



# The Micro Connect White Paper

Overview

September 2022





# MICRO CONNECT 滴灌通

## We have a dream to...

**Do good** – developing a more inclusive, more equitable and more socially impactful financial market

**Do well** – connecting small businesses seeking adequate and sustainable financing with global investors seeking quality and diversified returns

We have a new market operating system, the “**Micro Star**”, to help us achieve our dream

# Why the Dream?

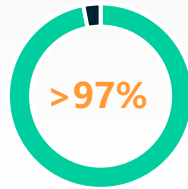
**Small businesses are the cornerstone of the Chinese economy.** China's micro and small business financing is an untapped blue ocean driven by favorable macro policies and a highly digitized consumer economy.

## A Huge Underserved Market



**70 million**

Small businesses

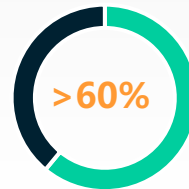


Small businesses account for  
>97% of market entities



**US\$10 trillion**

Small businesses' GDP

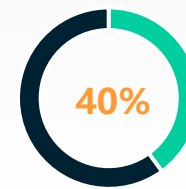


Small businesses account for  
>60% of China's GDP



**US\$3.9 trillion**

Consumer Retail Sales



Consumer retail sales  
accounts for 40% of China's  
GDP

## Long-term Macro Drivers



**Dual  
Circulation  
Development  
Strategy**



**Common  
Prosperity  
Policy**



**Highly  
Digitized  
Consumer  
Economy**

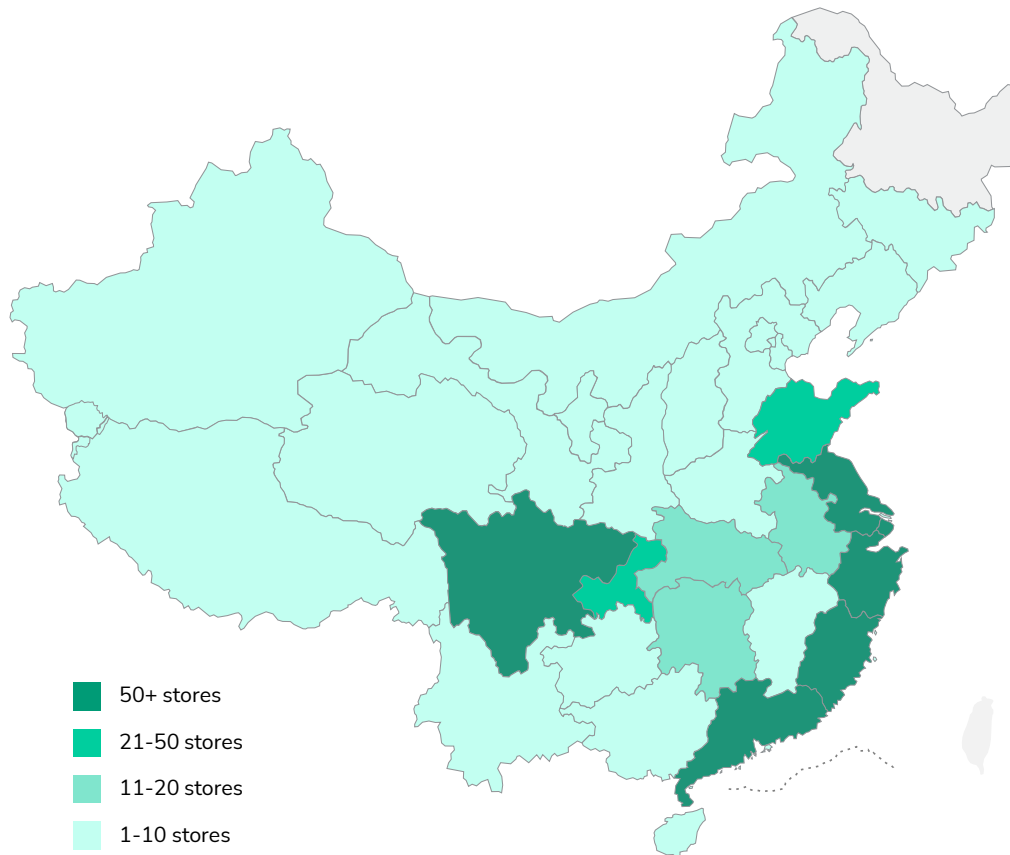
# Where Do We Invest?

Micro Connect invests in **brick-and-mortar stores** in China's consumer economy and focuses on **F&B, Retail, Services, and Culture & Sports**, with 158 sub-sectors identified so far.



# What Has Our Progress Been So Far?

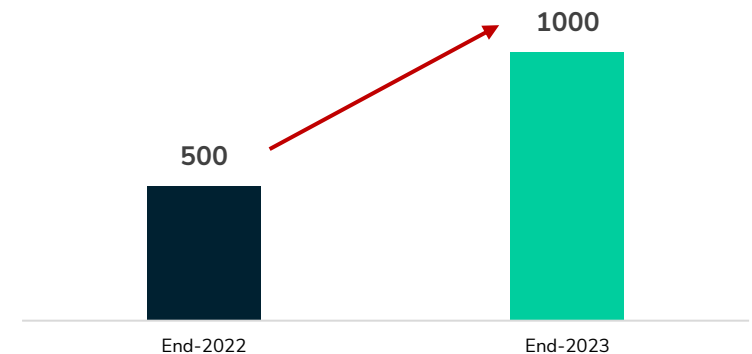
We have just surpassed our **1,000-store milestone** and have every confidence that Micro Connect will, in time, become one of the **world's largest store backers**.



