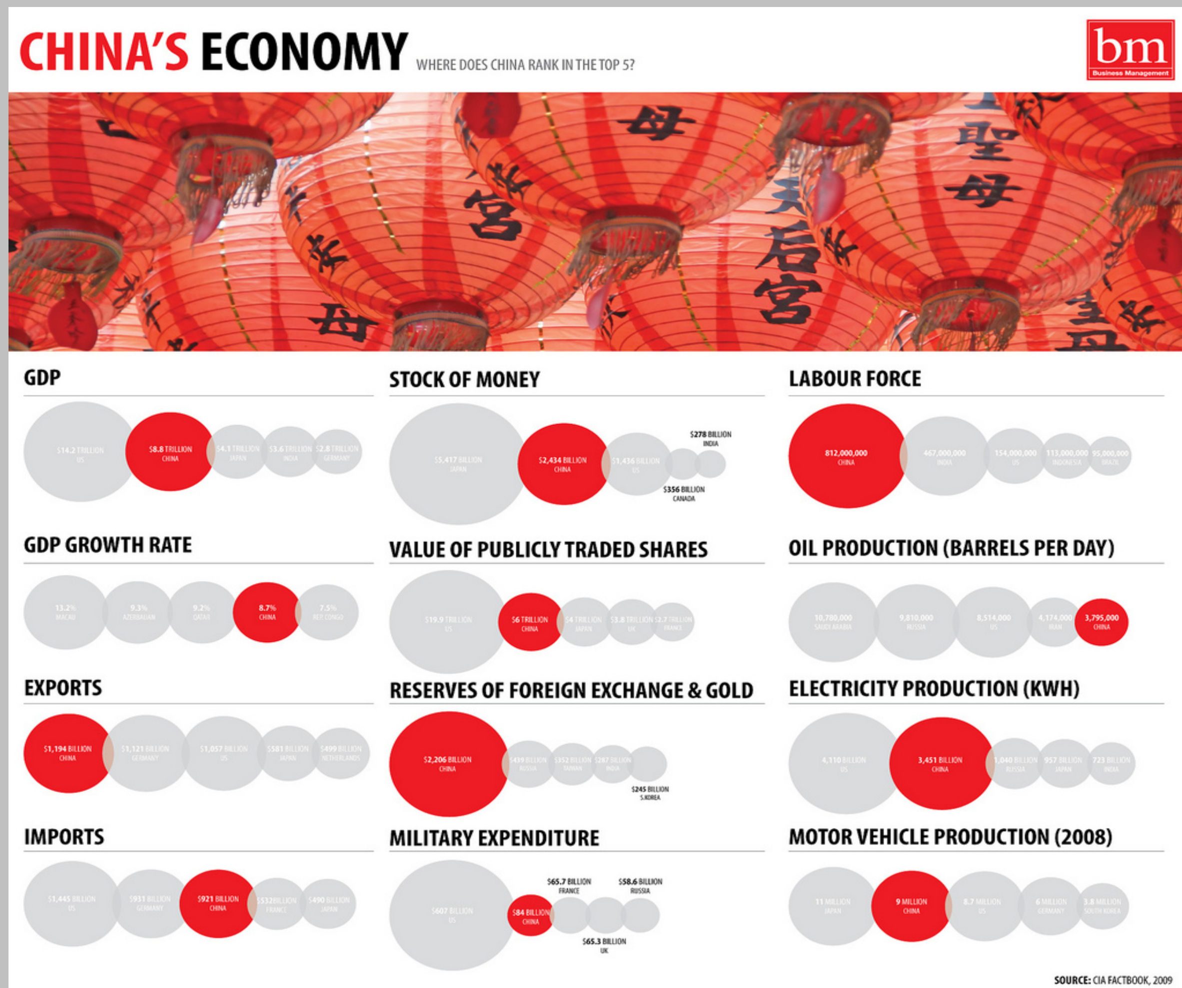
GDB Capital Inc.

