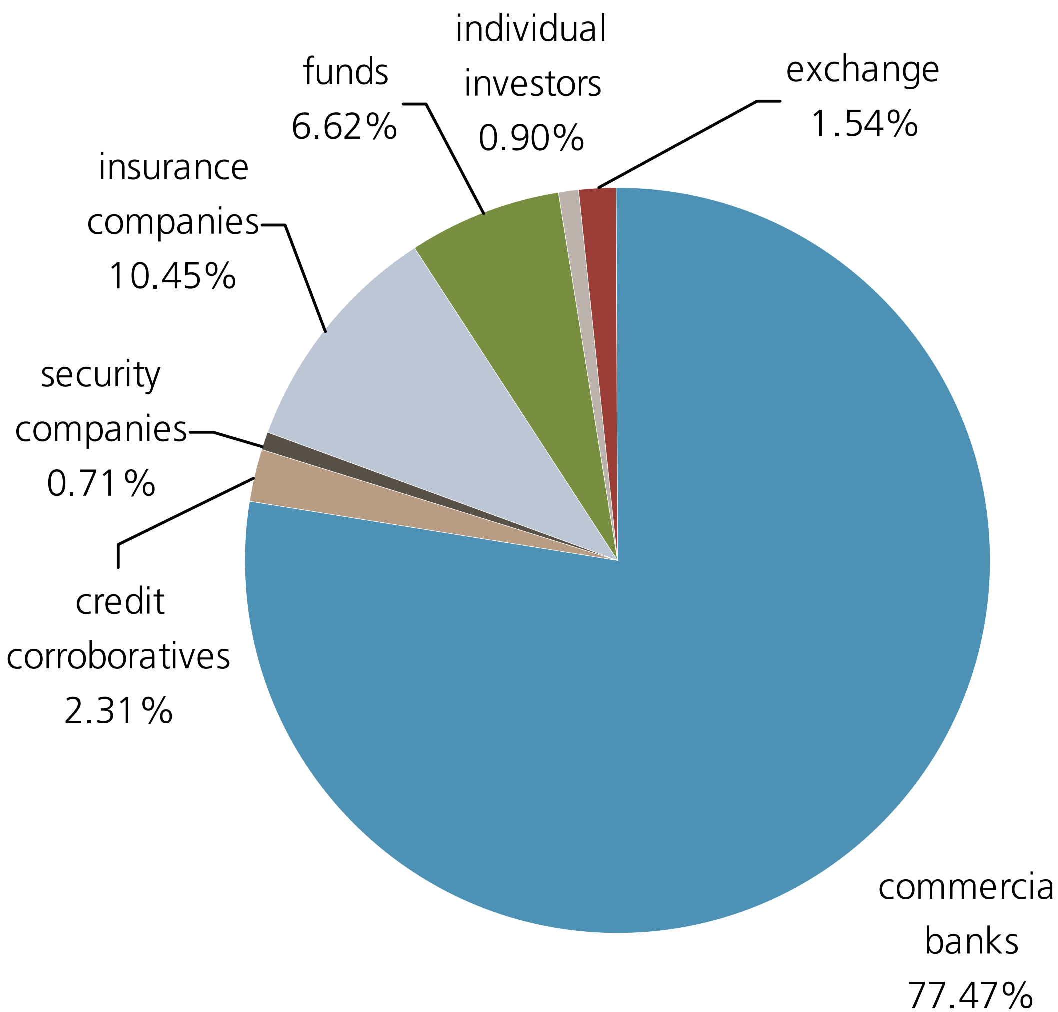
Issuer credit rating (by number of deals)



Data source: Wind Terminal, 2010

Investors

Major investors in interbank bond market (by volume)



