

# THE MICRO CONNECT WHITE PAPER

Delivering Capital to the Small Business Universe  
with Precision, Efficiency and Transparency





## **THE MICRO CONNECT STORY:**

Thousands of Sparkling Micro Stars  
Connecting Capital, Connecting Businesses,  
Connecting People and Igniting Big Dreams

Each Micro Star Consists of the Same Five Essential Elements:  
One Contract, Two ARMs and Two MAPs

### **Executive Summary**

At Micro Connect, we have a dream — to build a new financial market that will, for the first time, give China’s micro and small businesses access to adequate and sustainable financing, while allowing global investors to enjoy quality returns by tapping into the daily, transparent cash flows from millions of stores in China’s vibrant consumer economy. It will be a new market that delivers financial returns to investors and creates value for society.

The digital revolutions that have fundamentally disrupted many aspects of our economic and social life since the turn of the century will transform our financial markets in similar ways. Taking inspiration from the successes of the world’s leading e-commerce and social media platforms, we are creating a new investment paradigm that will make our financial markets more equitable, more inclusive, and more socially impactful.



## THE MICRO CONNECT BLUEPRINT

Micro Connect strives to empower micro and small businesses in the Digital Age. The Chinese name of Micro Connect (滴灌通) takes inspiration from the agricultural technique of “drip irrigation” and encapsulates the idea behind our new investment model. The use of drip irrigation has allowed farmers to selectively and precisely channel water to individual crops that need it the most. We apply the same philosophy when investing in micro and small businesses, identifying quality opportunities that are in need of capital, and supporting them with our innovative revenue sharing product. We envision a world where quality micro and small businesses can easily access the capital that they deserve in order to become the largest growth engines and job creators in the global economy. To turn this into reality, it is Micro Connect’s mission to connect micro and small businesses with the global capital markets in the Digital Age. We have set two specific and tangible goals for the next decade:

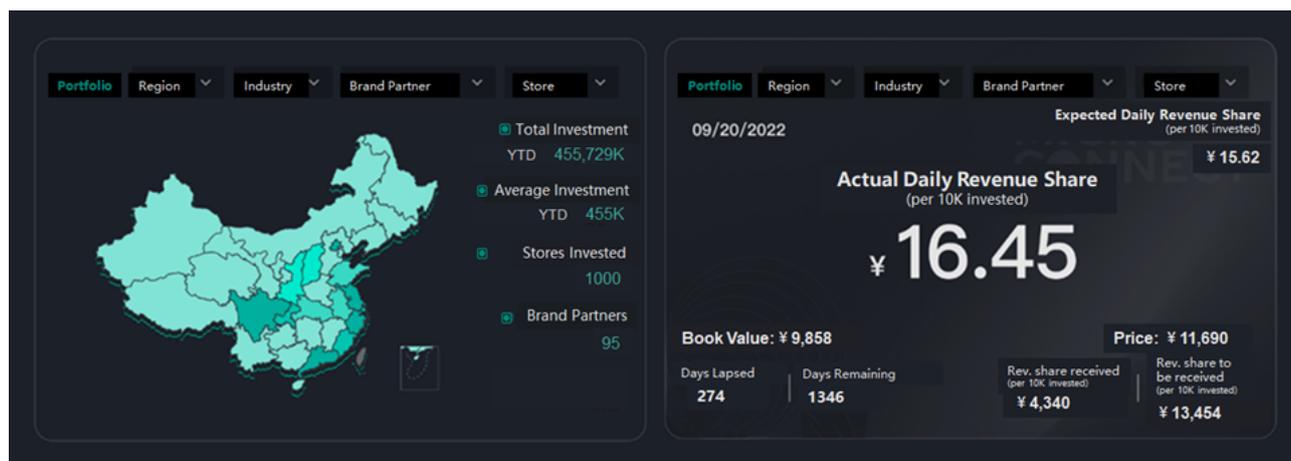
- 1. To enable 1 million micro and small businesses to achieve an annual profit of more than RMB 1 million.**
- 2. To support 10 million quality, socially inclusive, and environmentally friendly job opportunities.**

Micro Connect was founded in 2021, a year when disruptions became business as usual and accelerated digital transformation around the world. China is the world’s largest, most vibrant, and most digitized consumer economy, with more than 70 million stores representing an almost inexhaustible source of opportunities for Micro Connect. In less than a year, Micro Connect has invested in over 1,000 stores in more than 100 cities across 30 provinces and municipalities in China. These investments span across the food and beverage, retail, services, and culture and sports sectors and provide the most direct access to the robust consumer spending by the Chinese population.

Micro Connect focuses on small investments that are large in numbers and highly diversified and transparent (see Figure 1). Our investment process is driven by large volumes of real-time granular data to ensure quality of our investments. Even during the worst economic disruptions in China brought about by Covid-19, we managed to deliver positive returns with limited cash flow volatility. We have also demonstrated our ability to “do well” and “do good” at the same time, gaining recognition among many small businesses as friendly capital in times of need.

With our effort to standardize and modularize the investment process, we have now been able to invest in more than 200 stores every month. Our deployment capacity will reach 500 stores per month by the end of 2022, and 1,000 stores in 2023, and we expect ourselves to become one of the world’s largest store backers in the near future.

Figure 1: The Micro Connect Data Dashboard (for illustrative purposes)





## THE MICRO CONNECT OPERATING SYSTEM

A new blueprint calls for a new approach and a new system. The operating model of today's global capital markets has remained fundamentally unchanged over the past century. Industry regulators and market participants have sought to address information asymmetry by organizing the financial ecosystem around, and channeling capital through, central market operators and large financial institutions. This model has an unintended effect of the economy being highly geared towards large corporates. To instill trust and confidence among the investing public, the "Wall Street model" (i) offers standardized equity and debt products to facilitate transactions in scale, (ii) administers a disclosure regime for information and price discovery, and (iii) operates a trading, clearing, and settlement mechanism for transaction execution and delivery. However, this "trinity of centralized trust" does not function as effectively when it comes to investing in small businesses.

**1. Unsuitable products.** Traditional products including both debt and equity are not able to meet the unique needs of micro and small businesses. Lending to micro and small businesses represents a mismatch of risk (for the extreme vulnerability of the borrowers) and reward (for the capped upside). At the same time, equity investments in small businesses could hardly be justified given the typically shorter life cycles of these businesses and the lack of exit channels. In both instances, it is difficult to enforce shareholder and creditor rights, making a broad-based rollout of such traditional financing products among micro and small businesses economically and practicably unfeasible.

**2. Costly information and price discovery.** The traditional information vetting process, which requires extensive disclosure preparation organized by professional intermediaries and strict compliance with regulatory requirements, is prohibitively expensive and complex for micro and small businesses.

**3. Institutional market operations.** The centralized nature of traditional trading, clearing,

and settlement processes performed by exchanges and clearing houses are economically unattainable for micro and small businesses.

The “Wall Street model” puts the burden on businesses seeking capital to come to the market and demonstrate their “investability”. The product design, price discovery, and transaction structuring processes typically involve extensive participation from professional intermediaries, in order for the businesses to complete the fundraising exercise. Only corporates with scale and resources can afford such journey to the market, and this is precisely the reason there has not been a viable channel for micro and small businesses to raise capital in a systematic way. However, with the broad-based digitization of China’s consumer economy and the advances in blockchain technology, Micro Connect now has the tools necessary to make its “mission impossible” finally possible.

The birth of equity, the corporate form of doing business, and the stock market underpins economic activities of the modern days, by creating liquidity to large enterprises to undertake productive projects and reducing risks through diversification. They provide an “aggregation” solution by pooling capital from a large number of investors. However, equity as a financing instrument does not function as effectively for micro and small businesses, as the universe is characterized by extreme fragmentations with large numbers of granular economic units distributed across geographies. At Micro Connect, we are on a mission to achieve high degrees of distribution – we have developed a simpler and more flexible new product, supported by a comprehensive ecosystem. We call it the Micro Star.

Figure 2: The Micro Star



The Micro Star is a new operating system based on which Micro Connect develops a new financial market for micro and small businesses. Within the Micro Star system, we have developed **a new product (Daily Revenue Contracts)** with support from **two ARMs (Repayment ARM and Rights ARM)** and **two MAPs (Production MAP and Projections MAP)**, in order to perform functions that are specifically designed for the underserved universe of micro and small businesses. Unlike traditional marketplaces where corporates would come to an exchange and apply for a listing of their equity or debt securities, the Micro Star proactively identifies investment opportunities and channels global capital to these quality micro and small businesses. With proprietary tools designed for process automation and investment evaluation, the Micro Star enables capital deployment with efficiency, scalability, and precision, thereby empowering micro and small businesses and their workforce and generating quality returns for investors.

## **A New Product**

**Daily Revenue Contracts (DRCs)** are the standardized product on the Micro Star system. DRCs are neither debt nor equity, and represent contractual entitlements to an agreed percentage of daily revenue share for an agreed time period from an invested store. As a new asset class that is easy to understand, transparent in design, and cost effective to issue, DRCs are designed for broad-based deployment among a very large number of micro and small businesses.

DRCs have become increasingly popular as a financing product among micro and small businesses because (i) as a non-debt instrument, the investment targets do not bear repayment obligations; and (ii) as the sharing of upside with investors is limited to an agreed time period or an agreed portion of revenue, DRCs are akin to permanent capital but without permanent equity dilution.

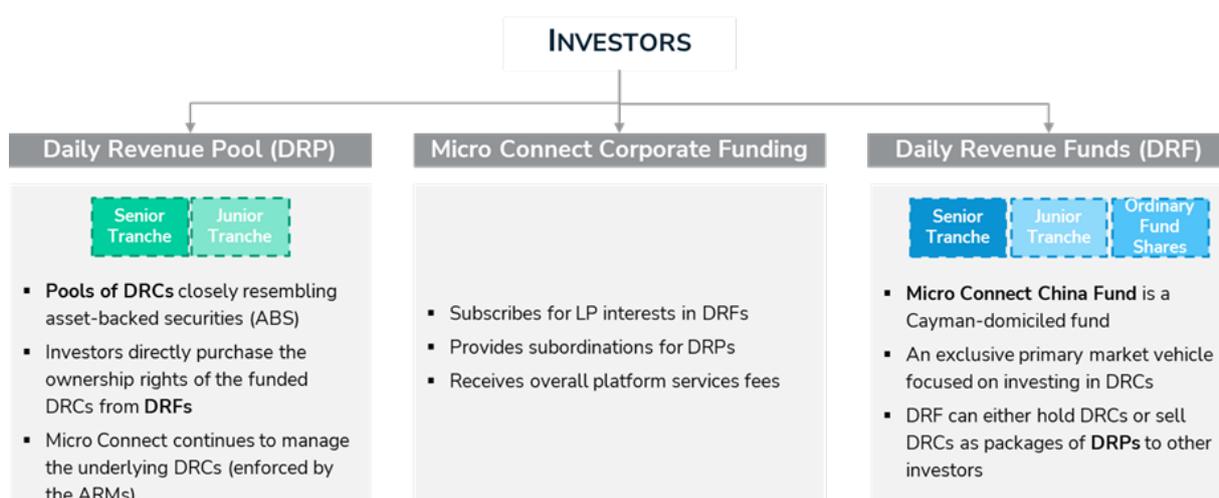
More investors are adopting DRCs as an investment tool because (i) compared to traditional debt instruments, they enjoy uncapped, equity-like returns for taking the downside exposure; and (ii) while there is no perpetual upside participation, investors benefit from an enhanced level of risk control as they enjoy “gradual exit from day one” through daily revenue sharing, and the “real-time” cash flow transparency supports

better price discovery.