## In less than a year, Micro Connect has<sup>1</sup>...

- Invested in **1090 stores**<sup>2</sup> with **103 brands** in F&B, retail, services, and culture and sports
- Presence in **104 cities** in **30 provinces / municipalities** across China
- Delivered **CNY 425 million**<sup>3</sup> of global capital to the grassroots economy
- Generated **CNY 45 million** in daily revenue share

Monthly Deployment Capacity (Stores)

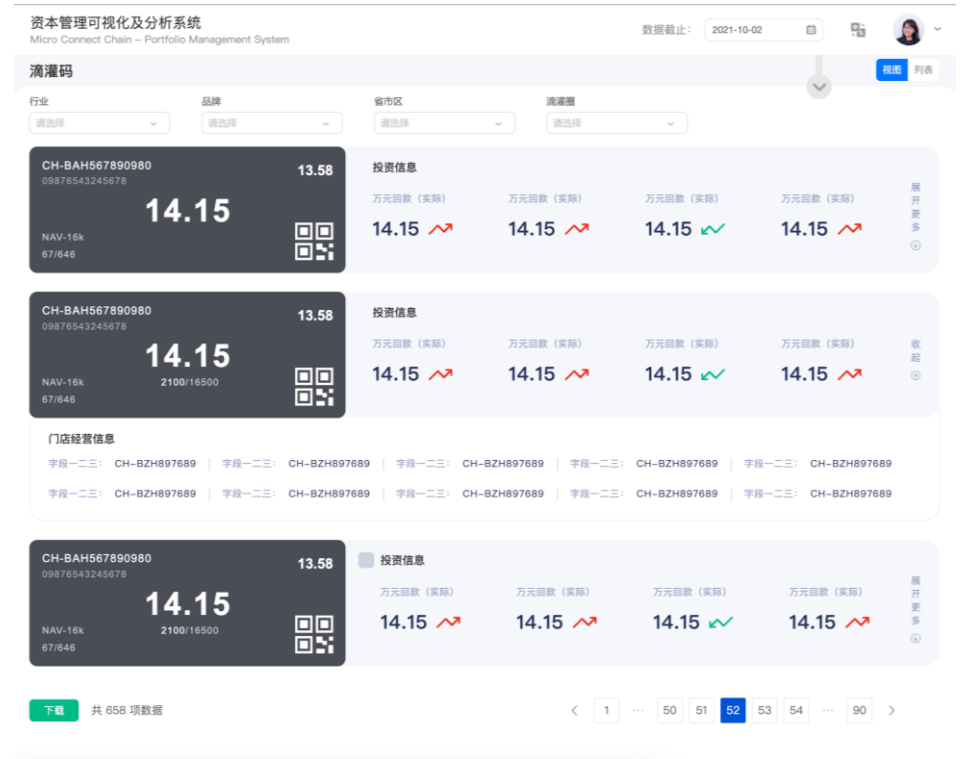


(1) Data as of 31 August 2022.  
(2) Completed investments refer to stores that have signed agreements with Micro Connect.  
(3) Deployed capital refers to amount that has been invested in the 887 funded stores.



# How Do We Measure and Monitor Our Investments?

We have developed a proprietary **Micro Connect Dashboard** to crystalize all the valuable data.



# Why Can't We Use the "Wall Street" Model?

Wall Street has been the best human innovation to the global economy, offering a **centralized "Trinity of Trust"** to organize capital and facilitate investors' investment decisions, but it does not work as well for small businesses.

**Equity**, given the shorter life cycle:

- Small business owners: dilutive and inefficient
- Investors: lack of exit channels

**Debt** is a mismatch of risk and reward:

- Small business owners: extreme vulnerability of the borrowers
- Investors: capped upside for the lenders

**Financial intermediaries** are too expensive:

Disclosure preparations and investor communications are too complex and unaffordable to small business owners

