

Silicon Forest Forum 2003

Portland, OR

December 6, 2003

“Wondrous Impatience”

Investment Strategies in China



Robert Theleen, Chairman

ChinaVest – History in Focus

- First US venture capital firm to operate in Greater China. Found in 1980
- Managed over \$300 million across five funds. Invested in over 50 companies
- Major institutional investors include: Verizon, IBM, John Hancock, Ford Foundation, UC Regents
- Chinese and American partners and professionals, combining international financial discipline with Chinese business expertise
- Offices in Beijing, Hong Kong, San Francisco, Shanghai, Taipei

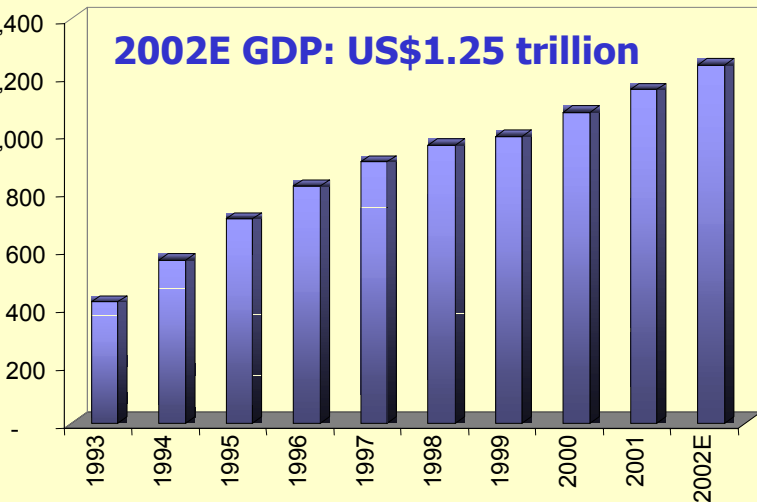


Growth of China Economy

- China has been the fastest growing developing nation with GDP growing at an average rate of 8% from 1993-2003. The growth is projected to accelerate to 8.7% in 2003 and 9.5% in 2004 (source: Goldman Sachs)
- China will become the 6th largest economy by the end of 2003 ahead of Italy and will rank 5th by 2005 by replacing France
- China is expected to surpass Japan to become the world's second largest economy by 2020, with an average GDP growth rate of 7.3% between 2000 to 2020 (source: Development and Research Center of State Council)
- The growth engine will run on all three cylinders: Consumption, Investments and Exports
 - Consumer demand will pick up more steam, supported by rising household income, expansion of consumer credit and rising home ownership
 - Investment boom is justified by genuine improvement in corporate balance sheet
 - Export will benefit from the global economic recovery after 2 years of below-trend growth

Macro Environment in China

GDP Growth



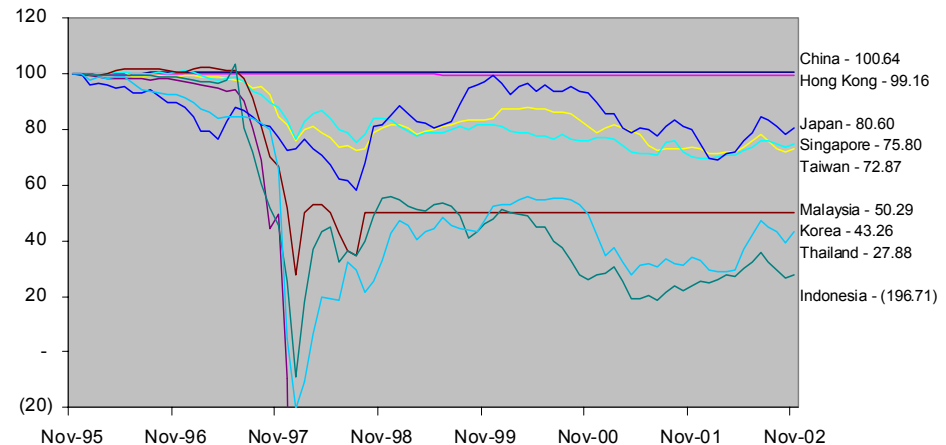
- Economic growth >7% since '93
- Strong finances, stable currency
- Domestic market driving growth
- Highly entrepreneurial society
- Weathered SARS storm successfully