The development of equity and the corporate form has given rise to the emergence of very large and powerful companies around the world by allowing them to pool large sums of capital from investors. We believe the invention of DRCs will result in a much more vibrant grassroots economy by delivering capital and liquidity to a very large number of micro and small businesses.

Unlike conventional asset classes, individual DRCs are small in amounts and large in quantities. Investors would typically purchase a portfolio of DRCs when they invest. At the current stage, all DRCs are originated by Micro Connect China Fund, which makes direct investments in stores through its WFOE (wholly foreign-owned enterprise) structure in Mainland China. The structure is typical of open-end funds seen in international markets, except it focuses on DRC investments. We call this new class of funds Daily Revenue Funds (DRFs). DRFs can invest and hold DRCs, and they can dispose of bundles of DRCs to investors who are interested in directly owning these cash flows. We call any of these DRC bundles a Daily Revenue Pool (DRP). Investors will have two channels to participate in Micro Connect’s new financial market. They can purchase shares in Micro Connect China Fund and any other DRFs we create in the future, or they can purchase DRPs from our DRFs. By creating the flexibility to slice and dice cash flows in any ways, both DRFs and DRPs enable investors to construct portfolios that meet their specific risk-return requirements.

Figure 3: Ways for Investors to Participate in the New Micro Connect Markets



## Two ARMs

The rights of DRC holders are strictly enforced through the **Automated Repayment Mechanism (Repayment ARM)**, a digital infrastructure that supports the automatic capturing of revenue data and splitting of cash flows from invested stores. Micro Connect operates the Repayment ARM in partnership with the nation's leading banks and payment solutions providers, consumer retail brands and franchises, commercial real estate landlords, and SaaS companies. By connecting the Repayment ARM with these partners and our invested stores in the networks, Micro Connect automatically receives revenue data and revenue share from every invested store on a daily basis. The Repayment ARM establishes a secure link between a newly originated DRC with the store's daily cash flows.

After we capture revenue share from the stores using the Repayment ARM, we facilitate the precise authentication of investors' entitlements to the DRCs with the **Authenticated Rights Market (Rights ARM)**. The Rights ARM refers to core system of **Micro Connect Markets (MCM)**, which is a blockchain-enabled and distributed trading, clearing, and settlement platform designed to achieve two principal objectives. First, the market infrastructure assigns a unique "code" to every single yuan of invested capital flowing through the Micro Star system, thereby enabling the complete look-through of ownership and establishing full traceability and irreversibility of the forensic trails. Second, the platform allows investors to construct and trade bespoke investment portfolios by selecting cash flows from any given individual stores and from any given periods of time. Offering high levels of transparency, efficiency, and granularity, the platform pioneers a new way for global investors to access the cash flows of micro and small businesses. The Rights ARM enables the granular authentication of investors' rights to every unit of asset.

## Two MAPs

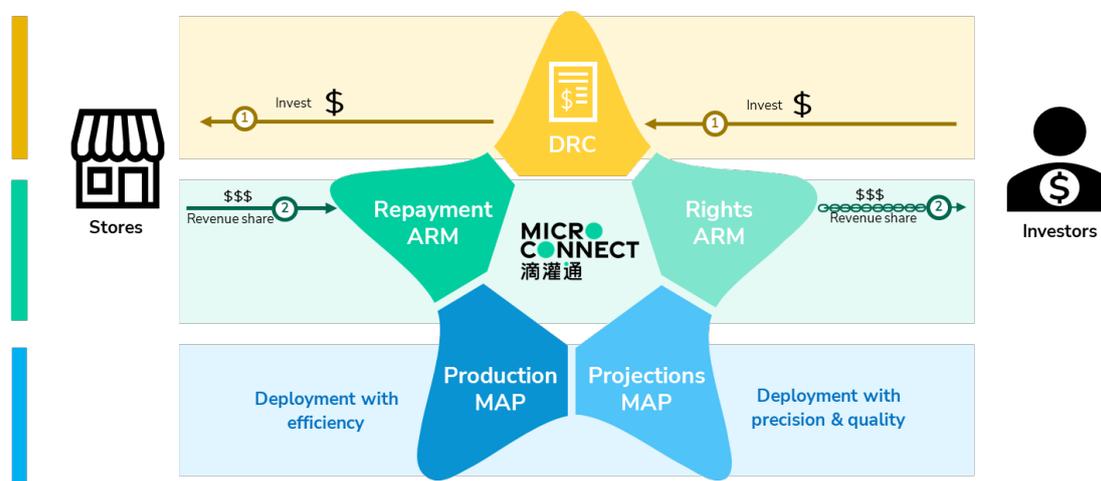
To support our ambitious DRC deployment effort, Micro Connect has developed two MAPs that help us navigate the investment process to achieve both scale and precision – a MAP that allows us to review and execute a large number of investments, and a MAP that helps us analyze and identify the best opportunities.

**Modularized Automated Production (Production MAP).** The Production MAP is Micro Connect’s operational and workflow management system that facilitates the efficient deployment of capital. From fundraising, product development, legal, and finance to operations, risk management, and investment, we have organized the entire workflow into more than 100 modules, and have designed relevant tools to streamline or automate each of the processes. We continue to review and refine our Production MAP, which is critical to our goal of deploying with both speed and scale.

**Market Actuarial Projections (Projections MAP).** The Projections MAP is Micro Connect’s location-based data analytics and revenue forecasting system that guides our search for quality opportunities. Combining machine learning algorithms with Micro Connect’s real-time revenue data from invested stores across industries, regions, and brands, the Projections MAP allows us to make more accurate store-level revenue projections and ensures that capital is deployed with precision and intelligence.

In contrast with the “trinity of centralized trust” in today’s financial markets, Micro Connect operates a new market for DRCs with a Micro Star of distributed transparency. As a simple and flexible product, DRCs are reinforced by the collection of daily returns via the Repayment ARM, transacted with the Rights ARM, and originated and deployed with scale and precision using the Production MAP and Projections MAP. Together, these key components of the Micro Star underpin a new financial market for micro and small businesses, offering precise information and price discovery and secure execution and delivery in one place.

Figure 4: The Micro Star Ecosystem



Only a new financial system supported by the Micro Star could address the unique pain points faced by micro and small businesses seeking financing, and better connect global capital with the underserved segments of the real economy.

Figure 5: Traditional Financial Markets vs. Micro Connect’s New Market

	<b>Traditional Financial Markets (Trinity of Trust)</b>	<b>Micro Connect’s New Market (Micro Star of Distributed Transparency)</b>
<b>Products</b>	Equity, debt, etc.	DRCs
<b>Information and Price Discovery</b>	Disclosure by issuers Information vetting by professionals Research by intermediaries	Production MAP Projections MAP
<b>Execution and Delivery</b>	Central market operators Financial regulators Statutory organizations	Repayment ARM Rights ARM



## THE MICRO CONNECT ROADMAP

With tens of millions of micro and small businesses spread across the country, we will accelerate the current pace of growth in our DRC deployment effort. Micro Connect's plan is to invest in millions of stores in the next five to ten years. With the two MAPs that we have developed, we are focused on standardizing, modularizing, digitizing, and automating the entire investment process. We observe strict discipline and “follow the vines” in our investment processes, always “following the winners” to ensure quality and broaden our reach, “following our Repayment ARM network” to secure our returns, and “following the data” to acquire intelligence. We only invest in (i) stores that are part of a successful brand or franchise network, (ii) stores over which we could have strong system control (Repayment ARM), and (iii) stores from which we could access timely, accurate data, as ways to uphold both quality and quantity in our investments. We adopt a three-pronged approach in our “following the winners” strategy:

First, we follow the “chain leaders”, partnering with consumer retail brands and franchises with demonstrated track record and making investments in stores within their networks.

Second, we collaborate with “platform leaders” including commercial real estate investors, SaaS companies, and local governments, combining our unique investment expertise with their respective edges to invest in quality stores within these partners' networks.

Last but not least, we enable the creation of “ecosystem leaders”, using capital as the link and leveraging data as our guide to develop new alliances with stakeholders along the micro business value chain, including brands, chain stores, SaaS companies, real estate companies, local governments, suppliers, store owners, and consumers. Such platforms will foster closer collaboration and mutual contribution of resources, ultimately resulting in a more efficient and more equitable ecosystem.

The launch of the Micro Star has been made possible by the broad-based digitization

of China's consumer economy and the advances in blockchain technology. With the completion of our first 1,000 investments, we stand ready to march towards our next milestones of 10,000, 100,000, and 1 million stores. Looking ahead, we envision three development stages for Micro Connect.

**Micro Connect 1.0 – strengthen our DRC deployment capability.** While we have demonstrated our ability to deploy capital in scale, we are continuing to (i) optimize our Repayment ARM, including further collaboration with the nation's leading banks and payment companies to broaden the nationwide coverage of our automatic payment splitting solutions; (ii) refine our Production MAP; and (iii) augment the precision of our Projections MAP. At this stage, Micro Connect operates as a direct investor and holder of DRCs using both Micro Connect's proprietary capital and funding from investors in the Micro Connect China Fund. Micro Connect generates income in the form of returns from its invested DRCs;

**Micro Connect 2.0 – incorporate blockchain technology into the Micro Star, increase product transparency, and broaden investor network.** The primary objective of this stage is to enable full traceability of every yuan deployed and flowing through the Micro Star system, and develop a highly transparent information and price discovery mechanism. The traceability and transparency will allow investors to flexibly construct any portfolios they desire by cherry picking any DRCs based on their investment mandate and risk profile. At this stage, Micro Connect operates as an originator and reseller of DRCs. The sale of DRCs at premia will enable Micro Connect to recycle capital to further grow the investable DRC universe, at the same time generating leveraged returns for shareholders and fund investors.

**Micro Connect 3.0 – Micro Connect Markets (MCM).** As our Rights ARM continues to evolve, our new market platform will allow global investors to more easily access DRC investments, and allow quality micro and small businesses to more easily raise capital. At this stage, Micro Connect will also serve as a market operator and, in addition to investment returns and management fees, generate income from trading and related post-trade / peripheral services.

**Beyond Micro Connect 3.0.** We are most excited about extending the reach of the Micro Star to break the barriers between traditional financing capital and consumer capital in the future. For micro and small businesses, consumer spending is their first and foremost source of financing, but they lack the tools to manage cash flow fluctuations caused by seasonality and other cyclical factors. With Micro Connect's analytics model and recommendation algorithms, the Micro Star will support micro and small businesses in smoothing out their cash flows by developing bespoke consumer incentive programs and leveraging investors' capital to finance such programs. Investors will then be able to support businesses during off seasons and reap the rewards in peak seasons. The Micro Star is creating new investment opportunities that are granular, in large quantities, and highly diversified, bringing an untapped market to global investors.

As we continue to build out the Micro Star system, we will serve as the connector between global investors and micro and small businesses, providing end-to-end solutions to all stakeholders along the capital formation process. We organize our services into four modules:

**Module 1 – Investment Services.** We are an investor and originator of DRCs, identifying opportunities and investing in micro and small businesses in large scale, and managing the DRC portfolios post-investment.

**Module 2 – Collection Services.** We manage the accurate capturing data and secure execution of cash flow transfers throughout the life cycle of every DRC, and will continue to strengthen our Repayment ARM and expand our partnership network.

**Module 3 – Data Services.** Using the navigation capabilities of our two MAPs, we offer industry analyses, store opening advisory services, revenue forecasting tools, and pricing algorithms to business owners, investors, and other stakeholders along the value chain.

**Module 4 – Trading Services.** We offer registration, custody, trading, clearing, settlement, and other services for DRC portfolios and related products. MCM will become the go-to platform for asset and wealth managers to choose from a wide selection of products and curate quality portfolios.