**Discovery**

Professional Intermediaries

Wall Street

**Delivery**

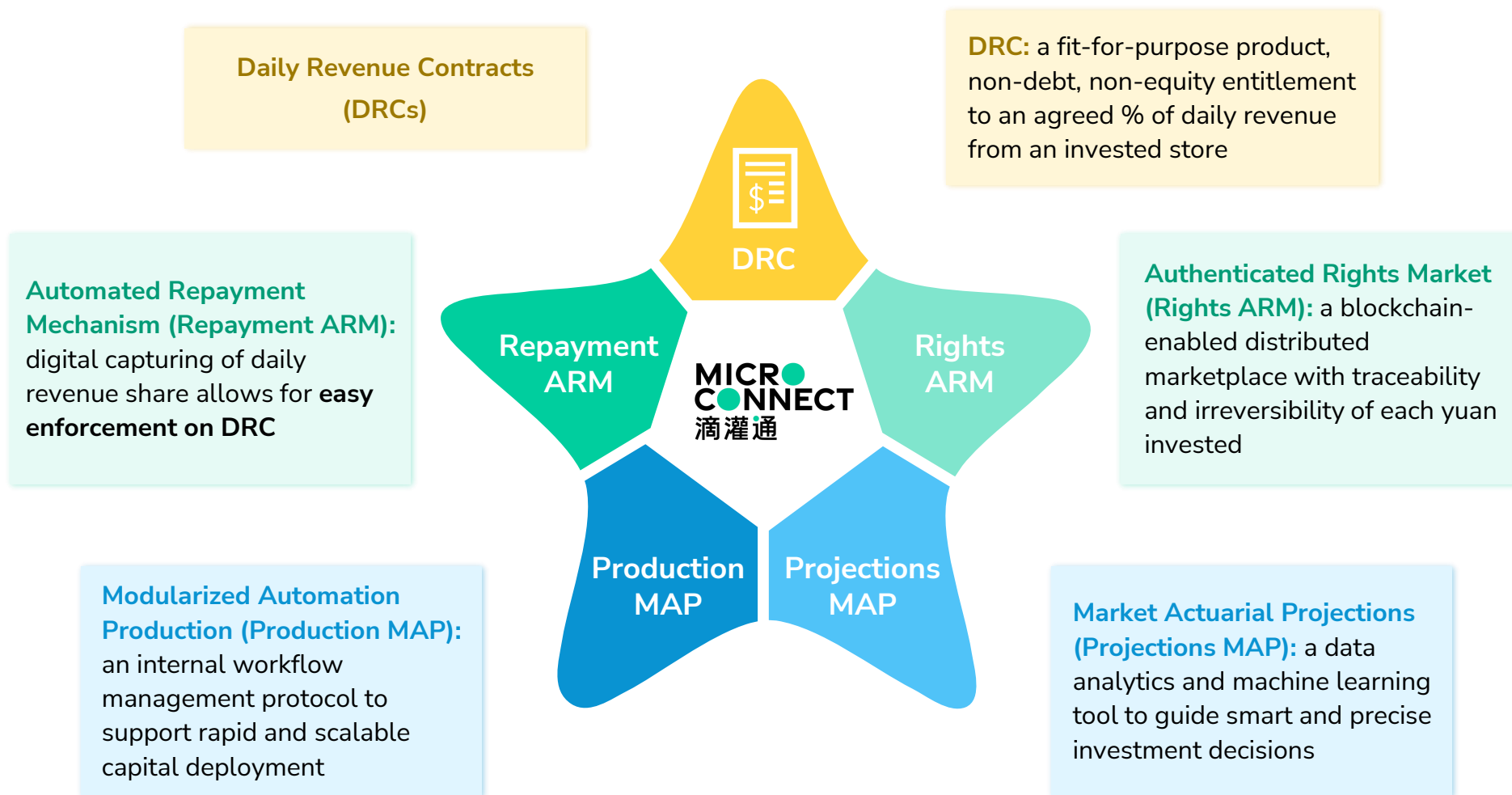
Institutional Market Operators

**Centralized market structure** (trading, clearing, settlement processes) are difficult and uneconomical for small businesses

# What is the Micro Star?

The Micro Star is a new market operating system with 5 key components

1 Product supported by 2 ARMs and 2 MAPs

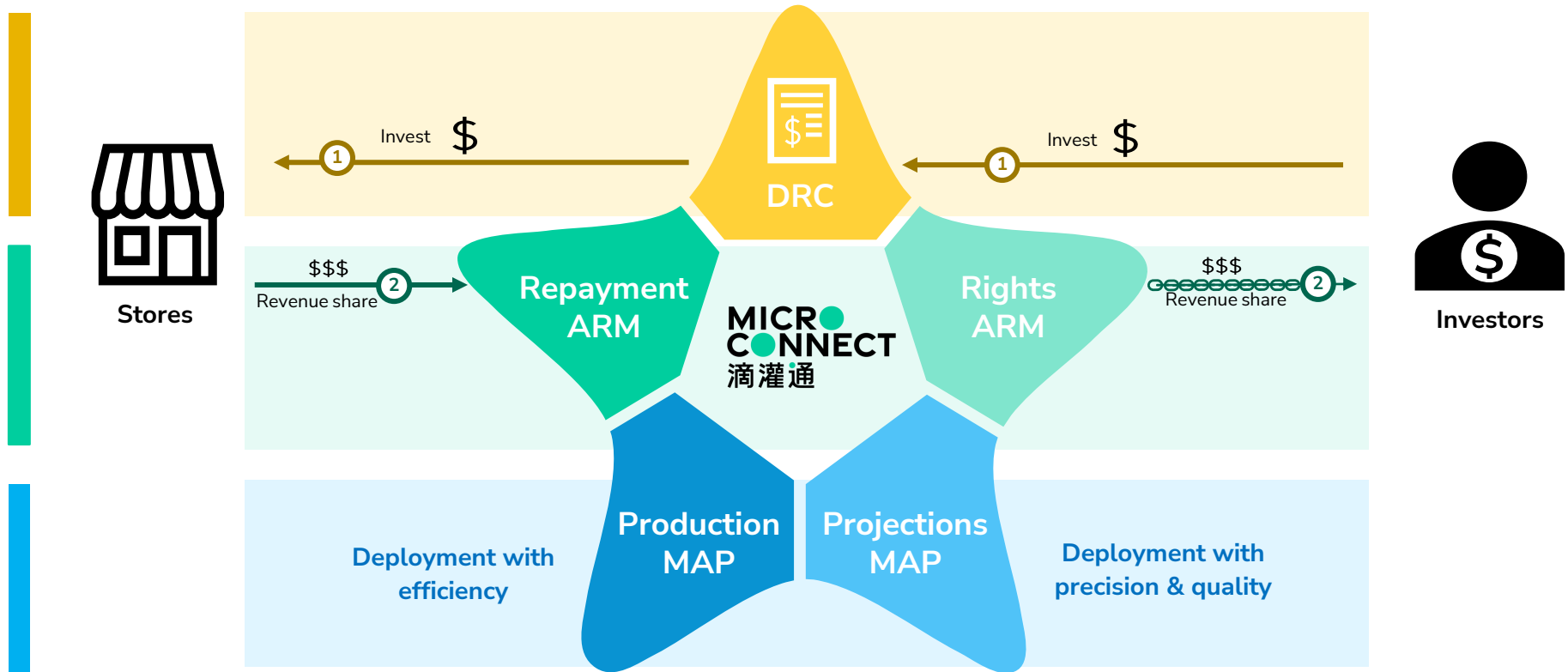




# How Does the Micro Star Work?

The **Micro Star** is a new market operating system developed by Micro Connect. The system proactively identifies quality investment opportunities in the small business universe with **efficiency, scale, and sustainability**.