China Investment Outlook
&
Sino-GDB Offshore PE Fund

China’s Economic Development

- Overtook Japan as the world’s second largest economy in 2010 with GDP growth of 10.3%
- Overtook US as the largest automobile market and Germany as the largest exporter in 2009
- China led the world out of the global recession in 2009, decoupling from the traditional US economic dominance
- Chinese economy will surpass US in PPP terms between 2012 and 2015; by as early as 2020, China could become world's largest economic power by almost any measure

China's Top 5 Rankings



US Golden Ages

Gilded Age (1865-1900), *35 yrs*

- **Greatest period of economic growth in US history**
- **In its height in the 1880s:**

  -GDP almost doubled from the decade before

  -Capital investment increased nearly 500%

Roaring Twenties (1920-1929), *9 yrs*

- **Urbanization reached a climax in 1920s, more Americans lived in cities than in small rural areas**
- **Prosperity driven by government growth policies, a boom in construction, and rapid growth of consumer goods such as automobiles**

Post WWII Economic Expansion (1945-1970), *25 yrs*

- **Swell of the middle class**
- **Keynesian economic policies**

Other Countries' Golden Ages

Japan Post-War Economic Miracle (1945-1990), *45 yrs*

- **Real economy growth averaging;**
  - 10% in the 1960s
  - 5% in the 1970s, and
  - 4% in the 1980s
- **Ended by failure by BOJ to cut interest rate quickly enough to counter the overhang of over-investment in the 1980s; Japan enters into "the Lost Decade"**

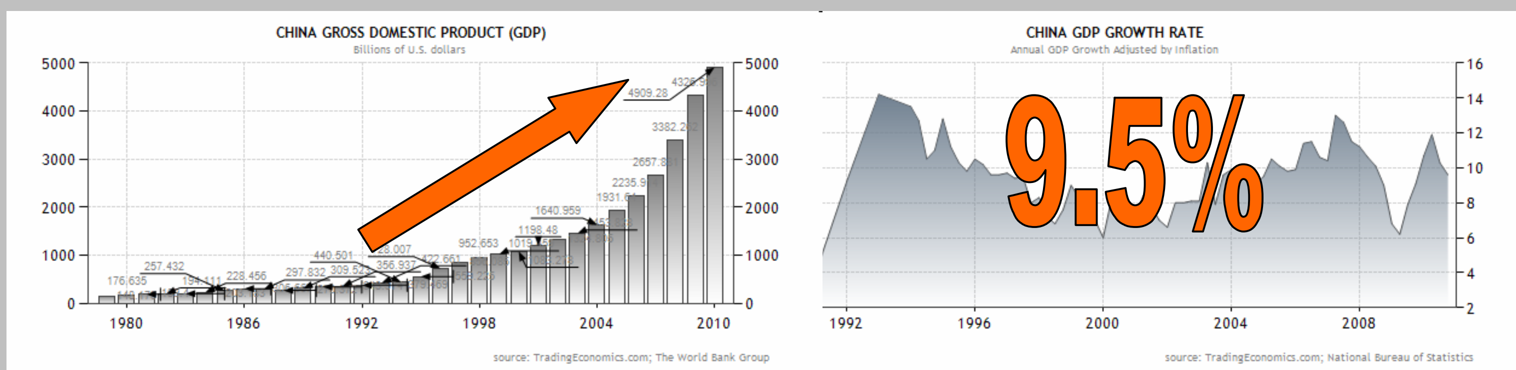
Korea's Exponential Growth (1960-1990), *30 yrs*

- **GDP expanded by an average of more than 8% per year from 1962 to 1989**
- **Adoption of outward-looking strategy in the early 1960s which promoted labor-intensive manufactured exports**

How Long is China’s Golden Age

China’s Economic Reform (1978 - ???)