Together, the four modules establish a full suite of services that will not only benefit Micro Connect, but also the investing public and the broader community, forming the bedrock of a sustainable business model.

The ultimate goal of Micro Connect is, by making better use of global capital and existing digital infrastructure, to promote more equitable allocation of resources in the society, to create better access to funding for micro and small businesses, and to better support entrepreneurial activities, thereby enabling investors to both “do good” and “do well” at the same time. Should we succeed beyond Micro Connect 3.0, we will truly be on the journey to transform “shareholder capitalism” into “stakeholder capitalism”, allowing financial markets to reach new heights that have never been possible before.



## WHY THIS WHITE PAPER?

The technological revolutions brought about by the world's leading digital platforms over the past two decades have recast the global economy entirely, and we believe the time has come for a similarly profound transformation in the global financial markets. In contrast with e-commerce which involves the exchange of merchandise for money, the financial markets are for the exchange of today's money for tomorrow's money, and the pricing of risks of any financial assets. Therefore, we expect the digital revolution in finance to be much more complex, requiring more critical and systematic thinking, planning, and implementation.

By publishing this White Paper, we intend to begin this intellectual process of thinking, planning, and implementation. In this first edition, we attempt to share our strategic vision for the future of finance, define our mission, and explore our directions. We are excited about engaging like-minded friends to embark on this great journey and seek the change. Together, we hope to pioneer a new horizon for the global financial markets.

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A close-up photograph of a blue watering can pouring water onto a small green seedling in dark soil. The water is captured in mid-air, forming a series of droplets that fall onto the soil. The seedling has two small green leaves and a thin stem. The background is blurred, showing other plants and soil.

CHAPTER 1

**THE  
MICRO CONNECT  
BLUEPRINT**

# CHAPTER 1

## THE MICRO CONNECT BLUEPRINT

At Micro Connect, we have a dream — to build a new financial market that will, for the first time, give China’s micro and small businesses access to adequate and sustainable financing, while allowing global investors to enjoy quality returns by tapping into the daily, transparent cash flows from millions of stores in China’s vibrant consumer economy. It will be a new market that delivers financial returns to investors and creates value for society.

The digital revolutions that have fundamentally disrupted many aspects of our economic and social life since the turn of the century will transform our financial markets in similar ways. Taking inspiration from the successes of the world’s leading e-commerce and social media platforms, we are creating a new investment paradigm that will make our financial markets more equitable, more inclusive, and more socially impactful.

This chapter is dedicated to describing Micro Connect’s vision, mission, and value proposition. We will then discuss how the existing model of traditional finance is not the most suitable for micro and small businesses, and how Micro Connect can leverage digital innovation to better serve them.

### Section 1 – Vision and Mission

The Industrial Age and the early days of globalization gave rise to the emergence of many multinational corporations and large enterprises. They have been performing the function of allocating resources and organizing productions, and the global capital markets have been constantly evolving in order to meet their changing needs. As we have entered the Digital Age with the rise of large digital platforms over the past two decades, micro and small businesses as a group have become more interconnected, and more influential in the global supply chain and among global consumers.

As the world undergoes another wave of digital transformations, micro and small businesses will continue to play an increasingly important role in the world, serving as

one of the major contributors of value creation, job opportunities, and tax revenue for the global economy. At Micro Connect, we hope to leverage digitization to empower micro and small businesses, not only to support their owners and employees, but also deliver economic and social impact to the world.

The Chinese name of Micro Connect (滴灌通) takes inspiration from the agricultural technique of “drip irrigation” and encapsulates the idea behind our new investment model. The use of drip irrigation has allowed farmers to selectively and precisely channel water to individual crops that need it the most. With the adoption of drip irrigation technology, countries that lack water resources have managed to become agricultural powerhouses. We apply the same philosophy when investing in micro and small businesses, identifying quality opportunities that are in need of capital, and supporting them with our innovative revenue sharing contracts.

Micro Connect supports the healthy growth of micro and small businesses by providing long-term capital to aspiring store owners and entrepreneurs. When deployed with scale and in a systematic manner, our investments would result in a new financial market that is more socially inclusive and sustainable. As Micro Connect continues to grow, we are poised to become the world’s leading platform for the incubation of and investment in micro and small businesses, enriching them with business intelligence, talent, and customer resources.

We envision a world where quality micro and small businesses can easily access the capital that they deserve in order to become the largest growth engines and job creators in the global economy. To turn this into reality, it is Micro Connect’s mission to connect micro and small businesses with the global capital markets in the Digital Age.

Micro Connect was founded in 2021, a year when disruptions became business as usual and accelerated digital transformation around the world. We have set two specific and tangible goals for the next decade:

- 1. To enable 1 million micro and small businesses to achieve an annual profit of more than RMB 1 million.**

## **2. To support 10 million quality, socially inclusive, and environmentally friendly job opportunities.**

Our vision and mission are predicated on our long-term world view – a fully digitized global economy, and with that we create the following value propositions – we “do well” by generating attractive risk-adjusted returns, we “do good” by delivering positive social impact, and we achieve such goals with the use of technology.

### **Section 2 – Mismatch Between Traditional Finance and Micro and Small businesses**

The world of finance has always been centered on the exchange of information and financial rewards, with capital chasing attractive returns, and attractive companies / investment projects seeking funding. This calls for a role for the global capital markets to play, to act as a connector between global investors and investment opportunities.

The operating model of today’s global capital markets has remained fundamentally unchanged over the past century. Industry regulators and market participants have sought to address information asymmetry by organizing the financial ecosystem around, and channeling capital through, central market operators and large financial institutions. The model has an unintended effect of the economy being highly geared towards large corporates. To instill trust and confidence among the investing public, the “Wall Street model” (i) offers standardized equity and debt products to facilitate transactions in scale, (ii) administers a disclosure regime for information and price discovery, and (iii) operates a trading, clearing, and settlement mechanism for transaction execution and delivery – we call this the “trinity of trust”. Therefore, in today’s world, our understanding of investments and risks in the financial markets are largely based on the logic of large corporates developing trusts and pooling capital in a centralized marketplace. However, this “trinity of centralized trust” does not function as effectively when it comes to investing in small businesses.

**Unsuitable products.** Traditional products including both debt and equity are not able to meet the unique needs of micro and small businesses. Lending to micro and small businesses represents a mismatch of risk (for the extreme vulnerability of the borrowers) and reward

(for the capped upside). At the same time, equity investments in small businesses could hardly be justified given the typically shorter life cycles of these businesses and the lack of exit channels. In both instances, it is difficult to enforce shareholder and creditor rights, making a broad-based rollout of such traditional financing products among micro and small businesses economically and practicably unfeasible.

**Costly information and price discovery.** The traditional information vetting process, which requires extensive disclosure preparation organized by professional intermediaries and strict compliance with regulatory requirements, is prohibitively expensive and complex for micro and small businesses.

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Traditional finance is prohibitively expensive. The “Wall Street model” puts the burden on businesses seeking capital to come to the market and demonstrate their “investability”. The product design, price discovery, and transaction structuring processes typically involve extensive participation from professional intermediaries, in order for the businesses to complete the fundraising exercise. Only corporates with scale and resources can afford such journey to Wall Street. There are fewer than 100,000 publicly listed companies in the world, and traditional financial markets have no place for micro and small businesses to raise capital. While it is a common perception that micro and small businesses are very risky, that is only true if we view them through the lens of traditional finance. There simply has not been a way to organize a system that provides the appropriate products, information and price discovery methods, and transaction execution mechanism that cater to the unique circumstances of these businesses. However, with the broad-based digitization of China’s consumer economy and the advances in blockchain technology, Micro Connect now has the tools necessary to make its “mission impossible” finally possible.

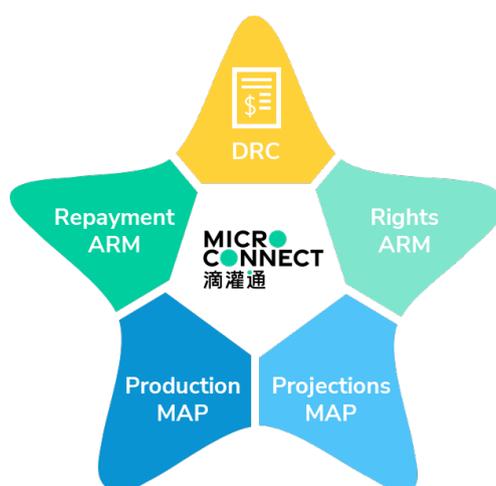
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Figure 1: The Micro Star



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**Two ARMs.** In order to securely capture the cash flows from stores and deliver the returns to investors, Micro Connect has developed two ARMs:

**The Repayment ARM.** The rights of DRC holders are strictly enforced through the **Automated Repayment Mechanism (Repayment ARM)**, a digital infrastructure that supports the automatic capturing of revenue data and splitting of cash flows from invested stores. Micro Connect operates the Repayment ARM in partnership with the nation's leading banks and payment solutions providers, consumer retail brands and franchises, commercial real estate landlords, and SaaS companies. By connecting the Repayment ARM with these partners and our invested stores in the networks, Micro Connect automatically receives revenue data and revenue share from every invested store on a daily basis. The Repayment ARM establishes a secure link between a newly originated DRC with the store's daily cash flows.

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**Two MAPs.** To support our ambitious DRC deployment effort, Micro Connect has developed two MAPs that help us navigate the investment process to achieve both scale and precision – a MAP that allows us to review and execute a large number of investments, and a MAP that helps us analyze and identify the best opportunities.

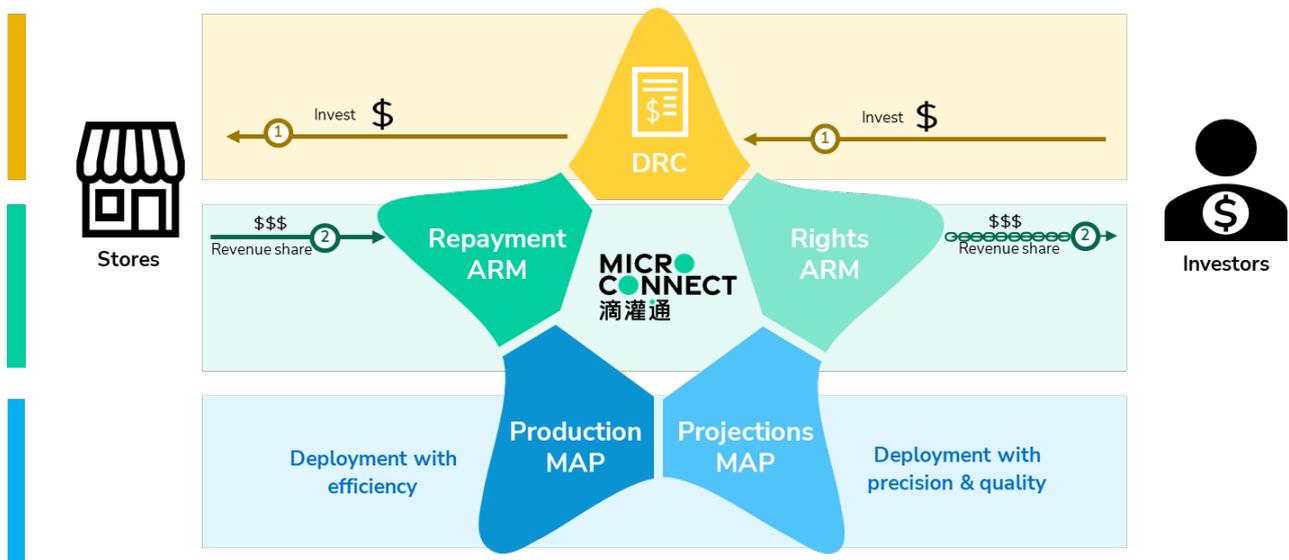
**Modularized Automated Production (Production MAP).** The Production MAP is Micro Connect's operational and workflow management system that facilitates the efficient deployment of capital. From fundraising, product development, legal, and finance to operations, risk management, and investment, we have organized the entire workflow into more than 100 modules, and have designed relevant tools to streamline or automate each of the processes. We continue to review and refine our Production MAP, which is critical to our goal of deploying with both speed and scale.