Currency Stability

Beijing, Nov. 22, 2002 (Bloomberg) –

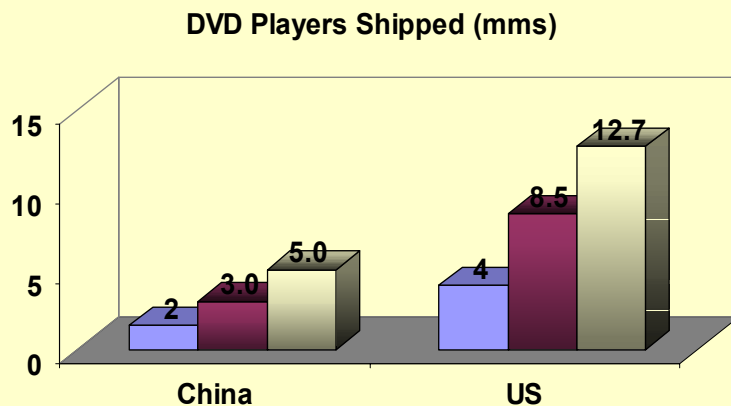
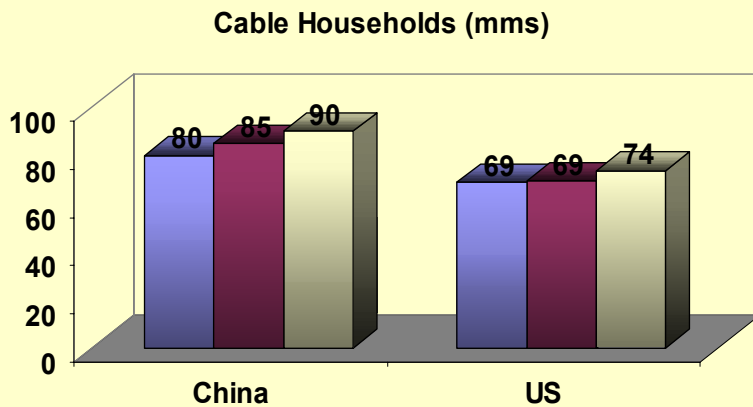
“The outlook on China's long-term foreign-currency bonds was raised to positive from stable by Moody's Investors Service, citing a surge in exports and investment that's lifted currency reserves to \$266 billion, the second-highest in the world.”

RMB stayed solid during Asia Financial Crisis



Rise of the Chinese Consumer

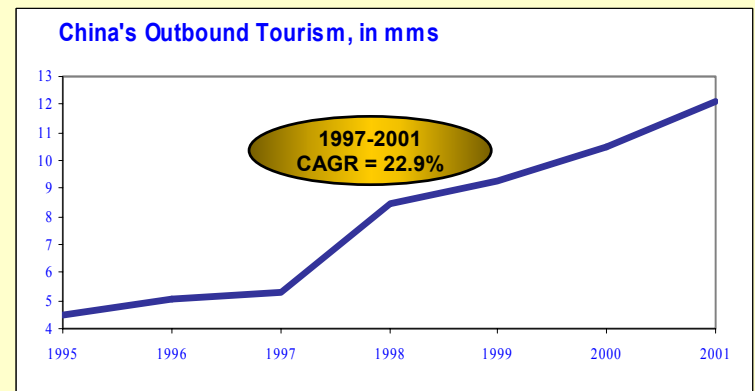
- The Chinese Consumer has been created and is a permanent feature of the Chinese economy



