TAKING YOUR COMPANY PUBLIC IN THE UNITED STATES CAPITAL MARKETS:

→

AN OVERVIEW OF REVERSE MERGERS

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DISCLAIMER

- This presentation is for informational purposes only and is not legal advice
- This presentation does not address the Chinese laws associated with off-shoring your company

AGENDA

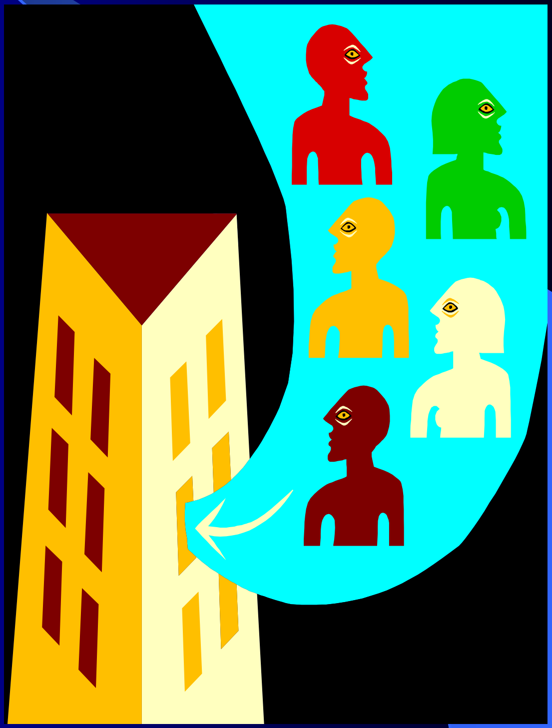
1. What is a publicly traded company in the United States
2. Advantages and Disadvantages of being a publicly traded company in the United States
3. Two general methods of becoming a publicly traded company in the United States:
   - the Initial Public Offering ("IPO")
   - the Reverse Merger
4. An overview of the Reverse Merger process
5. Raising capital in conjunction with a Reverse Merger

PART 1

DEFINITION OF A PUBLIC COMPANY

What is a Publicly Traded Company

- General Definition
  - A public company is a company whose stock is owned by members of the public and is traded on a stock exchange or over-the counter market and generally subject to public reporting obligations



Where does a Public Company's Stock Trade in the United States?

- Examples of trading markets for public company stock in the United States include:
  - New York Stock Exchange
  - NASDAQ
  - AMEX
  - OTCBB
  - Pink Sheets

PART 2

ADVANTAGES & DISADVANTAGES OF BEING A PUBLICLY TRADED COMPANY

Advantages of Being a Publicly Traded Company

1. Easier access to capital
2. Liquidity for shareholders
3. Ability to use stock to make strategic acquisitions
4. Ability to use stock incentives to attract and retain key employees

Advantages of Being a Publicly Traded Company

1. **Easier access to capital**

- As a publicly traded company, it is easier to raise capital through the sale of the company's stock to potential investors

Advantages of Being a Publicly Traded Company

2. **Liquidity for shareholders**

- Publicly traded stock provides a company's shareholders with the ability to easily sell their interests in the company to other investors

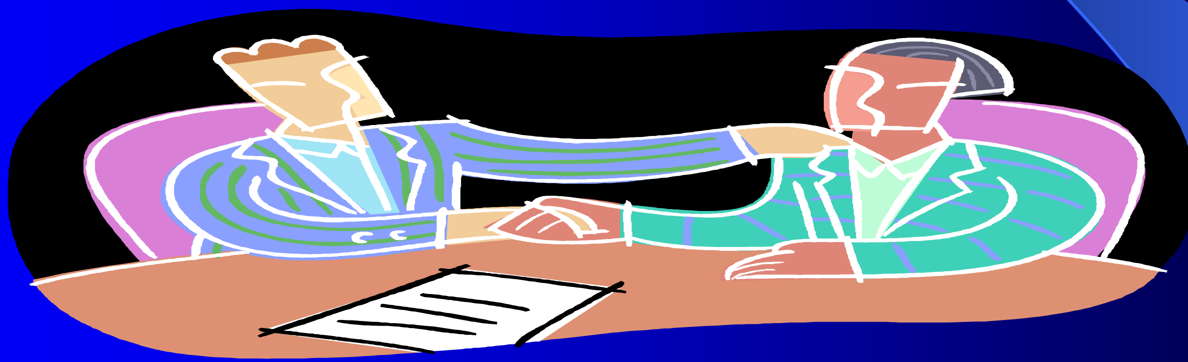
Advantages of Being a Publicly Traded Company