**Market Actuarial Projections (Projections MAP).** The Projections MAP is Micro Connect's location-based data analytics and revenue forecasting system that guides our search for quality opportunities. Combining machine learning algorithms with Micro Connect's real-time revenue data from invested stores across industries, regions, and brands, the Projections MAP allows us to make more accurate store-level revenue projections and

ensures that capital is deployed with precision and intelligence.

In contrast with the “trinity of centralized trust” in today’s financial markets, Micro Connect operates a new market for DRCs with the Micro Star of distributed transparency. As a simple and flexible product, DRCs are reinforced by the collection of daily returns via the Repayment ARM, transacted with the Rights ARM, and originated and deployed with scale and precision using the Production MAP and Projections MAP. Together, the key components of the Micro Star underpin a new financial market for micro and small businesses, offering precise information and price discovery and secure execution and delivery in one place.

Figure 2: The Micro Star Ecosystem



Only a new financial system supported by the Micro Star could address the unique pain points faced by micro and small businesses seeking financing, and better connect global capital with the underserved segments of the real economy. We will deep dive into the Micro Star in the subsequent chapters.

Figure 3: Traditional Financial Markets vs. Micro Connect’s New Market

	<b>Traditional Financial Markets (Trinity of Trust)</b>	<b>Micro Connect’s New Market (Micro Star of Distributed Transparency)</b>
<b>Products</b>	Equity, debt, etc.	DRCs
<b>Information and Price Discovery</b>	Disclosure by issuers Information vetting by professionals Research by intermediaries	Production MAP Projections MAP
<b>Execution and Delivery</b>	Central market operators Financial regulators Statutory organizations	Repayment ARM Rights ARM

#### **Section 4 – Addressable Market and Policy Landscape**

The Micro Connect investment model begins with brick-and-mortar stores in China’s consumer economy, specifically in the food and beverage, retail, services, and culture and sports sectors. With an estimated 70 million stores as of 2022 and less than 20% of them being part of a chain or franchise, there are well over 10 million chain stores – this is Micro Connect’s addressable market in its early days of development. As the nation becomes increasingly digitized, we expect the “chain rate” will continue to increase, providing us with an even larger investment market to tap into.

As we accumulate more data and continue to upgrade the Micro Star, we will acquire enough experience and intelligence to cover non-chain stores. The number of investable stores in the universe will also increase as the Chinese economy continues to grow. We also plan to export the Micro Connect investment model globally as consumer economies around the world become more digitized.

Micro Connect’s revenue sharing arrangements represent investments in stores rather

than loans. DRCs do not impose repayment obligations on the invested stores and their owners, and Micro Connect as investor bears the risks shall the stores underperform against expectations. In Mainland China, the legal status of our business relationships (聯合經營關係) with micro and small businesses is clearly defined under the Civil Code, and our capital represents foreign direct investments in the real economy. The use of global capital to fund investments in China's micro and small businesses will support job creation and economic prosperity without creating additional systemic risk to the broader financial system.

SHOP

CHAPTER 2

# The PRODUCT: DAILY REVENUE CONTRACTS (DRCs)



## CHAPTER 2

# The PRODUCT: DAILY REVENUE CONTRACTS (DRCs)

Daily revenue contracts (DRCs) are the flagship investment and financing product of Micro Connect. A DRC is the most basic economic unit in Micro Connect's investment model, representing an investor's investment in exchange for a digital contractual entitlement to an agreed percentage of daily revenue share for an agreed time period from an invested store.

A DRC is a standardized commercial contract. The key terms of DRCs include the investment amount, the revenue sharing period, and the revenue sharing percentage. The investment amount is determined based on the portfolio construction preferences of the investor and the capital needs of the store. The revenue sharing period is negotiated with reference to the estimated payback period and survival period of the store. The revenue sharing percentage is negotiated and determined with reference to a number of factors, including the investor's percentage contribution to the store investment, the store's profit margin, the sharing period, etc. Typically, a higher contribution to the store's capex by an investor or a higher profit margin of a store would result in a higher daily revenue sharing percentage, and vice versa. DRCs also have a step-down feature, with the investor's revenue sharing percentage falling as he / she recoups the initial investment, as a way to support the micro and small businesses and incentivize the store owners.

The simplicity, flexibility and scalability of DRCs make them ideal instruments for investing in micro and small business. Akin to cells of an organism, micro and small businesses represent the many, very small yet some of the most vital building blocks of our economy. They are one of the most dynamic and resilient segments of the economy, with diversified presence in almost in every industry and a strong ability to stay relevant by constantly reinventing themselves. The very different characteristics of micro and small businesses call for a new class of investment and financing products, which should come with simpler design and more flexible structure, and can be rolled out in large quantities at low cost, but without any compromise on execution and enforcement.

DRC is a non-debt, non-equity instrument. Most micro and small businesses have no

access to traditional equity and debt financing, and for many of them, such traditional financing may not be the most appropriate funding sources. Owners of many micro and small businesses often obtain funding from friends and relatives, who are willing to support the opening of a store with typically short payback and survival periods (e.g., payback in one year, and closure after three years of operations). These businesses are akin to perennial flowers and plants, which come in all shapes, sizes, and colors. They germinate, grow, wither away all in one growing season, but they come back every year. While they will never become the “giant trees” who are already well served by the capital markets, there are plenty of opportunities to be captured if we use DRCs to address their shorter life cycles, allowing store owners to obtain capital in exchange for a portion of the store’s future cash flows and delivering returns on a daily basis.

DRCs have become increasingly popular as a financing product among micro and small businesses because (i) as a non-debt instrument, the investment targets do not bear repayment obligations; and (ii) as the sharing of upside with investors is limited to an agreed time period or an agreed portion of revenue, DRCs are akin to permanent capital but without permanent equity dilution.

More investors are adopting DRCs as an investment tool because (i) compared to traditional debt instruments, they enjoy uncapped, equity-like returns for taking the downside exposure; and (ii) while there is no perpetual upside participation, investors benefit from an enhanced level of risk control as they enjoy “gradual exit from day one” through daily revenue sharing, and the “real-time” cash flow transparency supports better price discovery.

The development of equity and the corporate form has given rise to the emergence of very large and powerful companies around the world by allowing them to pool large sums of capital from investors. We believe the invention of DRCs will result in a much more vibrant grassroots economy by delivering capital and liquidity to a very large number of micro and small businesses.

As the creator of DRCs, Micro Connect has devised a new, standardized system to label, identify, and display the individual contracts on our platform. Each of the contracts

contains valuable insights into the operating status and social contribution of a store, and includes both historical data and future revenue forecasts.

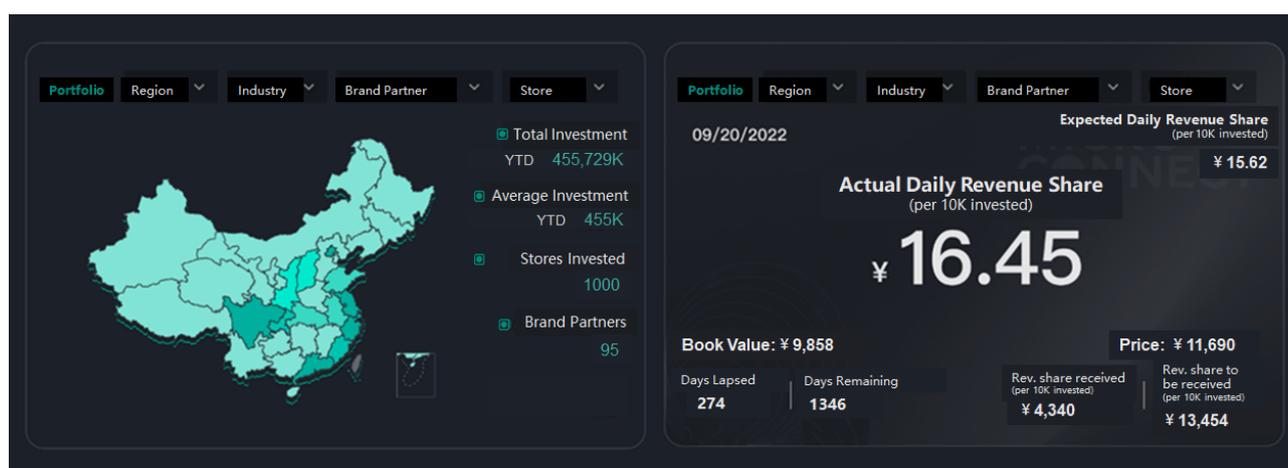
**DRC's Naming System.** DRC “tickers” typically include four fields. Any given invested store’s DRC would have an identifier with the following structure:

**MCI-BZHXXXXXX – CH100872XXX – XXXXXXX – 2022030520271231**

The first group of alphanumeric characters indicates the originator of the DRC (“MCI”), followed by the brand / franchise (“BZH”) and the invested store (“XXXXXXX”). The second group indicates the country where the investment is located (“CH”, i.e., China), followed by the location of the store (postal code and Micro Connect District code). The third group indicates the industry, sub-sector, and sub-category to which the store belongs, while the fourth group indicates the start and end dates of the contract.

**Displaying DRCs.** DRCs vary in investment amount, revenue sharing percentage, revenue sharing period, industry, location, etc. To accurately display the expansive range of DRCs on our platform, we have developed the following DRC dashboard to aggregate, organize, and highlight the most important data for display to investors.

Figure 4: The Micro Connect Data Dashboard (for illustrative purposes)



**Financial and Social Data of DRCs.** The basic financial information of DRCs include the investment amount, actual and projected revenue share, revenue sharing period, etc.

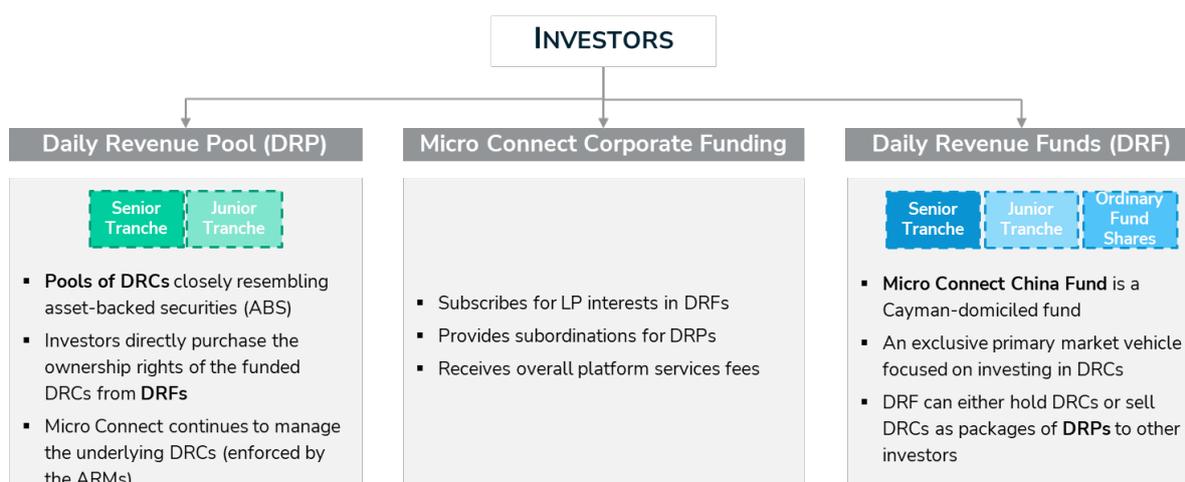
We use Micro Connect Yield (MCY) to measure the amount of daily cash flows received for every RMB 10,000 invested. The revenue sharing period refers to the number of days from the start to the end of the DRC.