Sources: SARTF, NCTA, MII, People's Daily, Articles



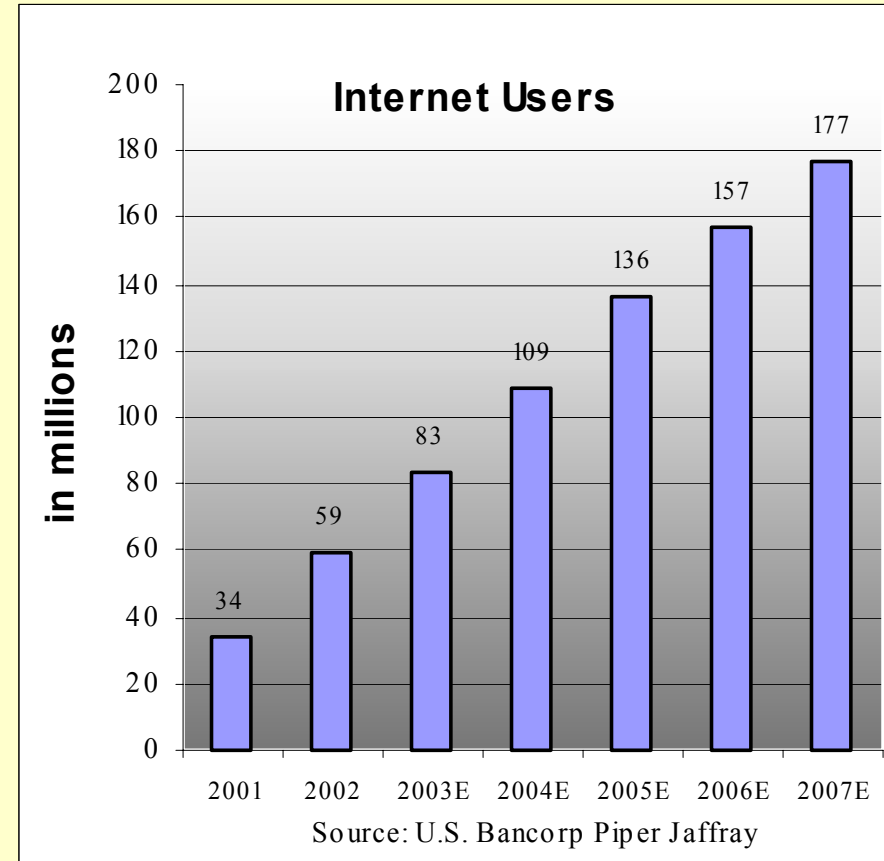
Source: McKinsey & Co



Source: China National Tourism Association

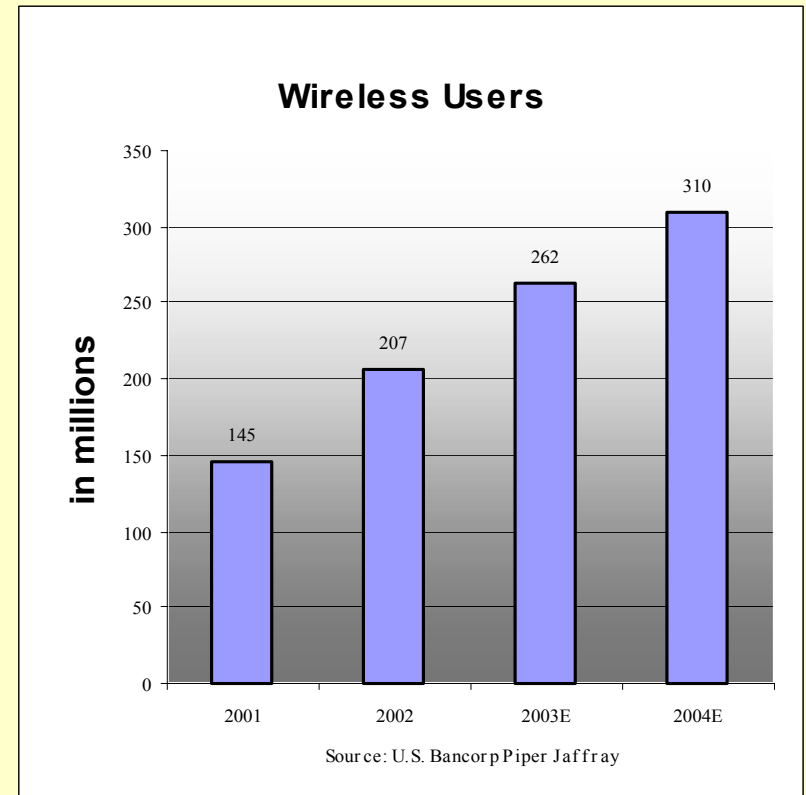
Growth of the Internet Market

- 59 million Internet users in 2002, represents 5% of total population and 13% of total urban population
- Market projected to grow to 177 million by 2007 which will approach the U.S. as the largest Internet market in the world, represents 33% of total urban population (300 – 400 million)



Growth of the Wireless Market

- 207 million cell phone subscribers, projected to grow to 310 million by 2004
- 95 billion SMS and MMS messages sent by mobile providers in 2002 and increases from 16 billion sent in 2001
- Mobile value-added services and branded products will drive significant growth



Corporate Winners and Losers

- Winners
 - Companies that build on talent from Greater China and the US
 - Companies that leverage China's intellectual capital and manufacturing capabilities
 - Companies that build and understand brand equity
- Losers
 - Companies in capital intensive industries
 - Companies that depend on the central government for tariff protection, subsidies, raw materials sourcing, etc.
 - Companies that do not reward management with equity
 - Companies which invest in China for solely "strategic" purposes

ChinaVest Investment Strategy

- Manufacturing – Brawn to Brain
- Logistics and Supply Chain Management – Linkage to Value
- Branded Consumer Services and Media – Brand Equity Emerges
- Telecommunications and IT – Infrastructure for the Future

Themes Driving Opportunity

- China as Consumer
 - The rise of the consumer economy continues in China
 - 1980's – China was a producer, a manufacturing base for export
 - 1990's – 2000's – China becoming an discriminating consumer, demanding quality goods
- “Horizontal China”
 - National are evolving from “owner-operator” to regulator
 - Era of monopolist inefficiencies and vertical industry segmentation based on central command and controls structures outdated
 - Value is being created across all industries synergistically