The Micro Star is the fit-for-purpose solution for small business financing in the digital age



# What is a Daily Revenue Contract (DRC)?

DRCs are enforced by 2 ARMs and deployed with guidance from 2 MAPs.

## What is a DRC?

### A Simple Product

Commercial contract

### A Simple Negotiation

Formula-based equity-style upside

### A Simple Financial Arrangement

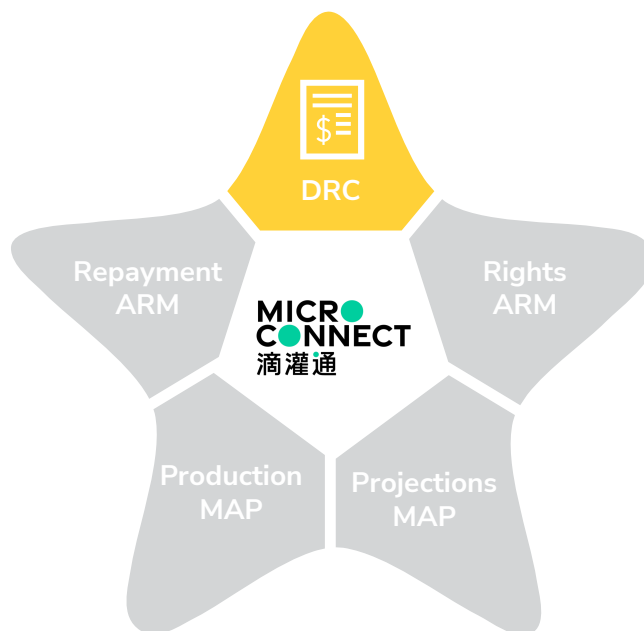
Revenue sharing  
enforced by Repayment ARM

### A Simple Exit Strategy

Daily return,  
gradual exit from day 1

### A Simple Business

Single-store revenue; permanent capital  
without equity dilution



## How to create a DRC?

### 1 A store with

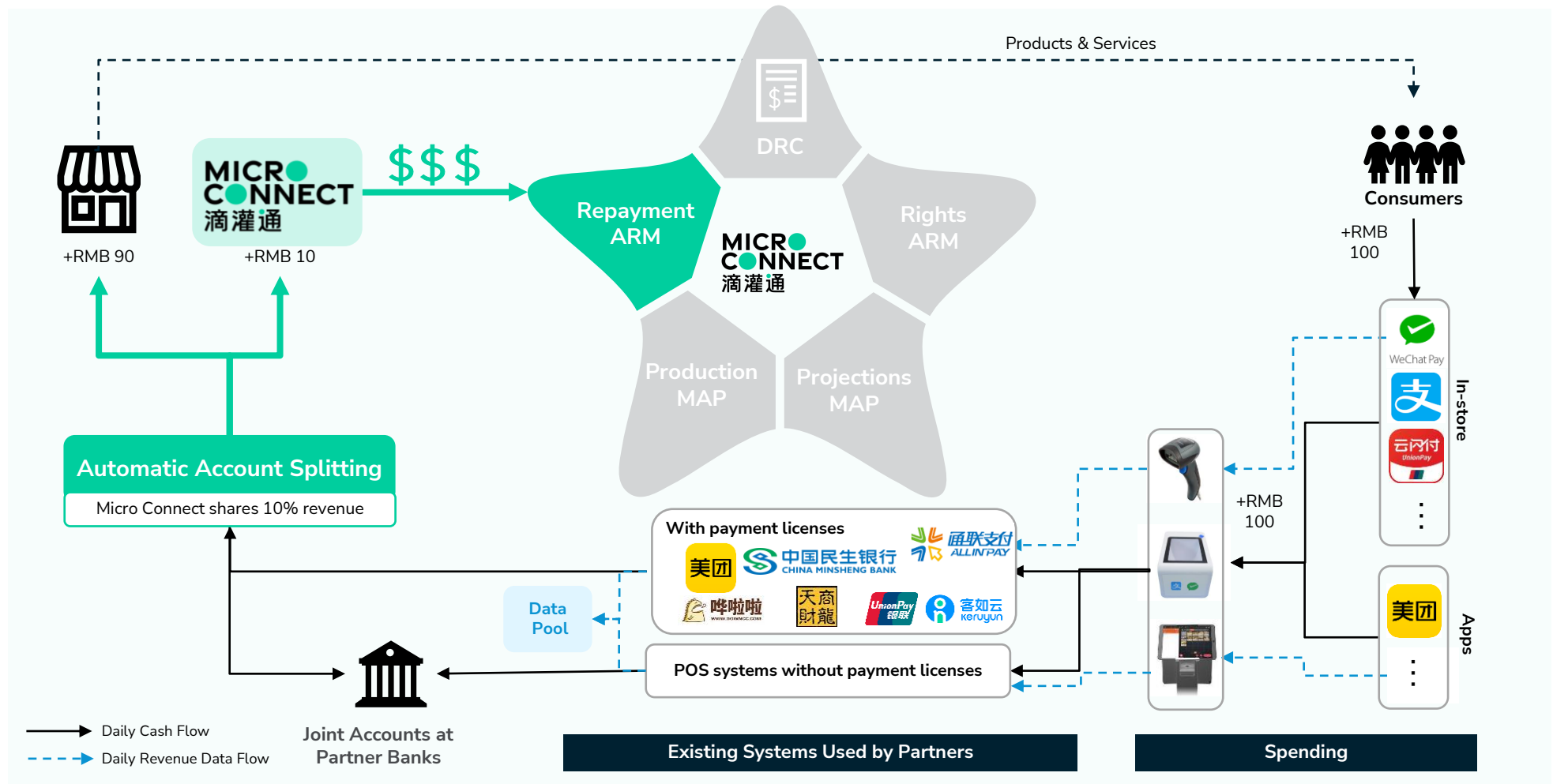
- Expected monthly revenue verified: **CNY 250,000**
- Expected investment recovery period: **10 months**