In addition to the store's financial data, a DRC also records a store's social and environmental contribution, including the number of jobs created, quality of the jobs, gender and veteran composition in its workforce, and certain climate-related metrics. As our new market continues to grow to eventually cover hundreds of millions of micro and small businesses, the collection and maintenance of data in such volumes will be a massive project by itself, and will certainly prove to be of much social value. In the early stage, we will focus our effort on measuring job creation.

**Historical and Forecast Data of DRCs.** DRCs contain a plethora of valuable information, which comprises of two major categories: 1) records of historical data, and (2) forecast of future trends. First, historical data must be accurate, reliable, and immutable. The revenue data of every store are recorded on the blockchain. For forecast data, they must be comprehensible and transparent. As we take inputs from a wide range of data sources in our analytical process, there is a need to standardize the definitions of terms that we use, and convert these inputs into our standards. The recording and analysis of such information will be discussed in Chapter 4 (Section 2: The Projections MAP).

**Daily Revenue Fund (DRF) and Daily Revenue Pool (DRP).** Unlike conventional asset classes, individual DRCs are small in amounts and large in quantities. Investors would typically purchase a portfolio of DRCs when they invest. At the current stage, all DRCs are originated by Micro Connect China Fund, which makes direct investments in stores through its WFOE (wholly foreign-owned enterprise) structure in Mainland China. The structure is typical of open-end funds seen in international markets, except it focuses on DRC investments. We call this new class of funds Daily Revenue Funds (DRFs). DRFs can invest and hold DRCs, and they can dispose of bundles of DRCs to investors who are interested in directly owning these cash flows. We call any of these DRC bundles a Daily Revenue Pool (DRP). Investors will have two channels to participate in Micro Connect's new financial market. They can purchase shares in Micro Connect China Fund and any other DRFs we create in the future, or they can purchase DRPs from our DRFs.

Figure 5: Ways for Investors to Participate in the New Micro Connect Markets



**DRC Structured Products.** Whether it is DRCs, DRCPs, or DRCFs, they are all investments in underlying cash flows represented by digital contracts. By slicing and dicing these cash flows in different ways, various levels of risks and returns can be achieved to meet the varying needs of investors. In our early stage, these structured products are created primarily using traditional methods of securitization. But as blockchain technology is incorporated in our investment process, we expect to be able to securitize our cash flows in a more efficient manner.

The securitization of DRCPs, on one hand, will accelerate the recycling of capital and provide a boost to the originations of many more DRCs, thereby expanding the scale of this new asset class and creating more investable assets on MCM. On the other hand, with each tranche of cash flows sold separately and bearing a different degree of risks, securitization also opens the door to traditional fixed income investors seeking to participate in micro and small business investments with controlled risks. The emergence of securitized DRC portfolios as a new class of products offering both direct cash flow exposure and controlled risk level will bring significant benefits to the capital markets of Greater China and beyond.

CHAPTER 3

**TWO ARMS:  
INVEST WITH  
SECURITY**



## CHAPTER 3

# TWO ARMS: INVEST WITH SECURITY

### Section 1 – The Repayment ARM

Two key features of DRCs are the product's ability to accurately verify revenue data and securely capture cash flows from the invested stores. These would have been difficult to achieve before the Digital Age, but have been made possible by today's technology. We call such digital infrastructure the **Automated Repayment Mechanism (Repayment ARM)**.

Micro Connect operates the Repayment ARM in partnership with the nation's leading banks and payment solutions providers, consumer retail brands and franchises, commercial real estate landlords, and SaaS companies. By connecting our system with these partners and our invested stores in the networks, the Repayment ARM establishes an automatic, secure link between a newly originated DRC with the store's daily cash flows.

By accurately capturing the daily operating data of the invested stores, the Repayment ARM ensures the verifiability of the stores' revenue. By securely connecting our system to those of the stores and their banks, the Repayment ARM enforces the allocation of cash flows among parties to the DRCs. Thanks to the rise of electronic payments and the increasing digitization among merchants, the Repayment ARM can now effectively simplify the execution process of DRCs at the underlying asset level. Every day, the cash inflows of an invested store are aggregated in one virtual account and, in accordance with the terms of the DRCs, automatically verified and allocated between the store, the brand, and Micro Connect.

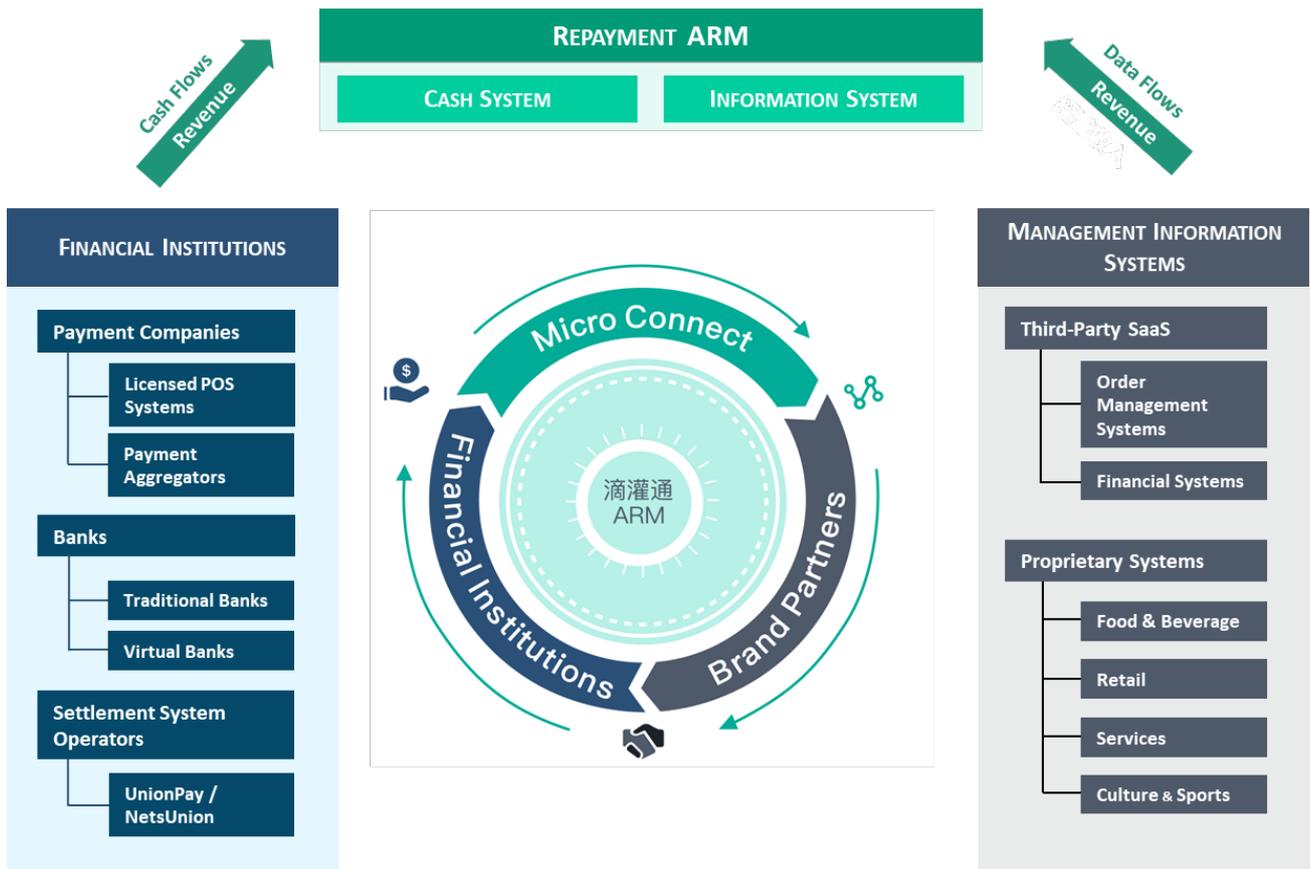
Figure 5 below illustrates the Repayment ARM mechanism, which comprises an information system and cash system. The information system at one end is connected to a wide range of external order management systems at the store level, allowing us to capture the revenue and other operating data of the stores any time. These data are then immediately synced with the cash system in real-time. In the cash system, the data will undergo a process that includes calculation, verification, splitting, and settlement. Every

piece of data would cover information at the brand and store level, and with increasing granularity down to the transaction level. The verified amount of cash flows will then flow downstream to banks and/or other financial institutions and be passed automatically to Micro Connect, completing a full cycle of accounting, settlement, cross-checking, and bookkeeping.

At the information end, the Repayment ARM has already established connectivity with tens of SaaS / order management platforms nationwide, in addition to various Micro Connect in-house solutions designed to work with the management and financial platforms in many consumer retail sectors. With experience connecting with more than 1,000 stores across over 100 brands who adopt a wide range of management systems, we are now able to establish system connection to a new store within hours. At the cash end, we have already established partnerships with the nation's leading banks and cash settlement institutions, and expect to connect our Repayment ARM with more financial institutions as we continue to grow. Micro Connect will continue to work with more strategic partners to strengthen the Repayment ARM in order to further improve the efficiency, security, transparency, and accuracy of the data and capital flows.

The Repayment ARM is the core digital infrastructure that serves as the gateway between global investors and millions of micro and small businesses, ensuring the efficient, transparent, and secure flows of data and capital between the two ends. Investors' capital will flow through the "pipes" and be precisely channeled to the best opportunities. At the same time, real-time granular data on the assets are readily available to investors, facilitating their ongoing assessment and future decision-making.

Figure 6: The Repayment ARM



## Section 2 – The Rights ARM

After we capture revenue share from the stores using the Repayment ARM, we facilitate the precise authentication of investors’ entitlements to the underlying interest of the DRCs with the **Authenticated Rights Market (Rights ARM)**. The Rights ARM refers to the core system of **Micro Connect Markets (MCM)**, which is a blockchain-enabled and distributed trading, clearing, and settlement platform.

MCM provides a transaction venue for instruments reflecting DRC interests (or related DRC portfolios, DRC funds, etc.), allowing global investors to participate in the growth of the grassroots economy. MCM will also become the go-to platform for asset and wealth managers to choose from a wide selection of products and curate quality portfolios.

**Why create MCM?** There are two basic ways to organize financial markets. The first group is exchange platforms for standardized financial products. Products traded on these

platforms must be well standardized, and trades are conducted through central matching, with major functions performed by central market operators (clearing houses, custodian banks, brokers, etc.). As retail participation are typically permitted to participate in these venues, the jurisdictions where these exchange platforms operate must have a well-established legal and regulatory regime, investor protection mechanism, and supporting market infrastructure. The second group is trading venues for non-standardized products, more commonly known as over-the-counter (OTC) markets. Trading is decentralized and market contracts are bilateral, and participants are almost exclusively institutional. These markets are less regulated and do not require as much market infrastructure support. The global financial markets have seen increasing yet unmet demand for the trading of non-standardized financial products. Prior to the start of the Digital Age, the matching and clearing of OTC trades were not the most efficient, hence there have not been many sizable venues in the world.

