

CCCG

Investor Relations • Strategic Communications



Small Cap China Hell:

How We Got Here and How Can We Get Out?

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What Dante Had To Say About China Growth Stocks

In the middle of the journey of life, I came to
myself in a dark wood, for the straight way was lost.

[...]

I cannot really say how I entered there, so full of
sleep was I at the point when I abandoned the true way.

[...]

THROUGH ME THE WAY INTO THE GRIEVING CITY,
THROUGH ME THE WAY INTO ETERNAL SORROW,
THROUGH ME THE WAY AMONG THE LOST PEOPLE.

[...]

ABANDON EVERY HOPE, YOU WHO ENTER.

– *Dante Alighieri, Inferno*

The Path to Hell Was Paved With Good Intentions...

...Along with greed, mendacity, incompetence and sloppy execution.



Halter China Index Sept 1, 2007-Feb 13, 2009

Valuations Are Completely Washed Out

Average performance and valuation metrics for the company's presenting at China track **Roth 2009 OC Growth Conference**

	Mean	Median
52 week price change	-67.8%	-66.8%
P/E ttm	6.4X	5.2X
PEG	.57X	.3X
P/S	1.51X	.7X
P/B	1.19X	.9X
EV/EBITDA	5.13X	3.15X

Bad news is that these are cream of crop for China small and micro-caps

Leading to Unprecedented Investment Opportunities in China RTO Space

- ⌘ Many China small and micro caps now trading at 1-3X 2009 earnings, under .25X PEG and under net tangible book
- ⌘ Many of these companies have strong balance sheets, rich cash from operations, access to ample domestic debt and can be expected to deliver top- and bottom-line growth of >25% in 2009, accelerating in 2010 and beyond
- ⌘ Investors who pick right companies can achieve 5-10X returns in coming three years

HOWEVER.....

- **There will be big losers** -- 25-30% of China RTOs likely to go to zero or re-privatize in 3years – may prove conservative
- **Tough to buy** – liquidity dried up in micro-caps except for sporadic forced selling

How Did We Get To this State of Affairs?

- ⌘ **Flight to Safety** – China Small Cap Equities seen as high risk investments
- ⌘ Limited confidence in accounting quality and governance of Chinese companies – sometimes with good reason
- ⌘ **Bad Company Discount** applied to entire asset class
- ⌘ Hedge funds made core investor base – most now in shock and/or hiding
- ⌘ Limited diligence and sloppy execution by finders, placement agents and advisors in many cases
- ⌘ Mainstream institutions and retail came late, got burned, feel China RTO space is tainted

As Dante tells us, each of us earns our particular circle of Hell

Sins Of the Issuers

Sin	Symptoms
<p>“Take the Money and Run” Syndrome</p>	<ul style="list-style-type: none"> • Lose all interest in talking to investors once deal closes • Chairperson/CEO refuses to travel to US or Europe to meet investors • Every promise and milestone agreed to with investors ignored • Feel like they pulled one over on dumb American investors
<p>Underinvestment in Staff and Systems</p>	<ul style="list-style-type: none"> • Failure to hire qualified CFO, accounting staff – frequent, often trivial restatements due to lack of US GAAP competence • Paper-based accounting systems leads to operating blind and frequent earnings misses • Weak, unqualified, or non-existent independent board
<p>Related Party and Insider Shenanigans</p>	<ul style="list-style-type: none"> • Relatives play major management role without an obvious qualifications • Interparty transactions with Chairman’s other entities • Huge option grants – often following period of suspended IR activity • “Make good” abuse via cookie jar accounting and accruals
<p>Capital Allocation Incompetence</p>	<ul style="list-style-type: none"> • Failure to buy back shares even with excess cash when stock craters • Announce buy back and never buy a share • Acquire companies at higher P/E than own stock is trading – use shares to do it • No IRR hurdle or analysis behind capital projects

Sins Of the Investors

Sin	Symptoms
Warrant Overload	<ul style="list-style-type: none"> • 400-500X warrants coverage – “exploding warrants” • Chairperson who doesn’t understand what they are signing, advised by lawyer and agent beholden to fund manager • Deal structures create massive non-cash charges, polluting earnings • Feel they “pulled one over” on unsophisticated Chinese management
In adequate Diligence	<ul style="list-style-type: none"> • Lack of familiarity with China business practices or culture • Lack of effective background checks • Lack of time spent with management (never close a deal before having at least one meal with Chairperson) • Invest in low quality deals assuming “greater fool” will bail you out
Lack of Mutual Incentives/ Commitment	<ul style="list-style-type: none"> • No escrows or holdbacks against key “corporate citizen’ milestones – CFO, independent board, exchange upgrade • Penalties for unrealistic timelines to get registration effective, resulting in company feeling cheated • No thought given to “who is next buyer” – aside from the elusive greater fool
Defective Deal Structures	<ul style="list-style-type: none"> • Overly aggressive “make goods” encourage accounting fraud • Overly concentrated shareholder base • Rush for the exits on club deals leading to cratering stocks