### 2 After data verification, an investor offers to invest CNY 500,000 (y) in the store:

- Revenue sharing % = 
$$\frac{500,000 (=y)}{\text{RMB } 250,000 \text{ per month} \times 10 \text{ months}}$$
- $y \leq 50\%$  of the store investment
- Revenue sharing % = 20%
- Revenue sharing % will be subject to downward adjustments after recovery of y

# What is the Repayment ARM?

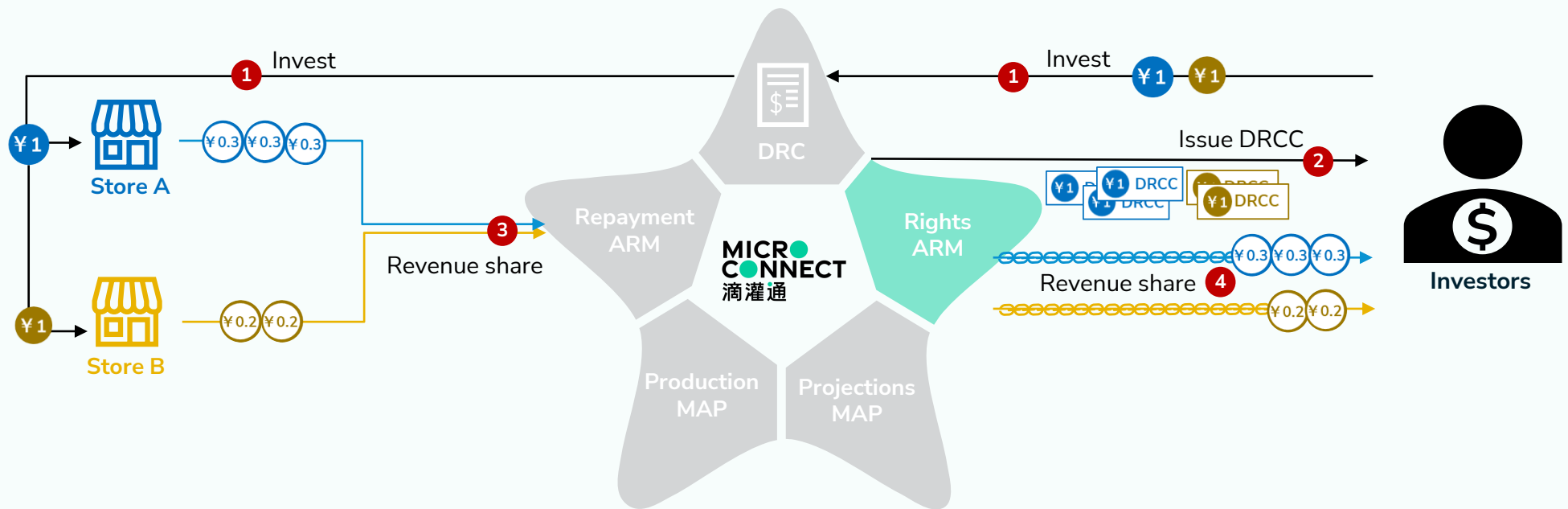
The **Repayment ARM (Automated Repayment Mechanism)** is a **digital revenue collection system**. Micro Connect operates in partnership with banks and payment solutions providers, consumer retail brands, property owners and SaaS companies, allowing investors to **automatically capture revenue share on a daily basis**.



# What is the Rights ARM?

The Rights ARM (Authenticated Rights Market) is a **blockchain-enabled trading, clearing and settlement system** catered to the highly distributed nature of DRCs, allowing DRC portfolios to be traded with transparency and efficiency at extremely low cost, while fulfilling regulatory requirements in today's markets.

## Rights ARM: a blockchain-enabled distributed marketplace



### Daily Revenue Contract Certificate ("DRCC")

Each investment is broken into numerous DRCCs, each of them corresponding to 1 yuan. The **traceability of every yuan flowing in Micro Connect's financial markets** allows investors to build and trade portfolios by **selecting any given individual stores from any given periods of time**.

# What is the Production MAP?

## Modularized Automated Production (Production MAP)

Deploying Capital with Efficiency

### Unique Challenges

#### How to source quality stores in huge quantities?

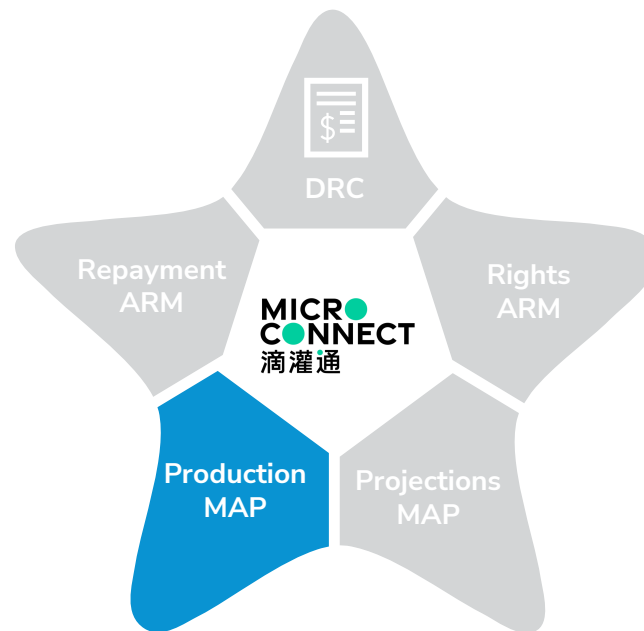
Unprecedented portfolio diversity –  
158 sub-sectors across China