The DRC universe represents cash flow entitlements to hundreds of millions of micro and small businesses. Powered by digitization and pioneered by Micro Connect, DRCs consist of a very large number of highly standardized, granular investment opportunities. In order for this new asset class to be approved and traded on the world's major exchange platforms, a lot of compromises would need to be made – by either revamping the existing regulatory framework or redesigning the features of DRCs, with no viable solution in sight. An alternative would be to place the DRCs on existing over-the-counter (OTC) platforms for non-standardized products, but there is currently no such platform that has the scale to accommodate the sheer number of products in this emerging asset class.

**What is so different about MCM?** MCM is specifically built for micro and small businesses and designed for the trading of instruments reflecting interests in DRCs and related products which are large in quantities and highly standardized. With the adoption of blockchain technology, MCM does not have to rely on central market institutions such as clearing houses and custodian banks to operate the market. In its initial phase, MCM will adopt a decentralized matching model that is one-to-one and one-to-many. The market will only allow professional investors and licensed financial institutions to participate, thereby reducing the complexity of regulatory compliance. While MCM in its early days will be akin to traditional OTC platforms, it will operate at a much larger scale and with a

much greater selection of products that are more standardized. Transactions and other services will be more automated.

MCM is designed to achieve two principal objectives. First, the market infrastructure assigns a unique “code” to every single yuan of invested capital flowing through the Micro Star system, thereby enabling the complete look-through of ownership and establishing full traceability and irreversibility of the forensic trails. Second, the platform allows investors to construct and trade bespoke investment portfolios by selecting cash flows from any given individual stores and from any given periods of time. Offering high levels of transparency, efficiency, and granularity, the platform pioneers a new way for global investors to access the cash flows of micro and small businesses.

As MCM is a trading venue for a very large number of small individual DRCs, it is important that the data on every contract are accurately displayed and easily tracked. The use of blockchain technology on the MCM platform would ensure full traceability and irreversibility of every piece of record on the contracts. The full granularity down to every yuan, the enhanced level of transparency on the contracts, and the reliable authentication of contract ownership will make the trading, clearing, and settlement processes more efficient, secure, and cost effective, at the same time addressing regulatory concerns.

The complete transparency down to the most granular level allows investors to identify risks more easily and price their investments more precisely. Investing in micro and small businesses is no longer exclusive to investors with high risk tolerance, and investors with varying degrees of risk appetites have the ability to construct and customize their DRC portfolios to suit their own mandates. This would encourage participation in this market by a broader spectrum of the investing public and in turn provide more support to the grassroots economy.

Prior to the establishment of MCM, Micro Connect and investors in its Micro Connect China Fund serve as the originator and investor of DRCs, where Micro Connect makes its deployment decisions including investment amount and key terms based on historical data and its own assessment of future store performance. Once MCM commences operations, it will become a vibrant trading venue for many investors to express their views by taking

different positions, at the same time generating financial returns and social values.

We have always been excited about building an efficient trading venue for investors to access the large number of micro and small investments, thereby creating a new blue ocean of opportunities for global capital while providing the much-needed boost to China's grassroots economy.

CHAPTER 4

**TWO MAPS:  
INVEST WITH  
EFFICIENCY  
AND PRECISION**



## CHAPTER 4

### TWO MAPS:

# INVEST WITH EFFICIENCY AND PRECISION

With support of two ARMs, we have created DRCs as a new product tailor made for micro and small businesses, and also a new way for investors to tap into this space. In order to unlock the true potential of this product and reach millions of quality businesses with speed, efficiency, and precision, we need to develop tools to help us better navigate the investment process. Micro Connect has developed two MAPs – a MAP that allows us to review and execute a large number of investments (**Modularized Automated Production**, or **Production MAP**), and a MAP that helps us analyze and identify the best opportunities (**Market Actuarial Projections**, or **Projections MAP**).

#### Section 1 – The Production MAP

The “Wall Street model” puts the burden on businesses seeking capital to come to the market and demonstrate their “investability”. The product design, price discovery, and transaction structuring processes typically involve extensive participation from professional intermediaries, in order for the businesses to complete the fundraising exercise. Only corporates with scale and resources can afford such journey to the market, and this is precisely the reason there has not been a viable channel for micro and small businesses to raise capital in a systematic way. In our new financial market, we leverage proprietary tools (together known as the Production MAP) designed for process automation and investment evaluation, in order to proactively identify investment opportunities and deploy capital with efficiency, scalability, and precision.

The Production MAP is the core of Micro Connect’s business development and investment acquisition ability, covering all steps throughout the deployment process from fundraising, pre-investment assessment, investment execution, to post-investment portfolio management and securitization. We have already developed more than 100 efficiency tools and systems under the Production MAP to streamline every aspect of our operations, and expanded our partnership network to include consumer retail chains and franchises, SaaS companies, commercial real estate companies, and financial institutions.

The Production MAP is a series of interconnected and interactive systems that work together to support the growth of Micro Connect’s operations by providing speed, efficiency, and scalability. Figure 6 below shows the core functions of the Production MAP.

Figure 7: System Modules under the Production MAP

Module	Core Function
<b>Financing</b>	This module connects with institutional investors, professional investors, financial institutions and financial regulators. The module will continue to expand Micro Connect’s partnership network to broaden fundraising channels, and create easier access to DRC investments for partners and investors.
<b>Partner Management</b>	This module connects Micro Connect with the networks of its partners which include SaaS platforms, financial institutions, payment solutions providers, commercial real estate companies, consulting firms, etc. These partners serve as a vital source of quality brand / franchise partners and potential store investments for Micro Connect.
<b>Brand Partner Acquisition and Store Investment</b>	This module covers the entire investment process, allowing us to better visualize the process and track in real-time the progress of every function every step of the way. The module helps auto-generate key investment terms and draft contracts. It is also connected to the Projections MAP and assists the team in evaluating any sub-sector, brands / franchises, and stores. This is key to Micro Connect’s ability to invest with efficiency and scalability.
<b>Post-Investment Management</b>	This module connects to management systems of all partnering brands / franchises as well as the automatic account splitting systems of financial institutions such as banks and payment solutions providers. The module supports the Production MAP in automatically capturing and displaying the daily revenue data of every invested store, and splitting the cash flows into Micro Connect’s account. The module also tracks the operating performance of the invested stores in real time, and allows Micro Connect to dynamically adjust its revenue forecast on an ongoing basis.
<b>DRC Securitization</b>	This module supports the securitization process of DRCPs. It assists Micro Connect and external investors in selecting DRCs, assessing the risk profiles of the underlying cash flows, and the structuring and distribution of these portfolios.

## Section 2 – The Projections MAP

The Projections MAP is an intelligent investment evaluation system that allows Micro Connect to deploy its capital to a large number of stores efficiently without compromising

on precision and quality. The Projections MAP increases the accuracy of Micro Connect's revenue forecasts by using machine learning and leveraging a vast amount of real-time data that are cross-industries and cross-geographies. The system aims to produce revenue forecast for any stores in China, no matter which region, city, industry, or sub-sector they belong to.

We expect the focus of the Projections MAP to evolve over time as we continue to ramp up our investment effort. In the early stage, the Projections MAP focuses on stores with strong Repayment ARM. It also adopts a "follow the winners" strategy, and focuses on stores that are within the network of partners (e.g., brands and franchises) with strong operating track record. Over time, the Projections MAP will have accumulated sufficient data based on which it can make more accurate investment decisions, and expand its investable universe to cover more micro and small businesses.

**Industry Classification.** Micro and small businesses are spread across all walks of life. In order to better track the performance of the real economy, Micro Connect's portfolio should be diversified across industries to reflect the underlying business activities. Micro Connect has created a five-level classification system, consisting of industry, sub-sector, sub-category, brand, and store. Based on our classification, we have organized the consumer retail sectors into four major industries (food and beverage, retail, services, and culture and sports), within which there are 27 sub-sectors, 158 sub-categories, tens of thousands of brands, and tens of millions of stores.

With every industry, sub-sector, sub-category, and brand, we would gather data points covering the number of stores, store openings and closures, operating periods, survival periods, etc., based on which we conduct analyses and derive forecasts on revenue trends and survival periods for our existing and prospective investments.

**The Micro Connect Districts Classification System.** Apart from industry or sub-sector profile, the performance of a business is as much dependent on its location. Therefore, we have also created a district classification system called **Micro Connect Districts (MCD)**. The MCD system looks at stores through a geographical lens – it divides cities into a number of MCDs using rivers, bridges, and major roads as borders between them, and

applies a tiering system to every district based on foot traffic and consumer spending patterns. The MCD system can assist us in making more accurate store-level revenue forecasts, by observing the patterns of the MCD where the store is located, and making cross references with similarly-tiered MCDs across the country. The system will eventually be able to display granular data at three levels – any city, any particular Micro Connect District, and any store.

**DRC Revenue Forecasting System.** With proper industry and MCD classification in place, we will then be able to conduct cross-sectional analyses when evaluating our investments in the many micro and small businesses across the country. The primary metric we use when comparing performance between stores is **Micro Connect Yield (MCY)**, representing the amount of daily cash flows received for every RMB 10,000 invested. For example, a store with an MCY of RMB 13.70 indicates annual cash inflows of RMB 5,000 ( $13.7 \times 165$ ), which translates to a two-year payback for such investment.

**Sales / Investment Ratio (SIR).** As MCY is influenced by the revenue sharing percentage which is typically determined through commercial negotiations, there is certain subjectivity implied in the metric and is not the most appropriate for measuring the performance of the store itself. We have therefore created **SIR**, which measures a store's average daily revenue over the past 30 days for every RMB 10,000 invested in the store. SIR strips out the revenue sharing element of the investment and looks at the performance at the overall store level, making it a more appropriate metric to use when drawing comparisons between stores in different industries / sub-sectors / MCDs. SIR serves as a powerful metric in helping store owners make business decisions and supporting investors in their portfolio construction process.

While both MCY and SIR represent income streams generated from every RMB 10,000 invested, there are significant differences in their respective applications. First, they refer to the returns for different types of investors. MCY is a metric for DRC investors (e.g., Micro Connect), while SIR represents the return for “direct” investors of the stores (i.e., brands / franchisors, franchisees, private equity / venture capital investors, or Micro Connect). Second, MCY represents returns that are derived from the revenue sharing percentage, which in turn is determined based on the overall revenue of the store on the

outset, while SIR simply indicates the revenue performance of the store. Third, MCY is akin to return on investment (ROI), while SIR is simply a ratio between an investment and the store's revenue (price / sales ratio). For example, an investor puts in RMB 10,000 each into a supermarket and a hair salon. While the supermarket's daily revenue far exceeds that of the hair salon (i.e., a higher SIR), its lower margin would result in a lower revenue sharing percentage, and the MCY for the supermarket may not be necessarily higher. Put simply, MCY is a suitable metric for assessing the value of a DRC, while SIR is an indicator of general store performance across industries and locations.

**SIR Index (SIRI).** We string together SIR from different times in order to create a series of indexes (SIRIs) representing different industries and regions across time frames. These indexes will give investors more data to make their investment and portfolio management decisions.

**Data Forecast and Innovation in Forecast Approach.** In any DRCs, Micro Connect will record both historical data and future forecasts. With hundreds of millions of micro and small businesses in the space, we cannot rely on the traditional analyst approach that is largely manual and prohibitively costly. Our approach will be driven by big data, leverage a mix of human experience and machine intelligence in our model construction, and adopt a "drip irrigation" style gradual allocation process as part of our due diligence. Our innovations are mainly in the following areas:

**1.Big Data.** In the early stages on our development, we work closely with consumer retail brands and franchises, SaaS companies, and industry associations in order to leverage the large amount of data they already possess. This serves as a solid base on which we monitor our existing investments and compile revenue forecasts for the future. As we grow, we accumulate more data in our system to facilitate more reliable and accurate forecasts.