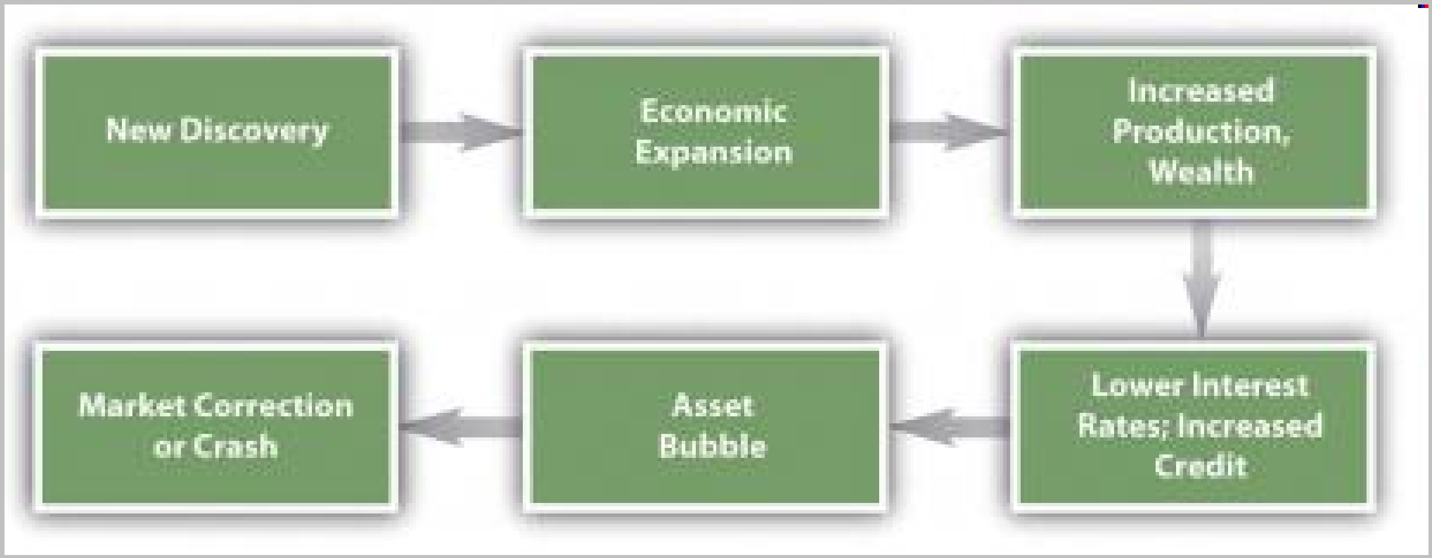
- **In comparison, in the 32 years from 1978 to 2010, Chinese economy grew on average by 9.5% annually**



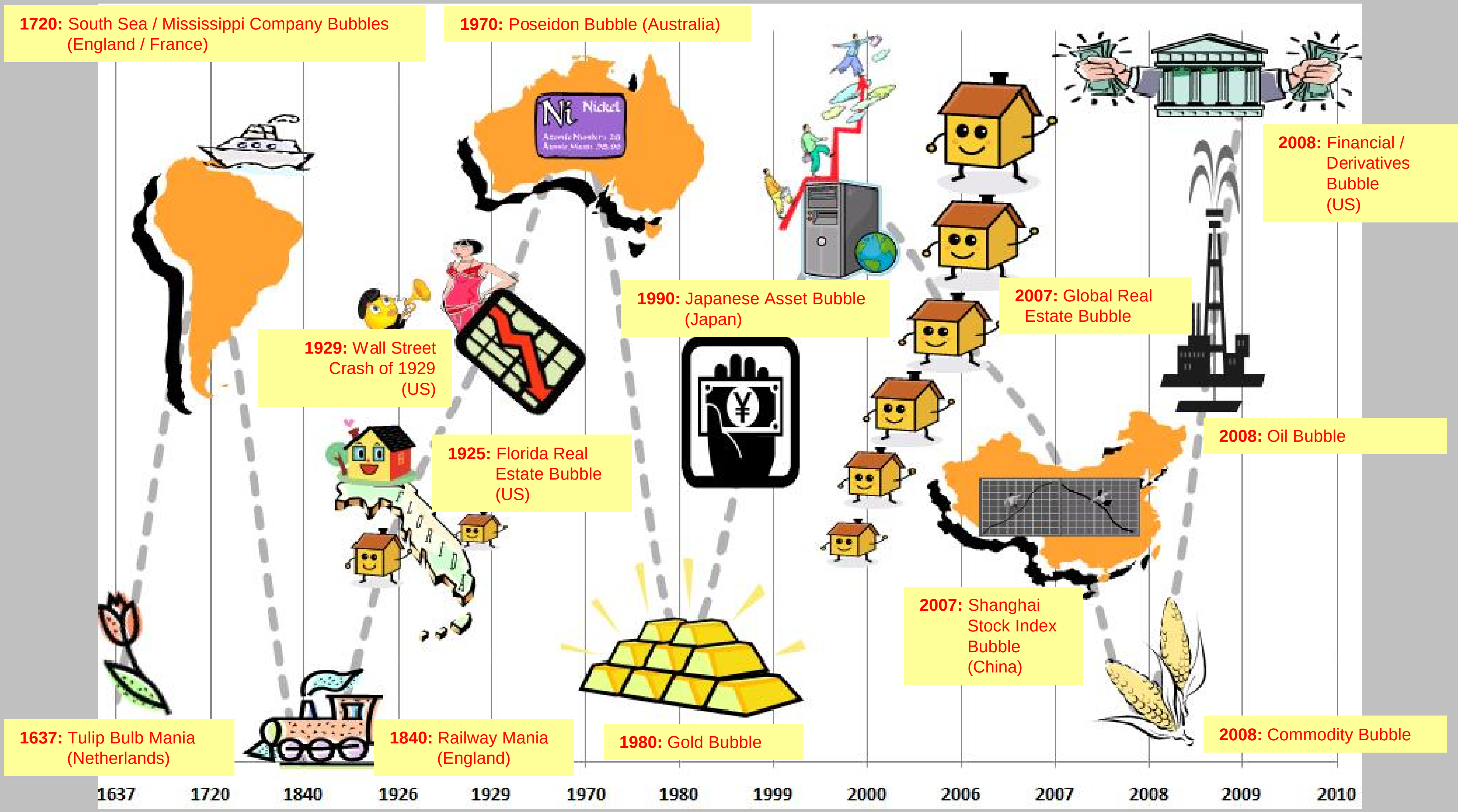
- **How long will Chinese investors/businesses benefit from this secular domestic growth trend?**

