

## Secondaries Credentials & Services

### Services

On a retained basis, China First Capital devises and helps execute customized solutions for GPs and LPs to capitalize on the large opportunities in China direct secondaries. We are uniquely qualified for this work. China First Capital is the only intermediary firm (including law firms, accounting firms, management consultants, research providers, other financial advisors) with all four of the required tools to help our clients succeed in this challenging but potentially highly rewarding strategy of selling or acquiring direct secondaries.

These four are:

- 1. Proprietary research, advanced analytics and database of over 7,500 unexited PE-invested deals in China*
- 2. Trusted long-term relationships with decision-makers at over 600 PE firms active in China, giving us unmatched sourcing ability and transparency into the portfolios of both dollar and RMB funds*
- 3. Deep experience working successfully as trusted advisor to Chinese SME bosses. This is necessary to gain their active support of a secondary transaction*
- 4. Proprietary deal flow and execution capabilities, including substantial due diligence resources, confidential pre-qualifying, meeting client's valuation objective*

Our role is to originate, structure and help execute transactions, including both individual direct quality secondaries, or part/all of a GP or LP portfolio. We are able to cherry-pick superior opportunities from inside an existing GP portfolio and make these actionable for new buyers, at market valuations, with support of majority owners. In many cases, we structure the deals as "old+new shares", so that new money enters the business together with effective downside risk protections. The new money finances future growth and enhances the new investor's medium-term investment returns.

We begin our engagements by working closely with the GP or LP to develop a cohesive strategy (*see example on page 3*). This targets specific areas of opportunity and valuation parameters, across the deal-size and industry spectrum, both dollar and RMB deals. The goal is to enable our clients to execute successful China secondary deals that will generate significant returns, while mitigating operational, market and exit risks.

On both sell- and buy-side mandates, we work efficiently and quickly to get to close. We are highly active in China's corporate finance industry, especially with PE-invested SME, having participated since 2008 in over 50 transactions for companies across China. This gives us the experience, judgment and methods to close bid/ask spreads that often prevent secondary deals between GPs.

We have industry experience working with leading Chinese SME and PE firms in these areas:

- Financial Institutions
- Energy & Mining
- Agriculture & Food Processing
- Industrials & Manufacturing
- Automotive
- Health Care
- Real Estate
- Retail & Consumer Products
- Technology and Media & Telecom
- Renewables and cleantech

Portfolio Valuation: we also perform audits, benchmarking and optimization of all or part of a GP or LP portfolio. Our role is to reduce risk, increase transparency and so improve prospective returns.

## Fee Structure

We believe in sharing risk with our clients. For advisory work in China secondaries, we are compensated with a mix of both retainer and success fee. The retainer is obligatory. We will not consider any mandate with only success fee compensation.

The success fee is paid on transactions closed based on opportunities we uncover, pre-qualify and help execute.

We would hope and expect to be actively involved throughout the process, as a supportive partner. We do not see ourselves as simply a source of referrals. We provide full transaction infrastructure to compliment our client's work, with a comprehensive approach to sourcing, due-diligence and executing transactions. We structure secondary transactions to enhance the probability of successful exits.

We provide exclusive deal flow for each of our clients. We agree in advance to a set of key performance targets. If we fail to achieve them, we return our client's retainer fee.

For portfolio valuation and optimization, fees are proportional to the scale and duration of assignment. We're happy to discuss on a confidential basis.

## Case Study

When one of China's largest, most successful PE firms last year sought an early liquidity event for its most successful unexited investment, they came to us. The investment had achieved the PE firm's "best case" projections. Profits at the company grew by over 500% in three years to reach Rmb320mn in 2012. Faced with diminishing fund life and uncertain waiting period for IPO, the PE firm achieved its liquidity goal with a 5x return on this "quality secondary" exit. They earned carry, while returning cash and profits to LPs. The transaction cemented this fund's best-in-class performance. They plan later this year to raise a new China-focused fund of +USD\$1 billion.

## Principles

*Over the last year, we have taken the leading role in defining, researching and analyzing the challenge of unexited private equity investments in China. This work grows out of our strong commitment to the long-term health and success of China's private equity industry. China private equity needs more exits and more channels for exit. In our view, establishing an efficient, stable and liquid market for direct secondaries is vital for the three core constituencies in China private equity-- GPs, LPs and investee companies.*

*Our firm shares the view that investing in China's entrepreneurial companies remains among the world's best risk-adjusted investment opportunities. Within this asset class, direct secondaries should offer investors especially attractive values.*

*To facilitate the growth of an active market in secondaries, China First Capital has prepared and will share with GPs and LPs proprietary research in English and Chinese. In addition to our report "**China PE Secondaries-The Necessary & Attractive Exit For Private Equity Deals in China**", we will circulate four research notes:*

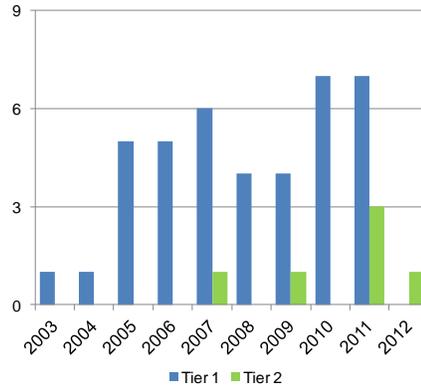
- 1. unexited PE deals broken down by industry, original deal size, currency, round, and PE Tier*
- 2. Secondary deals modeled on prospective IRR and hold period*
- 3. Risk-scoring metrics for primary and secondary deals in China*
- 4. Portfolio analytics specific to primary and secondary investments in China*

*More detailed information and analysis, including on specific Quality Secondary deal opportunities, exit and investment strategies, will be made available exclusively to clients that retain us.*

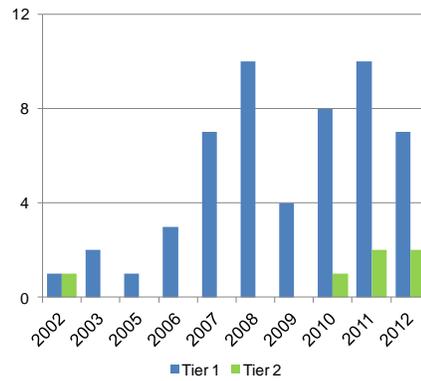
**Appendix**

As an example of how we work with clients to develop a proprietary strategy, we begin by filtering the universe of 7,500 unexited deals. In this example, the GP asked first for a breakdown on the number of unexited deals made by Tier 1 and Tier 2 firms, with original investment above USD\$30mn. We share that actual data here.

**Unexited China PE Deals: Original Investment Size \$30 mn to \$40 mn**



**Unexited China PE Deals: Original Investment Size \$40 mn to \$50 mn**



**Unexited China PE Deals: Original Investment Size Over \$50 mn**