Data source: China bond, Oct.2010

SECTION 3

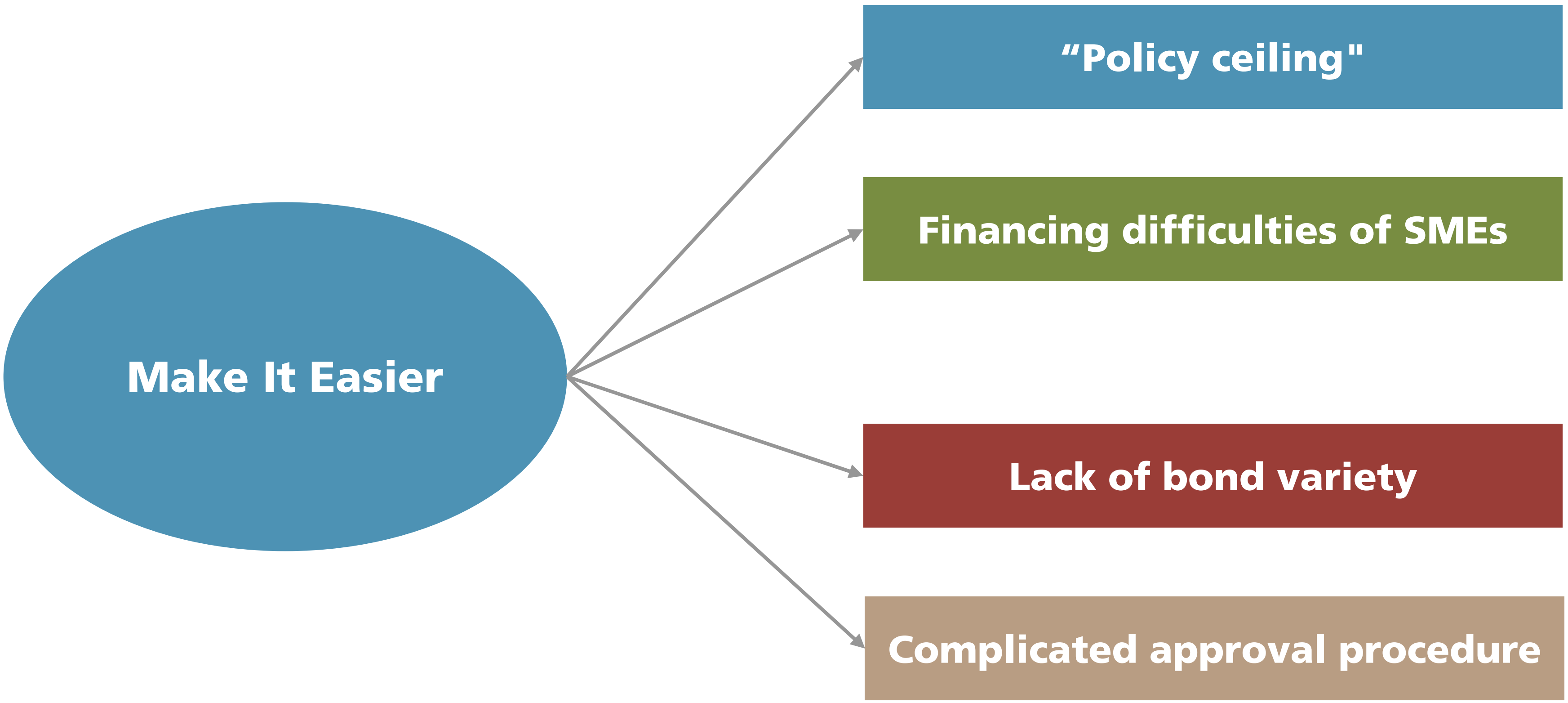
Recommendations

Current situation

Current private placement bonds in China include subordinated bonds issued by bank, insurance company and security company

There is NO private placement for non-financial enterprises!

What will private placement bring?



Recommendations

Private placement is one of major financing channels in overseas bond market
China can consider gradually loosening restrictions for private placement bond

	US Practice	Recommendations for China
Approval procedure	• Generally no approval or registration required	• Registration is necessary • Loosen requirements of UOP for these private placement bonds
Product structure	• No limitation on minimum issuance size • Bond structure and covenants are negotiated between investors and issuers depending on need	• Exempt the 40% net asset limitation • Allow flexibility of bond structure and covenants based on bilateral demand

Recommendations

	US Practice	Recommendations for China
Preparation for issuance	• Few documents required • Credit rating is not mandatory	• Simplify issuance document requirements • Credit rating is not mandatory
Investors	• Professional institutional investors with good grasp of information and strong risk awareness • Detailed requirements on QIBs	• Only certificated institutional investors are allowed to purchase • Compulsory documents, including signing of letter of commitment

Recommendations

	US Practice	Recommendations for China
Disclosure	• Necessary disclosure is only required to bond holders	• Information disclosure is required to bond holders, public disclosure is encouraged
Liquidity	• No listing in secondary market is required, and resale is limited to QIBs	• Allow resale between QIBs • Allow listing in secondary market, but can only be resold to QIBs

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SECTION 4

Overview of Hong Kong RMB Eurobond market

Overview of Hong Kong RMB Eurobond market

2010 marks a watershed year for RMB bond raisings in the international market with the ability for international corporations to issue RMB-denominated bonds outside of China mainland

January 2007
Mainland financial institutions allowed to operate RMB businesses in Hong Kong

May 2009
Allowed Hong Kong banks' mainland subsidiaries to issue RMB bonds in Hong Kong

September 2009
Issuance of RMB bonds by Ministry of Finance

March 2010
Individuals and enterprises from mainland allowed to carry out direct investments in RMB in Hong Kong

August 2010
McDonald's became the first international corporation to issue RMB bonds

2007 2008 2009 2010

July 2007
China Development Bank issues first ever RMB bond in Hong Kong, raising RMB5bn