- **Should investors play cautious now by partially withdrawing from their domestic investments and allocating wealth elsewhere?**

Asset Bubble Formation



Major Asset Bubbles Since 1637



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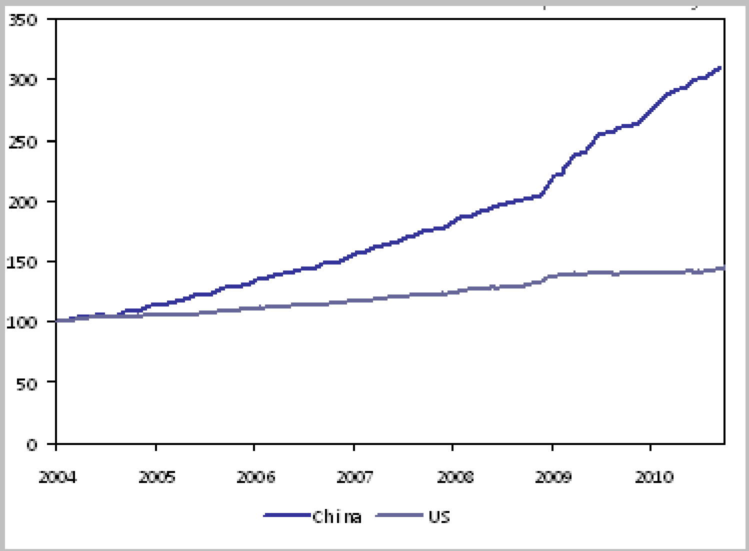
China’s Liquidity Flood

- World-record foreign exchange reserve: US$2.85 trillion
- China’s money supply has tripled since 2004, and has increased exponentially compared to the US