Sins Of the Agents/Finders

Sin	Symptoms
Overpromise and Under-deliver	<ul style="list-style-type: none"> • Going public process sold as easy way raise money • No realistic budget/education on costs and responsibilities of being a public company • Describe unrealistic valuations and capital raising goals • Reverse merger with no capital raised
Defective Shells	<ul style="list-style-type: none"> • Shells with microscopic floats and de minimis number of shareholders • Shells with huge undisclosed liabilities • Pink sheet or gray market shells sold as “clean OTCBB” shells
“Head for the Exits” Syndrome	<ul style="list-style-type: none"> • Shell provider dumps every share within first few weeks of going effective, driving stock through the floor • Placement agents/finders get out before investors come unlocked
Creative Diligence	<ul style="list-style-type: none"> • Finder/promoter cooks up growth strategy that bears little resemblance to management’s plans to sell a sexy story • Unsupported claims in PPTs and SEC documents • Zero market research or customer interviews

“You must hold to another path,” he [Virgil] replied, after he saw me weep, “if you wish to escape from this savage place;

For this beast at which you cry out lets no one pass by her way, but so much impedes him that she kills him;

And she has a nature so evil and cruel that her greedy desire is never satisfied, and after feeding she is hungrier than before.

– *Dante Alighieri, Inferno*

What is to Be Done?

- ⌘ **Companies** that wish to achieve reasonable valuations and liquidity must recommit to more transparent operations, more frequent communications and more scrupulous governance than their US peers to succeed – will be held to higher standard due to others' sins
- ⌘ **Investors** that wish to benefit from the coming surge in US listed China stocks must up their game by hiring Chinese staff, making frequent trips, creating workable structures with strong mutual incentives, and treating management fairly
- ⌘ **Agents and Finders** who want to stay in business need to raise their standards, burnish their reputation, and have world class execution if they want to survive

Do things right, we will all prosper greatly – do things wrong, we will have missed the opportunity of our lifetimes

⌘ What an IR can do:

- Make your investment story and highlights crystal clear, compelling and easy-to-understand with great materials
- Get you in front of as many investors as possible – fund managers, brokers, analysts, wrap managers, private equity funds, etc. – that match your industry, financial, liquidity and valuation profile
- Get you media coverage from financial and business outlets that will boost your visibility with investors
- Presentation and disclosure training

⌘ What an IR firm can't do:

- Magically make your stock go up or force investors to buy it
- Tell your story without management's active participation

How is CCG Adapting to New Market Reality?

- Raising our **training and standards for employees** to succeed in tougher market environment
- Developing **proprietary new retail strategies** to address micro-cap liquidity conundrum (happy to discuss privately with interested management)
- Raising our standards to accept new clients or renew existing clients from China:

Growth of 20%+ in normalized economic environment	Old standard
Net income of \$4 million+ in current FY	Old standard
High quality, reputable auditor or willing to change	Old standard
Facility, customer, employee and supplier due diligence	New standard
Management committed to being US public company	New standard

Some Background on CCG Investor Relations: Our People and Our Services

- **30-years industry experience in the U.S. capital markets**
- **Offices in Los Angeles, Dallas, New York, Beijing, Shanghai, Shenzhen, Berlin and Tel Aviv**
- **100-plus clients, including**
 - **Small and mid-cap companies**
 - **Asia- based issuers**
 - **Europe-based issuers**
- **Former CEOs, CFOs, in-house IR executives, investment bankers, securities analysts, auditors, institutional sales, brokers, and financial journalists**
- **Staff from UBS, Bear Stearns, Citigroup, Merrill Lynch, KPMG, CSFB, Morgan Stanley, Thomson Financial, Shanghai Media Group**

Consulting

Investment thesis
Disclosure policy
Analyst guidance
Exchange listing
Stock splits



Governance issues
Proxy contests
M&A and bankruptcies
Corporate finance strategy
Shareholder composition

Communications

Corporate profile
Slide show
Press releases
White papers



Annual reports
Earnings conference calls
Investor website
Quarterly reports

Market Intelligence

Benchmark studies
Investor targeting
Analyst development



Institutional road shows
Broker presentations
Investment conferences

Media

Financial media
Broadcast and print
Trade & tech campaigns
Impact studies



Message development
Media training
Brand & product launches
Crisis communications

What Sets CCG Apart?

CCG provides Asian issuers with a unique breadth of services, including:

- Access to senior level IR counselors on all issues related to investor relations, disclosure, and corporate finance
- Established relationships with thousands of funds across North America, Europe, and Asia and a uniquely targeted approach to road shows and investor meetings
- Relationships with all the tier-one financial media, including CNBC, Wall Street Journal, Barron's, Financial Times and others
- Management of quarterly disclosure process including releases, conference calls, corporate profiles, and investor presentations
- Industry's most comprehensive training system results in consistency excellence across dedicated team of specialists
- Strong focus on planning and accountability assures IR program ROI