3. **Ability to use stock to acquire other companies**

- Publicly traded companies can utilize their stock as consideration for strategic acquisitions of other companies

Advantages of Being a Publicly Traded Company

4. **Ability to use stock incentives to attract and retain key employees**



- Publicly traded companies can create stock option programs to attract and retain management and employees

Disadvantages of Being a Publicly Traded Company

1. **Public Disclosure Requirements**

2. **Market Volatility**

3. **Expenses**

Disadvantages of Being a Publicly Traded Company

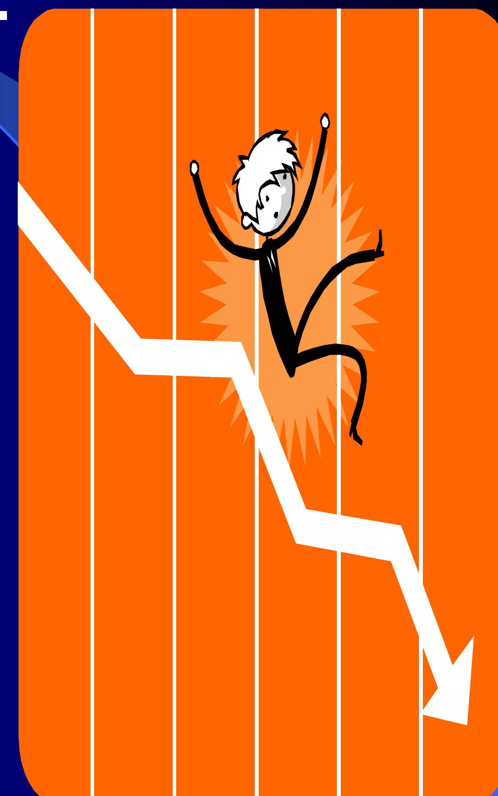
1. **<u>Public Disclosure Requirements</u>**

   – Required filings with the Securities and Exchange Commission (“SEC”) including quarterly and annual filings
   – Audited financial statements audited in accordance with US Generally Accepted Accounting Principles (“GAAP”)
   – Publication of corporate information
   – Increased rules and regulations governing management of the company

Disadvantages of Being a Publicly Traded Company

2. **Market Volatility**

- A public company's value is directly affected by changes in the market on which its stock trades



Disadvantages of Being a Publicly Traded Company

3. **Expenses**

- Once a company goes public, its annual expenses increase significantly due to the enhanced reporting requirements

PART 3

THE IPO
&
THE REVERSE MERGER

How To Go From a Private Company to a Publicly Traded Company

- There are two primary methods of taking your company public in the United States:

  1. **An <u>Initial Public Offering</u> ("IPO")**

  or

  2. **A <u>Reverse Merger</u>**

The IPO

- Many large companies elect to become publicly traded through a process known as an IPO

- An IPO is a process whereby a company will become a publicly traded company through an initial offering of its stock to the public

- With an IPO, a company becomes publicly traded and raises funds in one transaction

Advantages of the IPO

1. ***Increased Capital***

   An IPO allows a company to raise large amounts of capital to use for various corporate purposes

2. ***Recognized & Established Process***

   An IPO is a very well established mechanism for becoming a publicly traded company

3. ***One Transaction***

   With an IPO, a Company becomes publicly traded and raises capital in one transaction

Disadvantages of the IPO

1. *Only for Large Companies*
2. *Expensive*

   IPOs are very costly → fees can exceed US $1,000,000
3. *IPOs are Subject to Market Conditions*
4. *Underwriter*

   IPOs require an Underwriter
5. *Timing*

   IPOs can take over a year to complete

The Reverse Merger

- A Reverse Merger is an alternative means for a private company to become a publicly traded company
- In a Reverse Merger, a private company either merges into, or becomes a subsidiary through a share exchange of, an existing publicly traded company that has no business operations
- Once the merger or share exchange is completed, the private company becomes a publicly traded company with its own company name, assets, and management

Advantages of the Reverse Merger

1. *Accessible*

    Reverse Mergers are a viable way for a small business to become a publicly traded companies