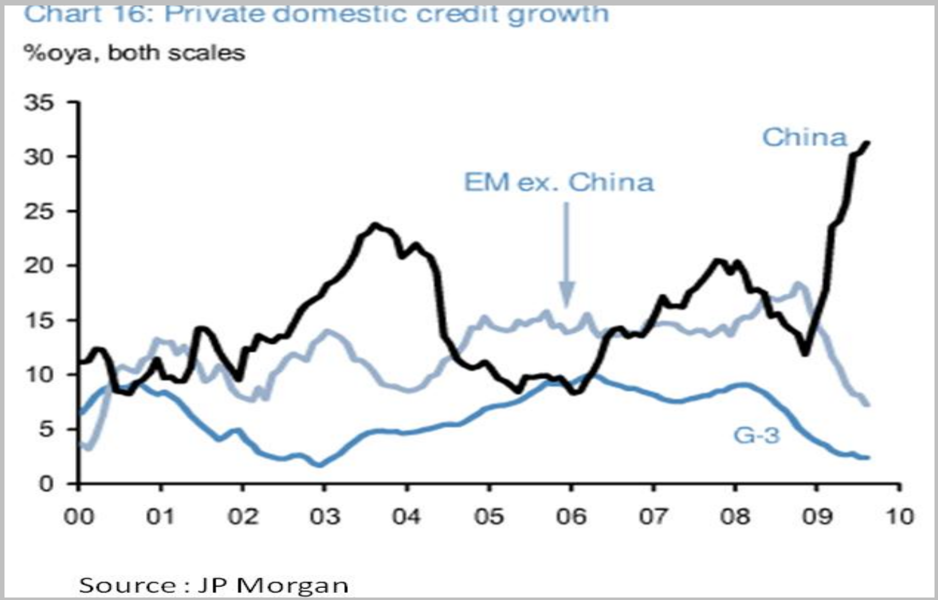


M2 Money Supply
China vs. US
(rebased January 24, 2004 – 100)

Source: Bank of China

China's Liquidity Flood

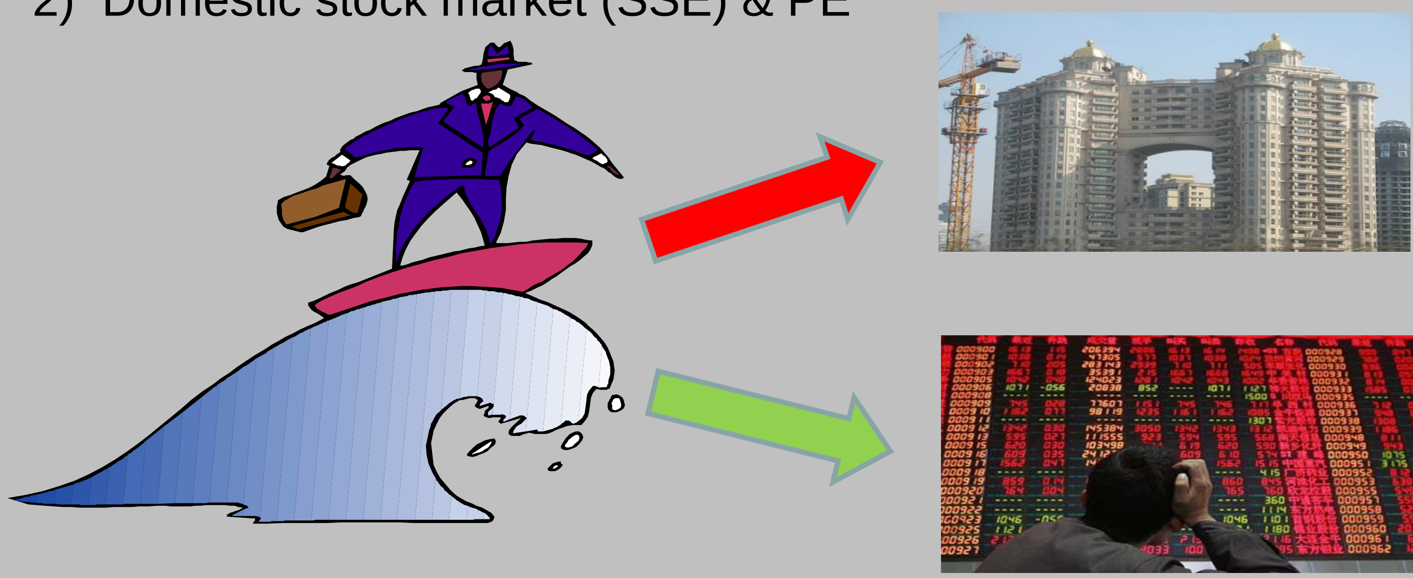
- Rapid credit growth, especially post 2008 financial crisis
- 14% credit growth projected for 2011