#### How to identify quality non-chain independent stores?

Expanding investment universe

#### How to better manage portfolio performance?

Predicting the “unpredictable” –  
store-level revenue forecast



### Technology Solutions

#### Modularization

Breaks down legal, financial, operational and risk workflows into 100+ modules

#### Digitization + AI

Generates investment terms / memos / return and allocation calculation through automated data analysis

#### Real-time Tracking

Facilitates effective tracking and resources management through real-time dashboards

Objectives

Standardization

Efficiency

Scalability

# What is the Projections MAP?

## Market Actuarial Projections (Projections MAP)

Deploying Capital with Precision and Quality

### Unique Challenges

#### How to make a huge number of small investments?

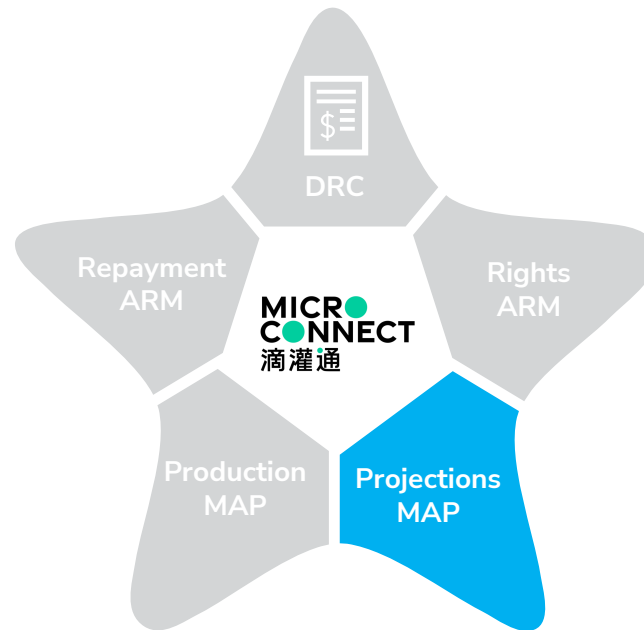
To invest in 15,000+ stores in 2023

#### How to manage a large pipeline and prioritize work processes?

To evaluate pipeline of 1,000+ brands and process voluminous data

#### How to achieve quality execution and operating leverage?

To increase store coverage per staff



### Technology Solutions

#### Extensive 3rd-Party Data

Smart nationwide database with location-, industry-, sector- and brand-based analytics

#### Unique Proprietary Data

Data sets with daily, granular attributes across sectors, time series, locations and store operators

#### Data Analytics

Cross-referencing proprietary and 3rd-party data to generate algo-driven revenue prediction of any given store based on sector, brand and location