**2.Machine Intelligence.** Our forecasts are made using a combination of human and machine intelligence. By supplementing AI analytical judgments with human experience, we will not only be able to produce reliable predictions, but can constantly improve the compatibility between the two. In our early days, we work with analysts with various

industry specializations and experienced store owners and operators as we build our own forecast model. As we expand our portfolio and accumulate actual operating data from more stores, machine learning will continue to improve the accuracy of our model, resulting in less deviation from actual cash flows.

**3.Life Cycle Due Diligence.** Unlike traditional due diligence processes that heavily rely on pre-investment judgments and relatively infrequent post-investment reviews, we apply a reiterative due diligence approach throughout the entire life cycle of stores. We also adopt a gradual, “drip irrigation” style investment approach – we begin by “dripping” funds into a small batch of investments, observe the performance of the invested stores, before “pouring” more capital into more stores within the same brand network. This will in turn improve the quality of our investments (more precise), hence better returns, more controlled risks, and better intelligence and efficiency (faster) for making future investments. In practice, we put in a small amount of capital at the initial stage after completing our pre-investment due diligence. As we accumulate more data over time, we conduct more in-depth due diligence through the store’s life cycle and re-assess the pre-investment due diligence done earlier. With much better understanding of the businesses, we can then decide whether to increase / reduce (by not investing more) allocation to stores within a certain brand network. Having accumulated a large amount of granular daily data, we will develop more accurate predictive insights into the operating performance of any particular brand or store, allowing us to maximize potential upside and mitigate potential downside in our contract negotiations.

**4.Time Series and Cross-Sectional Analyses.** The life cycle due diligence approach allows us to gauge a store’s performance using time series data from the same store or stores under the same brand. In addition to time series data, we also analyze cross-sectional data to forecast future revenue performance for stores, observing revenue patterns across stores in the same industry and stores across comparable MCDs. For example, if we were to forecast the revenue of a hair salon, we would observe data from other hair salons in the country. We would also look at the revenue trends of stores in different industries in comparable MCDs, allowing us to analyze the performance of stores that serve the same consumer groups in terms of geography.

Micro and small businesses are akin to perennial plants that come and go every year, as opposed to “giant trees” (large corporates) that live on for a very long period. With a completely different target market, Micro Connect’s due diligence approach is very different from that in traditional finance. First, we adopt a more straightforward approach, with particular focus on the revenue, payback period, and survival period of a store, instead of countless metrics used in traditional analyses. Second, in line with the participation period of our DRCs, our analysis for any particular store typically covers a shorter time period, as opposed to the need in traditional finance to analyze industry fundamentals and competitive landscape 5-10 years down the road. Third, due to the sheer number of stores in our universe, we approach our investments seeking “homogeneity” as opposed to how traditional finance looks at “heterogeneity” and focuses on the differentiations of companies. Our analytical approach is similar to that of insurance companies. Instead of study the health of every single customer, insurance companies look at the commonalities in the population. Last, as the data we accumulate are more real time and granular, we are able to adjust our forecasts as frequent as on a daily basis, and react to any change in trends more quickly.

**Ten Intelligent Engines.** We have built ten engines to support our effort to develop and review on an ongoing basis our forecasts for every store’s revenue, remaining revenue sharing period, remaining revenue sharing amount, and risk assessments. Together, the ten engines perform the core functions of the Projections MAP, enabling investors to analyze and forecast the operating and financial trends of every store with better accuracy and efficiency. With the above differentiations in our due diligence and forecast approaches, we focus on achieving scalability and precision throughout the investment process.

Figure 8: The Projections MAP's Ten Intelligent Engines

Engine	Core Function
0	DRC origination
1	Store-level revenue forecasting (based on industry and sub-sector analytics)
2	Store-level revenue forecasting (based on Micro Connect District analytics)
3	Store-level revenue forecasting (based on store owner profiles and employment data)
4	Store-level revenue forecasting (based on deviation between actual cash flows and original forecasts)
5	Estimation of the remaining revenue sharing period
6	Estimation of the remaining revenue sharing amount
7	Risk-return analysis on DRCs and DRCPs
8	Asset allocation and risk- management for DRCPs
9	Analysis of structured and securitized DRCPs

**Engine 0** is used to identify opportunities and originate DRCs. With millions of micro and small businesses in the space, we require the inputs of both human and machine intelligence to determine the appropriate product terms for the DRCs. We leverage machines to propose a revenue sharing percentage and to auto-generate draft contract terms, and apply manual adjustments based on actual circumstances whenever necessary. The combination of human and machine intelligence has been critical to eliminating the time-consuming process of contract negotiations and enhancing transparency and standardization of contract terms.

While our investments only involve the sharing of revenue, we still bear the same operating risks with the store owners, which make DRCs more similar to equity. As such, the profit margin of the business becomes an important factor as we determine the revenue sharing percentage for the DRC. Typically, a higher profit margin of a store would translate into a higher daily revenue sharing percentage, and vice versa. At the same time, DRCs come with a “step-down feature”, with the investor’s revenue sharing percentage falling as the investor recoups more cash flows.

**Engines 1-4** are used to forecast store-level revenue. Engines 1-3 cover cross-sectional data analyses while Engine 4 analyzes time series data. In particular, Engine 1 derives its forecasts from its assessment of industries and sub-sectors, Engine 2 conducts its analyses based on data in our MCD system, Engine 3 analyzes the profile of store owners,

and Engine 4 produces revenue forecasts by analyzing the historical deviation between actual and forecasted cash flows. In the early stage of Micro Connect's development, Engines 1 and 2 will play a leading role, while Engines 3 and 4 will become increasingly important as we accumulate more data along our deployment process.

**Engines 5-6** are used to forecast and adjust the remaining revenue sharing period and revenue sharing amount of a store. The estimation of remaining revenue sharing period takes into account the lease terms of the store, the contract terms of the DRC, and the life expectancy of the store (based on Micro Connect's knowledge of the industry, brand, and location, with reference to its proprietary database and knowledge library). Following that, Engine 6 would derive a probability distribution of the remaining payment amount by applying our forecast of the store's future revenue and our estimation of the remaining revenue sharing period (from Engine 5).

**Engines 7-9** are analytical tools designed for Micro Connect's investment products. Engine 7 analyzes the risks of DRCs, Engine 8 analyzes the asset allocation of DRCPs, and Engine 9 analyzes the risks of structured DRCPs.

**Micro Connect Research Report.** To enhance the sustainability of DRCs as a new asset class and support investors in their decision-making, our timely and comprehensive disclosure of granular product information alone may not be sufficient, and we will need to supplement that with comprehensive data analytics and research reports on the investment opportunities. With millions of DRCs in the space, the traditional analyst approach becomes unfeasible and far too expensive. Therefore, we focus our analytical efforts on the few most important metrics (revenue, payback period, survival period of stores, etc.). We leverage our database and knowledge library and use our proprietary algorithms to analyze the data, in order to auto-produce research reports on every DRC in the space.

CHAPTER 5

# THE MICRO CONNECT ROADMAP



# CHAPTER 5

## THE MICRO CONNECT ROADMAP

### Section 1 – Micro Connect Today and Growth Trajectory

The Micro Star has already taken shape. In less than a year, Micro Connect has invested in over 1,000 stores in more than 100 cities across 30 provinces and municipalities in China. These investments span across the food and beverage, retail, services, and culture and sports sectors and provide the most direct access to the robust consumer spending by the Chinese population.

From concept to 1,000 stores, our DRC rollout effort has now entered full-scale implementation. As we continue to optimize the Micro Star, we have now been able to invest in more than 200 stores every month. Our deployment capacity will reach 500 stores per month by the end of 2022, and 1,000 stores in 2023, and we expect ourselves to become one of the world's largest store backers in the near future.

Micro Connect embarked on its journey in one of the most challenging times. Several months into our deployment, we were faced with the worst economic disruptions in China brought about by Covid-19. Despite the macro headwinds, we managed to deliver positive returns with limited cash flow volatility. We have also demonstrated our ability to “do well” and “do good” at the same time, gaining recognition among many small businesses as friendly capital in times of need. None of these achievements would have been possible without the hard work by the Micro Connect team, which has quickly grown over the last year to comprise more than 150, with extensive background in technology, finance, and consumer retail.

There are two key factors that have supported the rapid growth of Micro Connect since inception. First, China is the world's largest, most vibrant, and most digitized consumer economy, with more than 70 million stores representing an almost inexhaustible source of opportunities for Micro Connect. Second, our MAPs are playing an increasingly important role in our deployment process. From fundraising, product development, legal, and finance to operations, risk management, and investment, we have organized the entire

workflow into more than 100 modules under our Production MAP, and have designed relevant tools to streamline or automate each of the processes. The Production MAP is critical to our goal of deploying with both speed and scale. At the same time, the Projections MAP combines machine learning algorithms with our real-time revenue data from invested across industries, regions, and brands, in order to make more accurate store-level revenue projections and ensure that capital is deployed with precision and intelligence.

Our plan is to invest in millions of stores in the next five to ten years. With the two MAPs that we have developed, we are focused on standardizing, modularizing, digitizing, and automating the entire investment process. We observe strict discipline and “follow the vines” in our investment processes, always “following the winners” to ensure quality and broaden our reach, “following our Repayment ARM network” to secure our returns, and “following the data” to acquire intelligence. We only invest in (i) stores that are part of a successful brand or franchise network, (ii) stores over which we could have strong system control (Repayment ARM), and (iii) stores from which we could access timely, accurate data, as ways to uphold both quality and quantity in our investments. We adopt a three-pronged approach in our “following the winners” strategy:

First, we follow the “chain leaders”, partnering with consumer retail brands and franchises with demonstrated track record and making investments in stores within their networks.

Second, we collaborate with “platform leaders” including commercial real estate investors, SaaS companies, and local governments, combining our unique investment expertise with their respective edges to invest in quality stores within these partners’ networks.

Last but not least, we enable the creation of “ecosystem leaders”, using capital as the link and leveraging data as our guide to develop new alliances with stakeholders along the micro business value chain, including brands, chain stores, SaaS companies, real estate companies, local governments, suppliers, store owners, and consumers. Such platforms will foster closer collaboration and mutual contribution of resources, ultimately resulting in a more efficient and more equitable ecosystem.

It is our hope that in the world of Micro Connect, capital is not just for generating returns for investors and shareholders, but could be utilized to better serve employees and other stakeholders in the broader community.

## **Section 2 – Micro Connect’s Roadmap and Business Model**

The launch of the Micro Star has been made possible by the broad-based digitization of China’s consumer economy and the advances in blockchain technology. With the completion of our first 1,000 investments, we stand ready to march towards our next milestones of 10,000, 100,000, and 1 million stores. Looking ahead, we envision three development stages for Micro Connect.

**Micro Connect 1.0 – strengthen our DRC deployment capability.** While we have demonstrated our ability to deploy capital in scale, we are continuing to (i) optimize our Repayment ARM, including further collaboration with the nation’s leading banks and payment companies to broaden the nationwide coverage of our automatic payment splitting solutions; (ii) refine our Production MAP; and (iii) augment the precision of our Projections MAP. At this stage, Micro Connect operates as a direct investor and holder of DRCs using both Micro Connect’s proprietary capital and funding from investors in the Micro Connect China Fund. Micro Connect generates income in the form of returns from its invested DRCs.

**Micro Connect 2.0 – incorporate blockchain technology into the Micro Star, increase product transparency, and broaden investor network.** The primary objective of this stage is to enable full traceability of every yuan deployed and flowing through the Micro Star system, and develop a highly transparent information and price discovery mechanism. The traceability and transparency will allow investors to flexibly construct any portfolios they desire by cherry picking any DRCs based on their investment mandate and risk profile. At this stage, Micro Connect operates as an originator and reseller of DRCs. The sale of DRCs at premia will enable Micro Connect to recycle capital to further grow the investable DRC universe, at the same time generating leveraged returns for shareholders and fund investors.