July 2009
Initiated trial districts for cross boarder RMB settlement in Hong Kong

Bank of East Asia becomes first non-PRC bank to issue RMB bonds, raising RMB4bn

February 2010
Hong Kong Monetary Authority expanded the scope of RMB business in Hong Kong

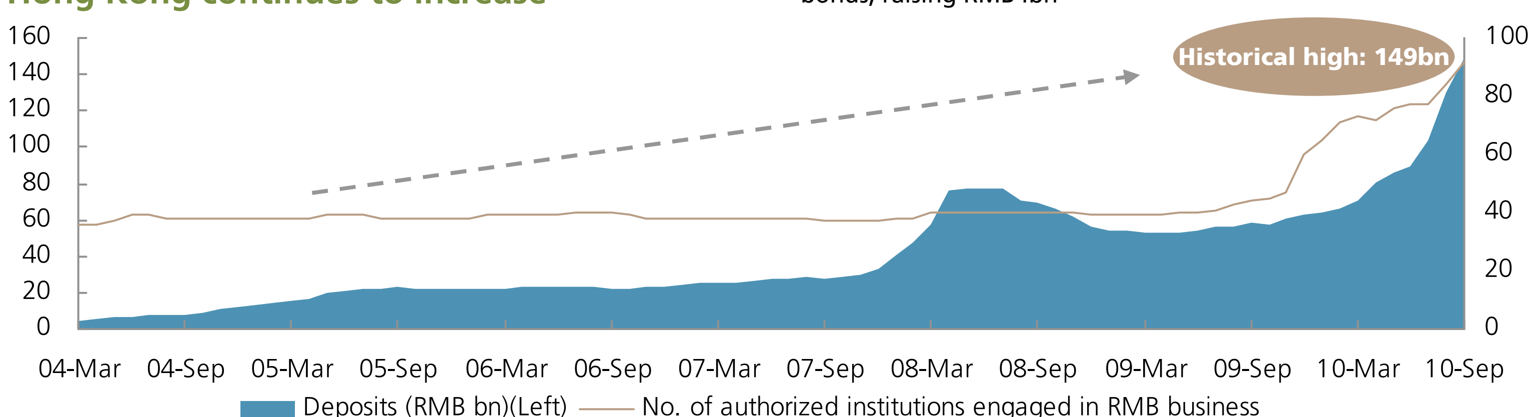
June 2010
Expanded the pilot cities for cross border RMB trade settlement

July 2010
People Bank of China signed the "Agreement for Settlement of RMB Operations by Banks in Hong Kong" with Bank of China (Hong Kong)

In addition, a supplementary memorandum of understanding has also been signed with Hong Kong Monetary Authority to expand the scope of RMB trade settlements

Hopewell Highway became the first Hong Kong corporate to issue RMB bonds

The market capacity for RMB bonds in Hong Kong continues to increase



Source: The Hong Kong Monetary Authority, UBS Securities, as of 12 November 2010

RMB offshore bond issuance recap

Issuers of RMB offshore bonds have been restricted to Chinese sovereign / quasi-sovereign entities and Chinese banks before 2H2009

The market then witnessed RMB issues by several HK banks

RMB retail bonds issued

Date	Bond issuance bodies	Issue Size (RMBmn)	Coupon rate	Tenor	Investor
RMB Retail Bond					
Issued by inland banks					
Oct-10	CDB	3,000	2.70%	3 years	Retail + Institutional Investors
		2,000	3M Shibor+10bps	3 years	Institutional Investors
Sep-10	Bank of China	2,200	2.650%	2 years	Retail + Institutional Investors
		2,800	2.900%	3 years	Retail + Institutional Investors
Aug-09	China Development Bank	2,000	2.45%	2 years	Retail + Institutional Investors
Sep-08	Bank of China	3,000	3.25%/3.40%	2/3 years	Retail + Institutional Investors
Sep-08	China Construction Bank	3,000	3.24%	2 years	Retail + Institutional Investors
Aug-08	Export-Import Bank of China	3,000	3.40%	3 years	Retail + Institutional Investors
Jul-08	Bank of Communications	3,000	3.25%	2 years	Retail + Institutional Investors
Sep-07	Bank of China	3,000	3.15%/3.35%	2/3 years	Retail + Institutional Investors
Aug-07	Export-Import Bank of China	2,000	3.05%/3.20%	2/3 years	Retail + Institutional Investors
Jul-07	China Development Bank	5,000	3.00%	2 years	Retail + Institutional Investors
Issued by inland subsidiary banks of Hong Kong banks					
Aug-09	HSBC (China)	2,000	2.60%	2 years	Retail + Institutional Investors
Jul-09	Bank of East Asia (China)	4,000	2.80%	2 years	Retail + Institutional Investors
Jun-09	HSBC (China)	1,000	3M Shibor+38 bps	2 years	Institutional Investors
Issued by Central Government					
Oct 2009	Ministry of Finance in China	6,000	2.50%/2.70%/3.30%	2/3/5 years	Retail + Institutional Investors