Limited Channels for Investments

- Capital control preventing hot money leaving China

- Two limited investment channels in China for investors:
    1) Domestic property and real estates market
    2) Domestic stock market (SSE) & PE



Ingredients for Financial Imbalance

- Excess liquidity, abundance of capital, easy credit
- Concentration of investment in particular asset class

- Fixation on short-term gain over long-term performance
- Herd mentality

Signs of Trouble: Real Estate

- Ø Despite government's effort to cool the real estate market, property development investment is up by 35.9% in the first 11 months of 2010
- Ø Real estate and auxiliary sectors make up significant portion of China's GDP, property development was 20% of total fixed urban asset investment in 2010
- Ø Lack of investment alternatives drives investors and speculators to hoard real estate
- Ø Perceived as a more superior investment option over the stock market or the money market
- Ø Government considering implementation of property tax to address the problem; will this create a domino effect if investors choose to unload

Signs of Trouble: Chano's Crystal Ball

- Influential short-seller James Chanos, who predicted the Enron downfall expresses caution on China:

  - Over-concentration of national GDP attributed to real estate development

  - Common to see new, unoccupied housing held for speculative purposes in major cities. This speculative fever contains similarities to other major historical asset bubbles

  - He noted: "At the peak of Dubai's building boom, there were 204 square meter of property under development for every $1 million in national GDP. In urban China today, that ratio is four times as high."

  - Historical speculative fever in real estates all ended badly

    e.g. Japan, US, and Spain

Signs of Trouble: Real Estate

Ghost towns in China:

Resemblance ?

US

Spain

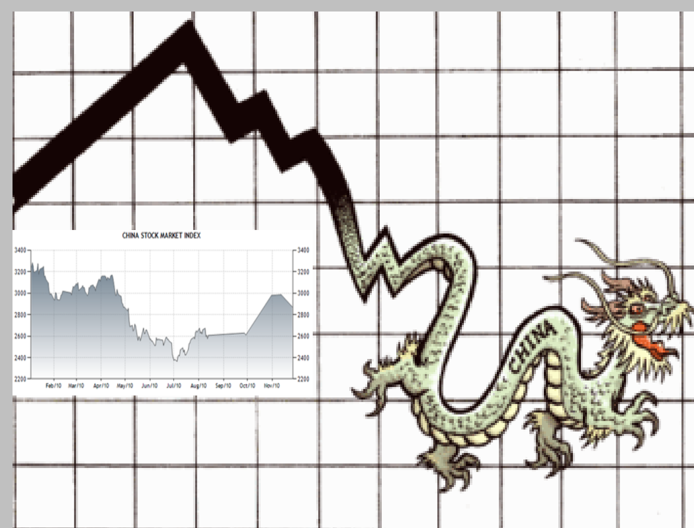
Dubai

Signs of Trouble: Domestic Stock Market

- High volatility compared to other mature international stock exchanges
- Less institutional investor participation compared to Western markets
- Unsophisticated retail investors participating directly in the market based on “stock tips”; in Western markets, investors usually invest with or alongside professional asset managers
- M&As, hostile take-overs, LBOs, and MBOs not widely used as value captive strategies on undervalued opportunities
- Risk management products such as futures, options, and ETFs are still at early stage of development, restricting the ability to hedge investment risk

Signs of Trouble: Domestic Stock Market

- Despite China's surging economic growth in 2010, the SSE was down 14% for the year, making it the 2nd worst performing stock market in the world



- Ironic? Could it be smart money is leaving China?

Signs of Trouble: Inflation

- Inflation reached 28 months high of 5.1% at the end of November 2010
- Actual inflation could be much higher than the reported figure
- PBOC survey showed the percentage of citizens content with the current price level has sunk to an 11-year low
- Only 17.3% of Chinese consumers surveyed said they intended to consume more in the future
- Expectation of higher inflation reduces consumption and puts burden on future economic growth

Signs of Trouble: Inflation

Ø Government has taken the following measures in 2010 to combat inflation:

§ Two separate 25 bps interest rate hikes in October and December

§ Increased reserve ration six times throughout the year and is currently 19.5% for larger commercial banks and 17.5% for small to medium banks

§ Reduced banking system lending target to 7.5trillion Yuan

§ Further rate increases are expected in 2011

Ø If government efforts succeed à slower future growth;

If government efforts fail à asset bubble worsen and eventually implode

Aftermath of Bubble Collapsing

- During the 2007 and 2008 financial crisis:
  - Number of Chinese billionaires shrunk from 66 to 24
  - 60% drop in Shanghai and 50% drop in HK stock markets
  - Yang Huiyuan (real estate heiress) suffered the largest loss, losing a staggering $14 billion
  - Larry Yung of Citic Pacific lost more than $500 million in a single day

- What can one do to prepare in case of another economic storm?