 - High Value Manufacturing → logistics and distribution → telecommunications and IT → branding

Investment Mechanism

- Bottom-up investing
- Pioneer in bridging Western management discipline with Chinese entrepreneurship
- Low and attractive valuations
- Control through shareholding or management
 - Manage “right side” of the balance sheet
 - Appoint CFO and key management
 - Develop the schemes of financial transparency, corporate governance and shareholder value
- Active involvement with senior management

ChinaVest Merchant Bank - Introduction

- As a recognized brand name at national and regional level in China, ChinaVest's hands-on investment techniques have in effect been providing merchant bank services to its investee companies
- China's economy, in particular manufacturing, has developed dramatically but its financial services have not. China's private sector needs sophisticated financial services but these are not provided by the local or international banks
- ChinaVest Merchant Bank will fill this market need serving the private sector and inward investors with corporate advisory services including corporate finance, M&A and restructuring services as well as capital raising



Clues to A Successful Business Strategy in China

The Thrust into the Real Economy

- Follow the Chinese entrepreneur
 - Since 1985, the private sector has generated 20% annual growth, compared to 9.5% national average
 - 1998: 90,000 private firms; 2001: 2.3 million private companies
- Avoid state-controlled companies in over-regulated sectors with unrealistic price expectations
- Follow the infrastructure
 - Regions showing above average growth
 - Coastal provinces - South to North
- Proprietary deal flow
 - ChinaVest's investment strategy provides exposure to real growth of the Chinese economy, which public markets in China and Greater China haven't
 - Private enterprises comprise over 33% of China's GDP – World Bank

INFORMATION TECHNOLOGY



| | |
|------------------|----------------|
| Investment Date | December 1997 |
| Investment | \$7.1 million |
| Estimated Return | \$51.6 million |
| Ownership | 11.0% |