RMB offshore bond issuance recap (cont'd)

The first RMB Eurobond offering by foreign corporates were completed in July 2010

Meanwhile, foreign banks (including foreign branches of Chinese banks) have started to tap the offshore RMB market more frequently in the form of CDs

RMB Eurobonds issued

Date	Bond issuance bodies	Issue Size (RMBmn)	Coupon rate	Tenor	Investor
RMB Eurobond					
Issued by foreign corporates					
Nov 2010	China Resources Power	2,000	2.90%/3.75%	3/5 years	Institutional Investors
Oct 2010	Sinotruck	2,700	2.95%	2 years	Institutional Investors
Aug 2010	McDonald's Corp	200	3.00%	3 years	Institutional Investors
July 2010	Hopewell Highway Infrastructure	1,380	2.98%	2 years	Institutional Investors
Issued by foreign banks					
Nov 2010	UBS (Hong Kong)	200	2.50%	2 years	Institutional Investors
Nov 2010	UBS (Jersey)	140	0.50%	5 years	Institutional Investors
Oct 2010	Export and Import Bank of Korea	200	0.75%	5 years	Institutional Investors
Oct 2010	Asian Development Bank	1,200	2.85%	10 years	Institutional Investors
Sep 2010	Bank of China (Hong Kong)	5,000	2.65%/2.90%	2/3 years	Institutional Investors
Sep 2010	Deutsche Bank (Hong Kong)	200	2.00%	2 years	Institutional Investors
Issued by foreign banks (CD)					
Sep 2010	ICBC Asia	2,000	2.25%	2 years	Institutional Investors
Sep 2010	Bank of Tokyo-Mitsubishi UFJ	20	1.98%	1 year	Institutional Investors
Sep 2010	China Development Bank (Hong Kong)	1,600	1.95%/2.10%	1/2 years	Institutional Investors
Aug 2010	Hang Seng Bank	380	1.75%	1.5 years	Institutional Investors
Aug 2010	HSBC	114.5	2.00%	1.5 years	Institutional Investors
Jul 2010	Citic Bank International	500	2.68%	1 year	Institutional Investors

UBS Hong Kong RMB200mm, 2-year Eurobond Offering

UBS Hong Kong's inaugural debt offering in the RMB Eurobond market

Demonstrated UBS' strong commitment to the development of the Hong Kong off-shore RMB bond market

Initial size of RMB100mm was upsized to RMB200mm on the back of strong reverse inquiry within UBS Wealth Management network

Capitalizing on increasing demand from UBS Wealth Management clients provided significant liquidity

Transaction Highlights:

- On November 8, 2010, **UBS AG, Hong Kong Branch ("UBS HK") issued an RMB-denominated, 2-year, 2.5% fixed rate senior notes** (the "Transaction")**. UBS acted as the sole bookrunner for this transaction**
- This landmark transaction marks **the inaugural debt offering of UBS HK in the RMB Eurobond market**
- The transaction demonstrated **UBS' strong commitment to the development of the Hong Kong off-shore RMB bond market as it validates this market as a viable source of funding for financial institutions and other issuers worldwide**
- The Transaction was issued particularly to **capitalize on the increasing demand from UBS Wealth Management clients for RMB-denominated products. It showcases UBS' unparallel capability and commitment to offer investment opportunities to UBS Wealth Management clients** who are keen to broaden their investment produce scope to include RMB-denominated products from high quality issuers
- On the back of the **strength of the UBS Wealth Management distribution network, the Transaction was upsized to RMB 200mm** from the initial size RMB 100mm

UBS' dominance in the RMB market:

- UBS has been one of the most active participants in the development of China's debt capital markets, having won the first QFII license issued by the PRC government in 2003 and subsequently lead-managed the first RMB bond in early 2008
- UBS has consistently been one of the top underwriters in the domestic RMB bond market for issuers locally and abroad

UBS

November 08, 2010
UBS Investment Bank
Sole Bookrunner

Key Information

Pricing Date	8-Nov-10
Issuer	UBS AG, Hong Kong Branch
Issuer Rating	Aa3 / A+ / A+
Format	EMTN
Status	RMB Fixed Rate Senior Unsecured Notes
Tenor	2-year
Maturity Date	22-Nov-12
Coupon	2.50%
Size	RMB 200mm
Yield	2.500%
Offer Price	100.000%
Denomination	RMB 100K+10K
Listing	N.A.
Governing Law	English Law
Sole Bookrunner	UBS AG, Hong Kong Branch

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