### Objectives

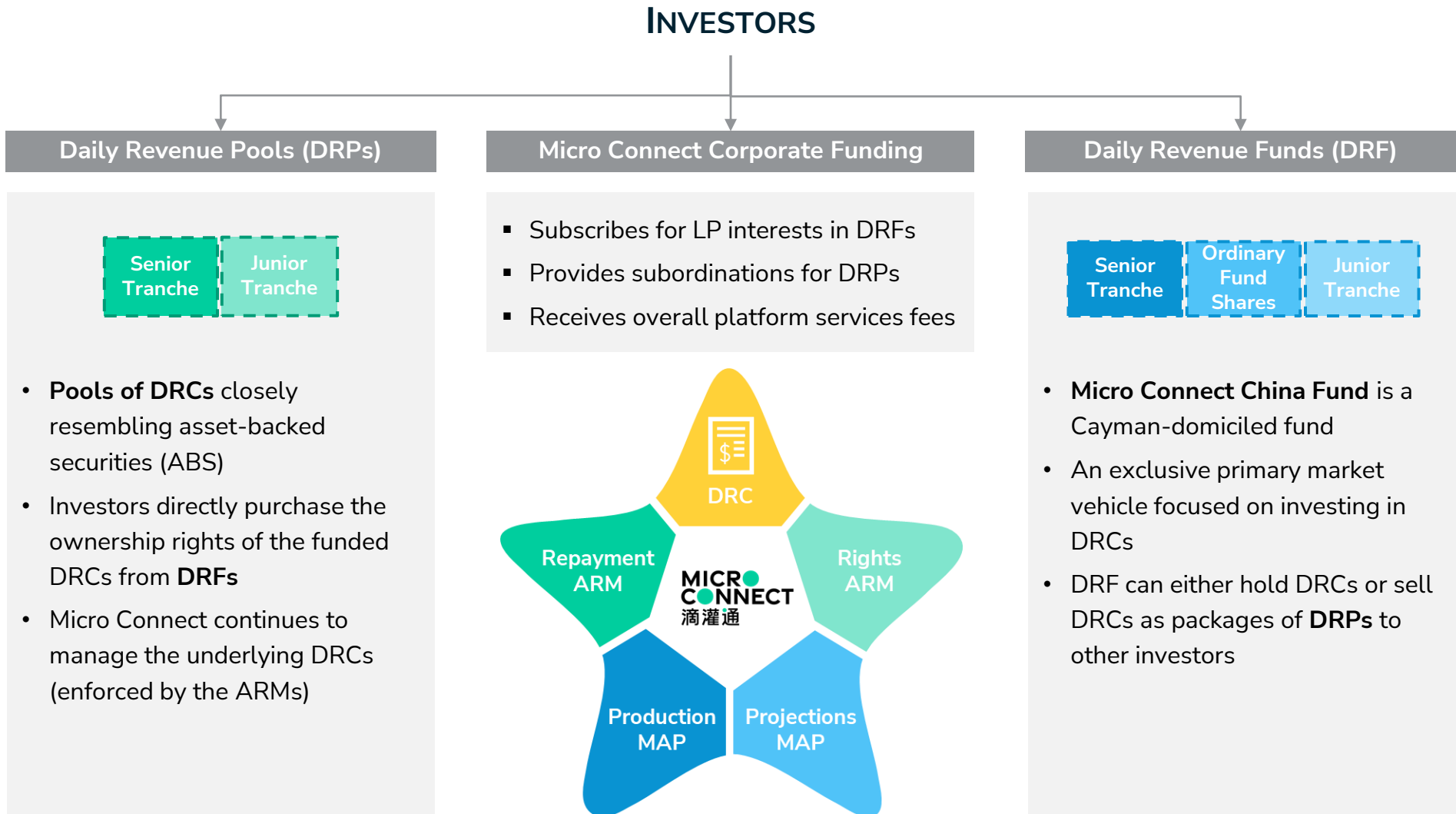
Smart & Scalable

Precise & Quality

Price Discovery

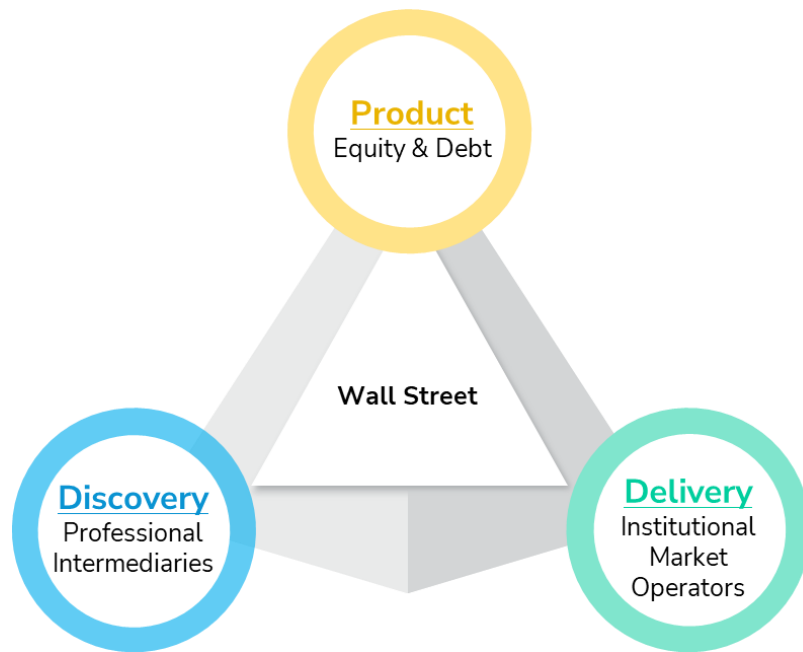


# How Do Investors Participate in the New Micro Connect Markets?

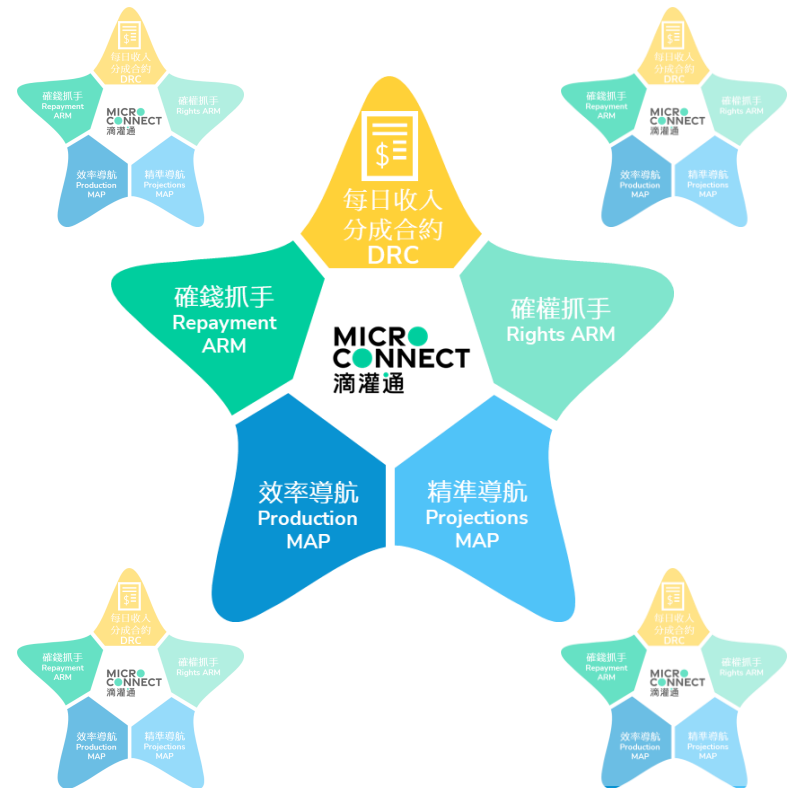


# In Sum, How is Micro Connect Different from Wall Street?

While the Micro Star performs the same principal functions for investors as traditional markets, it represents a large number of micro and distributed “**Stars of Transparency**” in order to deliver capital to the underserved small business universe.



**Wall Street**  
Trinity of Centralized Trust



**Micro Star**  
Distributed Transparency

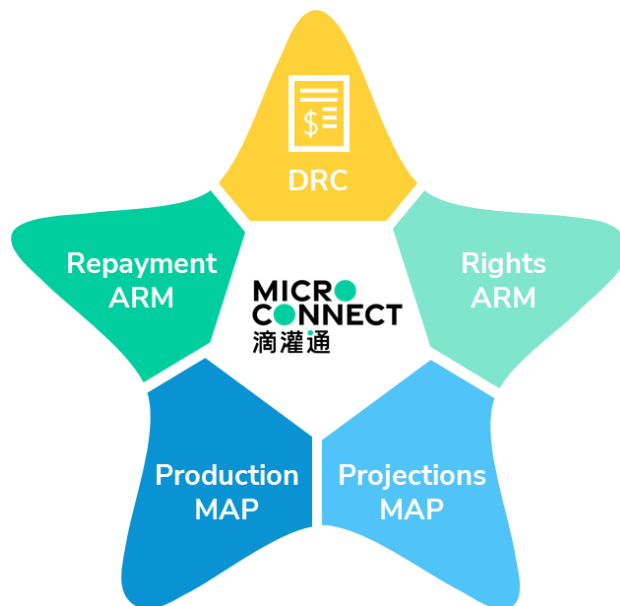
# How Do We Invest with Scale & Precision?