CHINA VEST VALUE ADDED

OPERATIONAL

- Recruited CFO
- Implemented new reporting and management systems
- Reorganized business divisions

STRATEGIC

- Evaluated and supported diversification into software solutions

CORPORATE FINANCE

- Identified and structured acquisition of wireless billing software company
- Prepared company for public listing on Nasdaq



| | |
|------------------|----------------|
| Investment Date | September 1999 |
| Investment | \$3.5 million |
| Estimated Return | \$4.6 million |
| Ownership | 5.6% |

CHINA VEST VALUE ADDED

OPERATIONAL

- Advised on hiring of key sales and marketing executives in China
- Facilitated engineering development with Chinese counterparts
- Alerted mgmt and board of directors to operational concerns in China not being reported by line staff

STRATEGIC

- Introduced company to key consumer electronics companies in China
- Guided development of marketing and distribution strategy in China
- Introduced Company to key PRC government contacts

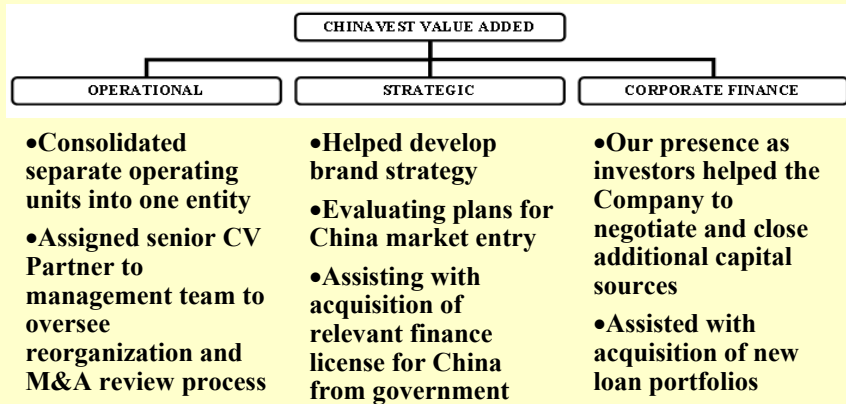
CORPORATE FINANCE

- Helped structure sale to Cirrus Logic
- Advised handling and repatriation of RMB revenue
- Spoke to Series D investors about China and Company's opportunities therein.

QUALITY OF LIFE SERVICES



| | |
|-----------------|----------------|
| Investment Date | June 1999 |
| Investment | \$13.2 million |
| Ownership | 22.5% |



Asia Limited

| | |
|-----------------|---------------|
| Investment Date | August 2001 |
| Investment | \$5.0 million |
| Ownership | 25.0% |



LOGISTICS AND DISTRIBUTION



| | |
|------------------|---------------|
| Investment Date | 1986 |
| Investment | \$598,000 |
| Estimated Return | \$2.1 million |
| Ownership | 32.0% |

CHINA VEST VALUE ADDED

OPERATIONAL

- Improved support and control systems
- Expanded office network in Beijing and Southern China

STRATEGIC

- Helped negotiate joint venture with Chinese authorities
- Expanded oil and gas customer relationships

CORPORATE FINANCE

- Structured sale of company to East Asiatic Company
- Helped obtain additional credit facilities in Hong Kong



| | |
|------------------|---------------|
| Investment Date | April 1996 |
| Investment | \$4.5 million |
| Estimated Return | \$9.8 million |
| Ownership | 33.5% |

CHINA VEST VALUE ADDED

OPERATIONAL

- Recruited CEO
- Expanded distribution network throughout China
- Implemented new control and IT systems

STRATEGIC

- Guided to avoid the use of converters and middlemen and positioned company for the future benefits of WTO
- Assisted to secure key contracts with Heineken Beer, Evian Water

CORPORATE FINANCE

- Structured key subsidiary for certain distribution and marketing functions – owner of special licenses

Thank You

Q & A



Robert Theleen, Chairman