2. *Lower Costs*

    A company can become a publicly traded company through a reverse merger for lower costs than an IPO

3. *Timing*

    Can be accomplished in as little as 3 months

4. *Not Subject to Market Conditions*
5. *No Underwriters*

Disadvantages of the Reverse Merger

1. *No Capital*

   No capital is directly raised through a Reverse Merger

2. *Market Support*

   Market support for the Company's stock is harder to obtain through a Reverse Merger

3. *Liabilities*

   The public company that the private company is merging with may have liabilities

PART 4

AN OVERVIEW OF THE REVERSE MERGER PROCESS

The Reverse Merger Process

- In a Reverse Merger, a private company with an active business merges with, or becomes a subsidiary of, an existing publicly traded shell company that has no business operations

- Upon closing of the Reverse Merger, the private company becomes a publicly traded company

A Reverse Merger Business Structure

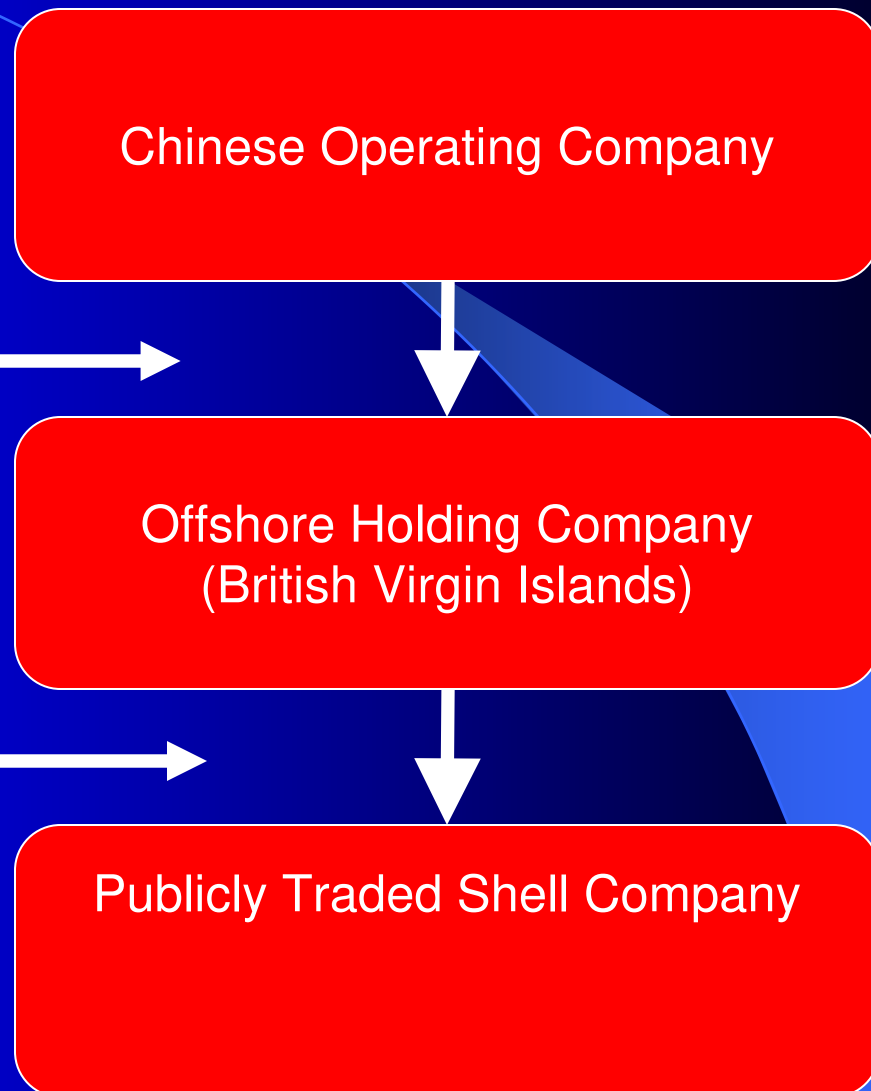
Step 1: Off-Shoring

1(a). Create Offshore Holding Company in compliance with Chinese law

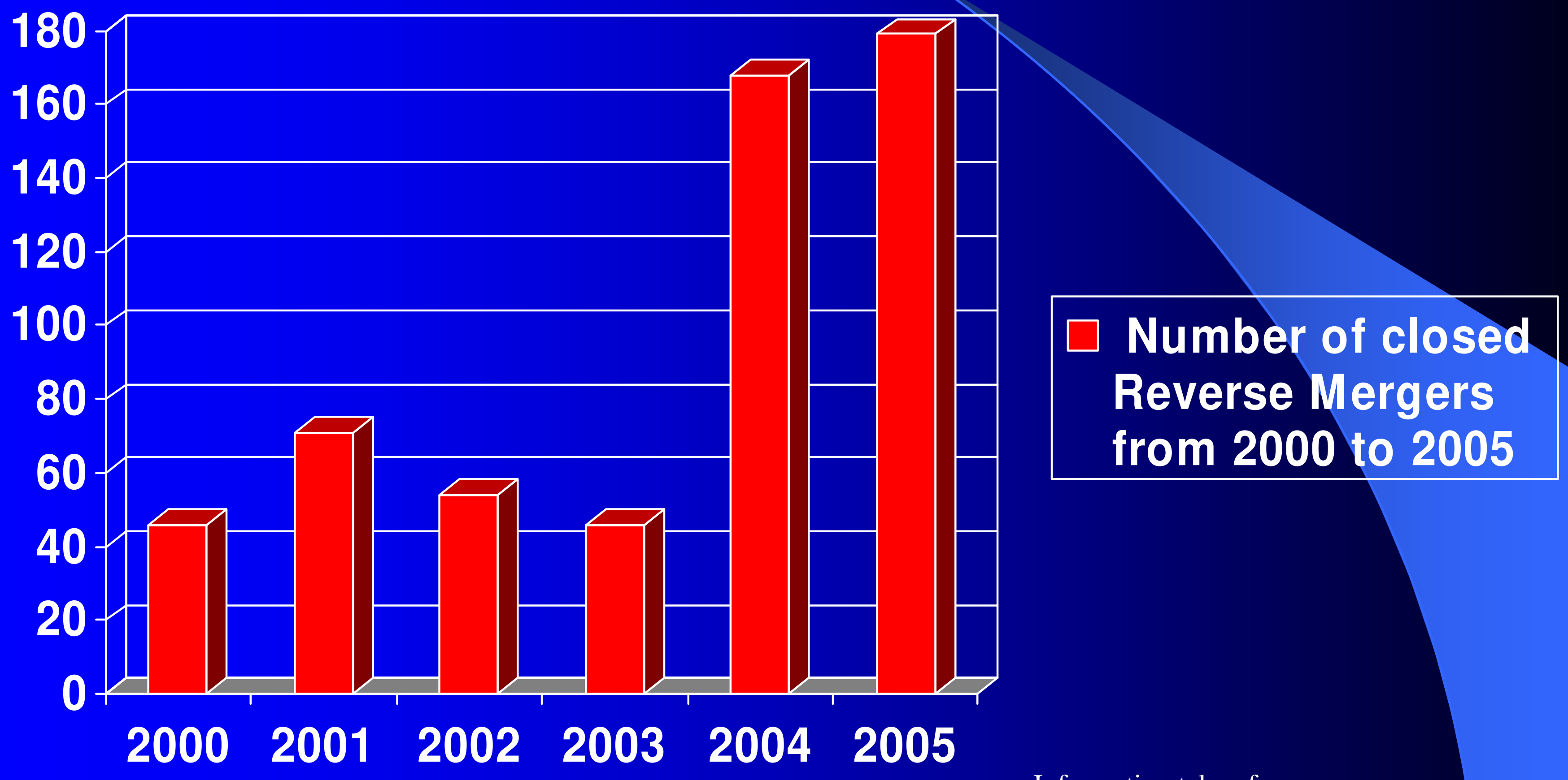
1(b). Establish Operating Company as a subsidiary of Holding Company in compliance with Chinese law

Step 2: Share Exchange

- Public Company issues shareholders of Holding Company a controlling interest in Public Company in return for the transfer of all of the shares of Holding Company, making it a subsidiary of Public Company



Number of Closed Reverse Mergers From 2000 to 2005



Information taken from:
Feldman & Dresner, *Reverse Mergers*, 2006

Companies That Have Used The Reverse Merger To Become Publicly Traded Are:

- China Security and Surveillance Technology (CSCT)
- American Oriental Bioengineering (AOB)
- Berkshire Hathaway Inc. (BRK-A)
- Texas Instruments Inc. (TXN)
- Blockbuster Entertainment (BBI)

An Overview of the Reverse Merger Process

Step 1: Assemble a Team

A. The Company will need to engage the assistance of:
   - An experienced law firm
   - An experienced accounting firm
   - An advisor to assist with potential financing

An Overview of the Reverse Merger Process

Step 2: Find the Shell Company

A. Determine what type of shell company you would like to acquire; considerations include:
   - Pink Sheets Company vs. OTCBB Company
   - SEC Reporting Company vs. Non SEC Reporting Company
   - Price → US $200,000 to US $600,000

B. Identify a suitable publicly traded shell company to complete the share exchange with

C. Perform due diligence to determine that the shell company has NO liabilities

An Overview of the Reverse Merger Process

Step 3: Letter of Intent

A. Once a suitable shell has been located, enter into a non-binding Letter of Intent (“LOI”) with the owner(s) of the public shell company setting forth the basic terms of the transaction

B. The terms generally provide for an exchange of money and shares to complete the transaction

An Overview of the Reverse Merger Process

Step 4: Enter into a Share Exchange Agreement

A. The Public Company, the Offshore Holding Company, and the shareholders of the Offshore Holding Company enter into a share exchange agreement

B. Shareholders of Offshore Holding Company agree to transfer ALL of the shares of Offshore Holding Company to the Public Company and Public Company agrees to issue shareholders of Offshore Holding Company a controlling number of shares of the Public Company (approximately 90% of the Public Company)

C. This exchange turns the Chinese Operating Company and the Offshore Holding Company into subsidiaries of the Public Company and provides the shareholders of the Offshore Holding Company with control of the Public Company

An Overview of the Reverse Merger Process

Step 5: Prepare Financial Statements

A. The Share Exchange Agreement will likely require the delivery of financial statements by both parties for the last fiscal year and most recent fiscal quarter

- The Offshore Holding Company will be required to prepare and deliver consolidated audited financial statements for itself and its operating subsidiary

- The financial statements must be prepared by a Public Company Accounting Oversight Board ("PCAOB") certified Accountant and audited in Accordance with US GAAP

An Overview of the Reverse Merger Process

Step 6: Close The Share Exchange

- Once all of the required documents have been exchanged and the funds and shares have been deposited in an escrow account, the parties can close the share exchange and transfer ownership of the shell company

Corporate Structure Post Reverse Merger

The diagram illustrates the ownership structure of the companies following the closing of the Reverse Merger

Upon closing of the Reverse Merger, the private Chinese company becomes a publicly traded company as a wholly owned subsidiary of the public company

Publicly Traded Company
(controlled by former owners of Chinese Operating Company)

↓

Offshore Holding Company
(Subsidiary of Public Company)

↓

Chinese Operating Company
(Subsidiary of Offshore Holding Company & Subsidiary of Public Company)

Post-Merger Planning

- Develop and implement a strategy that:
  - Creates liquidity for the Company's stock
  - Raises capital
  - Provides long term value and market support for the Company's stock

- Key elements of the strategy are:
  - Identify Market Makers
  - Establish relationships with institutional investors
  - Establish a format to communicate the Company's financial success

PART 5

RAISING CAPITAL THROUGH THE REVERSE MERGER PROCESS

Raising Capital Through the Reverse Merger Process

- The Reverse Merger does not directly raise any capital for your Company
- In conjunction with the Reverse Merger, it is common for companies to raise money through:
  - PIPEs (Private Investment in Public Equity)
    - PIPEs are a very common form of financing utilized with Reverse Mergers
  - Debt Financing
  - Venture Capital Structures

PIPE FINANCING

- PIPE financing consists of:
  - An investment in the Company's stock that provides for immediate registration of the stock purchased by the investors
  - shares acquired by investors can become tradable in as few as three months through the filing of a registration statement
    - The Registration Statement requirement affiliated with PIPES may change based upon SEC proposed changes to Rule 144
  - PIPE financing usually includes warrant options for investors

FINAL THOUGHTS

- Each Deal is Different
- This Presentation is an Overview
- Thank You For Your Time
- Good Luck!
- Questions?