Solution: Outbound Investments

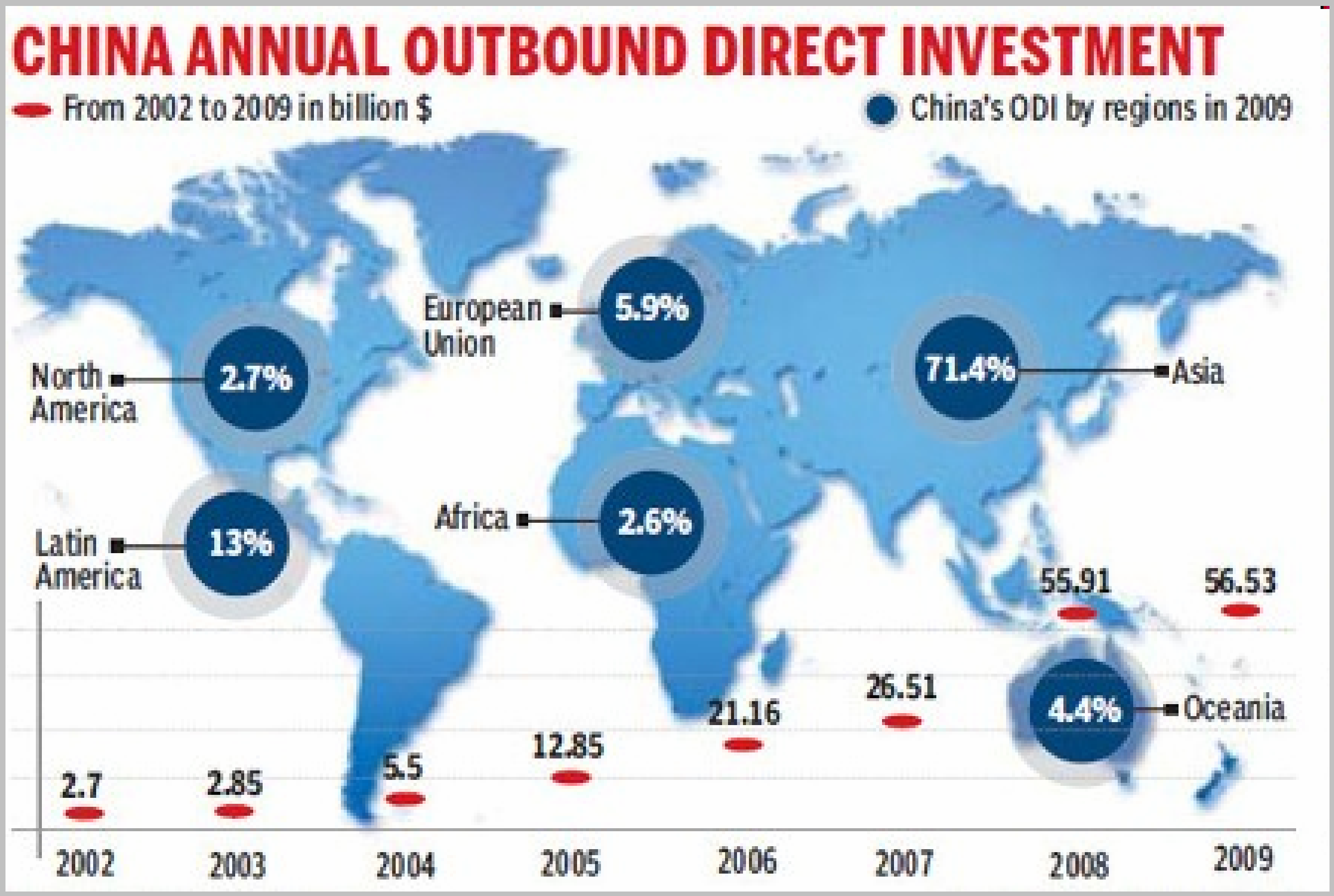
- Smart money MUST seek ways to flow out from the over-heated Chinese capital markets