**Micro Connect 3.0 – Micro Connect Markets (MCM).** As our Rights ARM continues to evolve, our new market platform will allow global investors to more easily access DRC investments, and allow quality micro and small businesses to more easily raise capital. At this stage, Micro Connect will also operate as a market operator and, in addition to investment returns and management fees, generate income from trading and related post-trade / peripheral services.

**Beyond Micro Connect 3.0.** We are most excited about extending the reach of the Micro Star to break the barriers between traditional financing capital and consumer capital in the future. For micro and small businesses, consumer spending is their first and foremost source of financing, but they lack the tools to manage cash flow fluctuations caused by seasonality and other cyclical factors. With Micro Connect’s analytics model and recommendation algorithms, the Micro Star will support micro and small businesses in smoothing out their cash flows by developing bespoke consumer incentive programs and leveraging investors’ capital to finance such programs. Investors will then be able to support businesses during off seasons and reap the rewards in peak seasons. The Micro Star is creating new investment opportunities that are granular, in large quantities, and highly diversified, bringing an untapped market to global investors.

As we continue to build out the Micro Star system, we will serve as the connector between global investors and micro and small businesses, providing end-to-end solutions to all stakeholders along the capital formation process. We organize our services into four modules:

**Module 1 – Investment Services.** We are an investor and originator of DRCs, identifying opportunities and investing in micro and small businesses in large scale, and managing the DRC portfolios post-investment.

**Module 2 – Collection Services.** We manage the accurate capturing data and secure execution of cash flow transfers throughout the life cycle of every DRC, and will continue to strengthen our Repayment ARM and expand our partnership network.

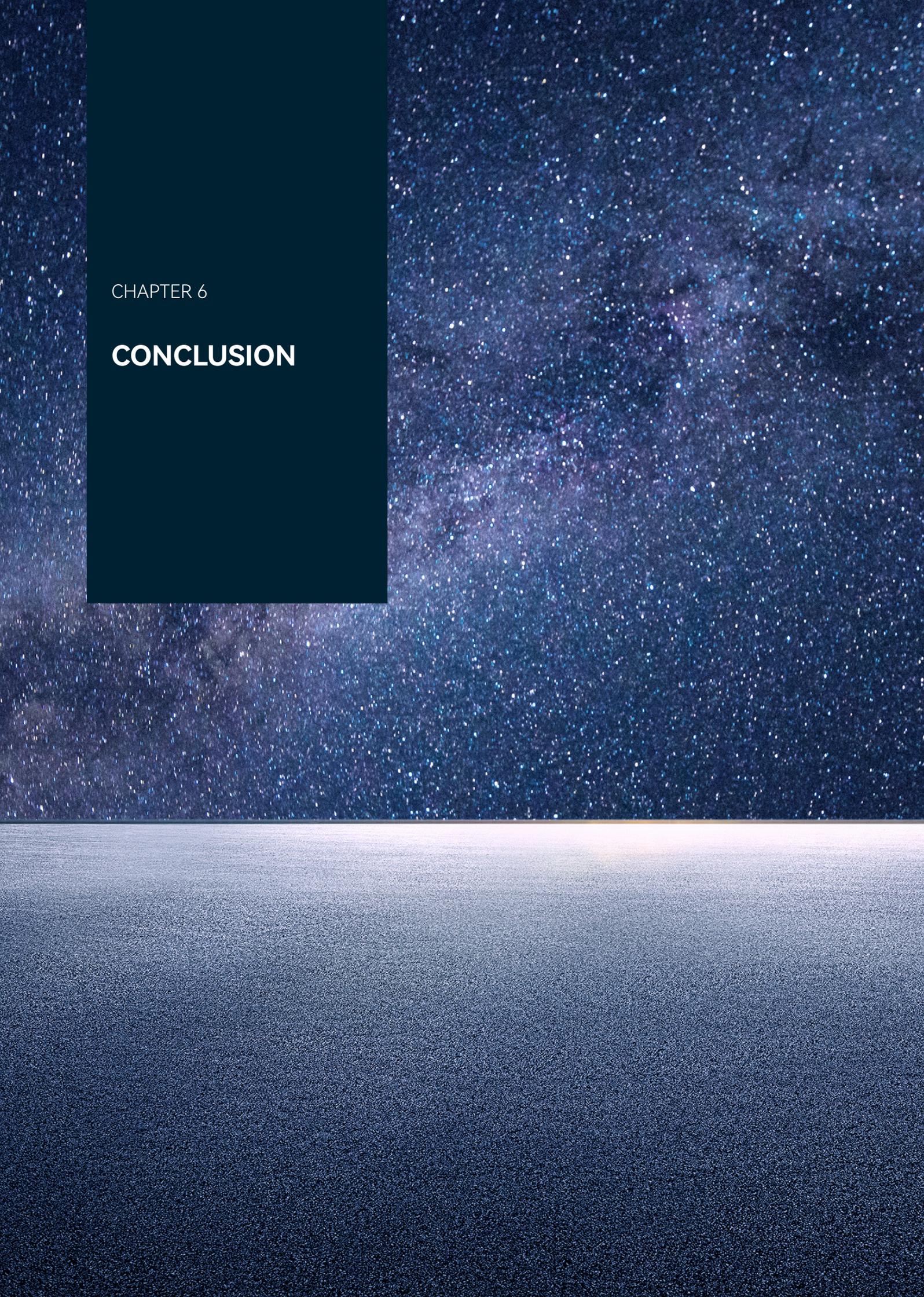
**Module 3 – Data Services.** Using the navigation capabilities of our two MAPs, we offer

industry analyses, store opening advisory services, revenue forecasting tools, and pricing algorithms to business owners, investors, and other stakeholders along the value chain.

**Module 4 – Trading Services.** We offer registration, custody, trading, clearing, settlement, and other services for DRC portfolios and related products. MCM will become the go-to platform for asset and wealth managers to choose from a wide selection of products and curate quality portfolios.

Together, the four modules establish a full suite of services that will not only benefit Micro Connect, but also the investing public and the broader community, forming the bedrock of a sustainable business model.

The ultimate goal of Micro Connect is, by making better use of global capital and existing digital infrastructure, to promote more equitable allocation of resources in the society, to create better access to funding for micro and small businesses, and to better support entrepreneurial activities, thereby enabling investors to both “do good” and “do well” at the same time. Should we succeed beyond Micro Connect 3.0, we will truly be on the journey to transform “shareholder capitalism” into “stakeholder capitalism”, allowing financial markets to reach new heights that have never been possible before.



CHAPTER 6

**CONCLUSION**

## CHAPTER 6

# CONCLUSION

This is the first edition of our White Paper. With its discourse, we hope we have clearly articulated our vision of a future financial world, and hope this will inspire further discussions with collaborators.

In the Digital Age, the way the global economy is organized will gradually move away from the assembly lines of the Industrial Age and the multinational corporations in the early days of globalization. The economy of tomorrow will be more decentralized, with its center of gravity shifting towards hundreds of millions of micro and small businesses and the entrepreneurs behind them. There will be more exchanges of information, pooling of resources, and sharing of common goals. The financial returns and social impact of every economic unit at the most granular level will be more easily recorded, displayed, transacted, and shared. Blockchain technology has made the origination and exchange of these contracts possible. The existing financial markets where economic activities are centered around large corporations and reinforced by professional intermediaries and regulatory regime will be completely transformed.

The founding of Micro Connect was based on such conviction. In our pursuit to supporting China's micro and small businesses with global capital, creating employment opportunities, and achieving common prosperity, we hope to bring to the investing public a new asset class and a new market that offer transparency, liquidity, and sustainable returns. Our investment and trading infrastructure will allow investors to securely invest in, trade, and hold every yuan of assets in the world of Micro Connect, and easily construct their own DRC portfolios.

We are committed to connecting micro and small businesses with the global capital markets with two specific and tangible long-term goals: to enable 1 million micro and small businesses to achieve an annual profit of more than RMB 1 million, and to support 10 million quality, socially inclusive, and environmentally friendly job opportunities.

To turn our dream to reality, we have created a new investment paradigm – the Micro

Star. We have developed DRCs as a new product to access micro and small businesses at scale, leverage the Repayment ARM to secure cash flows from invested stores, use the Production MAP and Projections MAP to analyze and price millions of small investments with efficiency and intelligence, and are building MCM (Rights ARM) as a blockchain-enabled and distributed platform to facilitate secure execution of transactions.

This edition of the White Paper outlines our concrete action plans towards building this new financial market. In less than two years since inception, the progress we have made is testament to how we have turned the Micro Star into reality. As we set sail on this adventure, we are excited about achieving Micro Connect 1.0, 2.0, 3.0, and beyond, and using our four modules to develop a sustainable business model.

Big things start small. By publishing this White Paper, we look forward to the intellectual exchange with like-minded friends who will join us in building a new world of finance.

## Glossary

**Automated Repayment Mechanism (Repayment ARM):** a digital infrastructure that establishes a secure link between a newly originated DRC with the store's daily cash flows. By connecting the Repayment ARM with its partners and its invested stores in the networks, Micro Connect automatically receives revenue data and revenue share from every invested store on a daily basis.

**Authenticated Rights Market (Rights ARM):** the core function of Micro Connect Markets (MCM), the Rights ARM enables the granular authentication of investors' rights to every unit of asset, thereby enabling the complete look-through of ownership and establishing full traceability.

**Daily Revenue Contracts (DRCs):** the standardized product on the Micro Star system, DRCs are neither debt nor equity, and represent contractual entitlements to an agreed percentage of daily revenue share for an agreed time period from an invested store.

**Daily Revenue Fund (DRF) and Daily Revenue Pool (DRP):** a package of DRCs structured into a portfolio. DRFs are dynamic portfolios typically sponsored by Micro Connect and/or its partners. DRPs represent bundles of DRCs investors purchase directly from DRFs.

**Micro Connect Districts (MCDs):** a district classification system that assists Micro Connect in making more accurate store-level revenue forecasts, by observing the patterns of the MCD where the store is located, and making cross references with similarly-tiered MCDs across the country. The system divides cities into a number of MCDs, and applies a tiering system to every district.

**Micro Connect Markets (MCM):** a blockchain-enabled and distributed trading, clearing, and settlement platform developed by Micro Connect.

**Micro Connect Research Reports:** data analytics and research reports on every DRC auto-produced by Micro Connect's algorithms.

**Micro Connect Yield (MCY):** the amount of daily cash flows received for every RMB 10,000 invested.

**Micro Star:** a new operating system based on which Micro Connect develops a new financial market for micro and small businesses. The Micro Star includes a new product (Daily Revenue Contracts) with support from two ARMs (Repayment ARM and Rights ARM) and two MAPs (Production MAP and Projections MAP), in order to perform functions that are specifically designed for the underserved universe of micro and small businesses.

**Market Actuarial Projections (Projections MAP):** supported by ten intelligent engines, the Projections MAP is Micro Connect's location-based data analytics and revenue forecasting system. It combines machine learning algorithms with Micro Connect's real-time revenue data from invested stores across industries, regions, and brands.

**Modularized Automated Production (Production MAP):** Micro Connect's workflow management system that facilitates the efficient deployment of capital. It has organized the entire workflow into more than 100 modules, with relevant tools to streamline or automate each of the processes.

**Sales / Investment Ratio (SIR):** the amount of daily revenue of a store for every RMB 10,000 invested.

**SIR Index (SIRI):** SIRI is constructed to string together SIR from different times in order to create indexes representing different industries and regions across time frames.