With such a large number of DRCs, we adopt a three-pronged approach in our “Follow the Winners” strategy.

## Follow Chain Leaders in 2022

Partnerships with leading national / regional chains with proven track records who possess:

- Strong **ARM** capabilities with reliable **operating and financial control**
- Robust digital payment and data infrastructure to access timely, accurate data



## Enable Location Leaders in 2023

Unlock potential in anchor alliances with:

- **Commercial real estate investors:** property leasing and location optimization
- **SaaS companies:** payment solutions and ARM infrastructure
- **Local governments:** promotion of local business activities

## Create Ecosystem Leaders in 2023 and beyond

Use capital as the link to foster closer collaborations and develop a more efficient and more equitable economic model:

- **For stakeholders:** Use DRCs as the enabler to allow capital to better service all stakeholders
- **Through data services:** Launch store-level data services for all stakeholders (investors, chains, store owners, etc.)
- **To achieve synergies:** Introduce ecosystem platforms to allow platform leaders, chain leaders and store owners to network and grow

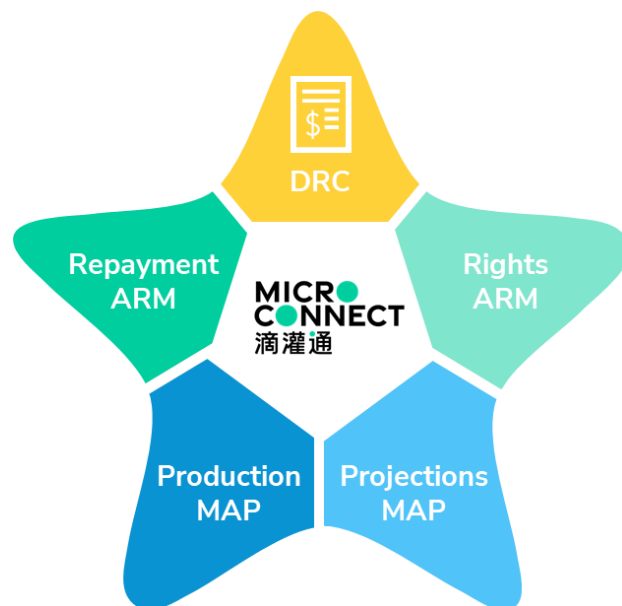
# Where Do We Go From Here?

Ultimately, Micro Connect aims to **connect investor capital with consumer capital** and embark on the journey of transforming “shareholder capitalism” into “**stakeholder capitalism**”.

## Micro Connect 1.0 (2022)

### Direct Investor and Holder (1,500 Stores)

- Launch of full suite of **fund products** (LP-GP structure)
- Pilot rollout of **securitization**
- Incorporation of **blockchain technology** into the Micro Star operating system
- Commenced licensing application for the **Rights ARM**



## Micro Connect 2.0 (2023)

### Primary Market Originator and Reseller of DRCC (15,000 Stores)

- Achieve a self-sustaining **securitization model** (securitizing DRC portfolios) paving a pathway to profitability
- Launch **blockchain-based market platform** enabling traceability of every yuan to facilitate the sale of DRCCs (Rights ARM)
- Introduce **full data services** (store-level proprietary data sets)

## Micro Connect 3.0 (2023 and beyond)

### Market Operator (50,000+ Stores)

- Launch **full exchange product suite** powering flexible portfolio construction to the ultimate specifications
- Launch **small business customer incentive program**: a financing platform breaking the barriers between traditional institutional investment and consumer capital



**Charles Li**

Founder & Group Chairman

- Market structure pioneer across asset classes
- Former Chief Executive at Hong Kong Exchanges and Clearing Limited (HKEX)
- Led the launch of Stock Connect, Bond Connect, HK Listing Reforms, LME Clear and acquisition of LME
- Served as Chairman at JPMorgan China and President at Merrill Lynch China prior to HKEX



**Gary Zhang**

Founder & Group CEO

- Experienced cross-border investment and asset management professional
- At the forefront of China's financial market reforms
- Founding Partner & CEO of Oriental Patron Financial Group, led the establishment of CSOP Asset Management
- Served in leadership roles with the PBOC Hainan Branch and Hainan Provincial Government prior to Oriental Patron



**Ramon Li**

China CEO

- Leads Micro Connect's business expansions in China
- Served as COO at Tuhu, one of the China's leading auto aftermarket service providers
- Last served as Chief Development Officer at McDonald's China prior to joining Tuhu in 2019

# The Team

## A Team and Structure Curated for a New Investment Paradigm

- 150+ professionals across Hong Kong & Mainland China
- Experience in exchange, investment, technology and consumer retail, and a young team eager to build a new financial market

### ONSHORE (SHENZHEN)

### OFFSHORE (HONG KONG)

Business Development	Business Intelligence	Technology	Investor Relations	Portfolio Management
Real economy veterans with on-the-ground chain store opening experience	Experience in consumer industry business intelligence and analytics	Market infrastructure, fintech and platform development experience	Business development, capital markets and fundraising experience	Portfolio management, private equity and structured finance







# MICRO● CONNECT 滴灌通

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Do Well ● Do Good ●