- China has become the No.2 outbound investor in the world
  - strong interest in energy, mining, and manufacturing industries
  - non-financial investment topped US$17.8 billion in 1H2010

- Used to be dominated by state-owned enterprises (SOEs), but now private companies have become increasingly active

- Expect Chinese-based PE firms to become major outbound M&A participants, domestic PE fund raising more than doubled YOY in 2010 to US$27.6 billion

Solution: Outbound Investments



Advantage of Private Investors

- Private companies, PE funds, and high net wealth individuals have many advantages over SOEs when it comes to outbound M&A:

    - Nimble and flexible, able to act more swiftly on investment opportunities

    - Less exposed to political risk, especially when investing through an overseas partner

    - More suitable acquirer for mid-market targets, more selection of investments in the mid-cap/small-cap space

    - Wider selection of exit strategies, including:

      - re-sell to or JV with the SOEs

      -re-sell to overseas companies and PE firms

      - listing on the overseas or domestic stock markets, or both

Traditional Investment Model

- Investments are introduced to Chinese firms through intermediaries in a brokerage relationship

INTERMEDIARIES:

Brokers

Government Agencies

Investor Relations

- Short-term relationship, intermediaries not involved with post-investment management; intermediaries have no skin in the game

- Intermediaries motivated by maximizing their own profit, inherent conflict of interest exists in the traditional model

Sino-GDB Off-shore PE Fund

- Off-shore PE fund with Chinese PE partner and GDB Capital as GPs and selected high net worth (HNW) investors as LPs

Chinese HNW Investors | Overseas HNW Investors | LPs

↓

Chinese PE | GDB Capital Inc | GPs

↓

Overseas public stocks and options | PE investment in resource companies | **Focus on resource, mining, energy & agricultural sectors**

Sino-GDB Off-shore PE Fund

- GDB Capital as the front group initiating and executing transactions:
  - Lowering political risks to complete transaction
  - Minimizing impact of local investors bidding up the asset price pre-closing
- GDB Capital as an overseas partner:
  - Chinese partner maintains control of investments and disbursement of the fund
  - Leverage from GDB Capital’s relationship with overseas banks and company owners
  - Enhanced negotiation capability to secure transactions at more favorable terms
  - Continued involvement from GDB Capital on managing investments after closing

Sino-GDB Off-shore PE Fund

Mandate:	To invest in equity and equity-related securities of mid-market private and public companies
Investment Focus:	Mid-market, growth, distressed assets, acquisition, and buyout opportunities
Target Industry Focus:	-Metals & mining -Oil, gas and consumable fuels -Clean energy -Fertilizer & agricultural chemicals -Real estate -Technology
Legal Form:	Limited Partnership
Target Fund Size:	US$150 million to US$ 200 million

Sino-GDB Off-shore PE Fund

Investment Criteria:	-Quality of management team -Attractive industry fundamentals -Growth potential -Defined exit strategy
Investment Term:	Initial investment period of 5 years. Extendible for up to three one-year periods
IRR Target:	Gross pre-tax IRR of 25%
Fee Structure:	2% Management fee, performance fee of 20% of the increase in NAV of the fund
Limits:	Prior to investment in a company, approval must be obtained from majority of the Limited Partners

About GDB Capital

- Comprised of professionals with diverse expertise in investment banking, asset management, investor relations and securities law

- Network encompasses an array of private company owners in the mining, oil & gas, and manufacturing sector in North America and overseas

- Prior to BHP's bid for Potash Corp in 2010, GDB Capital advised a Chinese PE firms on the purchase of certain Canadian potash assets around the same region. If transaction was successfully closed, investor would have reaped potential return of over 100% within six months period

- Advised and negotiated attractive offers on behalf of Chinese firms on numerous overseas mining projects

- Investing for clients in the North America equity market since 2000

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