January 2024

MCEX Market Accepted Protocol (MAP)

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Contents

How to Respond to the Release of Market Accepted Protocol (MAP)

Micro Connect (Macao) Financial Assets Exchange Co., Ltd (MCEX) invites written comments on the content proposed in this paper, or comments on related matters that might have an impact upon the content proposed in this paper, starting from 16 January 2024.

To submit written comments please send us an email or scan the QR code below.

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Introduction

Our mission at Micro Connect Macao Financial Assets Exchange (MCEX) is to create an efficient and transparent financial market that connects global capital with micro and small businesses. As the two sides operate with very different standards, there has been a significant disconnect between micro and small businesses and global investors. Leveraging its role as a “connector”, MCEX aims to establish common market standards for financing and investment activities in the space of micro and small businesses, making these opportunities more investable to traditional investors.

The MCEX Market Accepted Protocol (MAP) represents a culmination of our experience, insights, and lessons learned during the initial phase of our development. By releasing the MAP, we hope to take the market’s feedback on the construct and application of the MAP, and develop a market-friendly set of standards, principles, and guidelines for all stakeholders as we grow the market together.

Millions of years ago, shale oil existed in fragmented and dispersed forms within the fissures of shale rocks, with little value at the time. It was not until the advent of hydraulic fracturing, or fracking, that these tiny droplets hidden in the rock fissures were extensively utilized, leading to an energy revolution. Such important natural resources had always been around but without much value until the right technology became available to unlock it.

Similarly, future revenue streams of any businesses, even micro and small businesses, hold significant value in the context of financing. However, like shale oil, such value could not be unlocked without the tools to monitor their revenue levels and capture their cash flows. With the progress China has made in digitizing its consumer economy and payment infrastructure, brick-and-mortar stores’ daily revenue data are viewable and verifiable, and daily revenue can be intercepted and split digitally. As a result, their future cash flows can now become valuable underlying assets for financing and, for the first time, address the funding gaps faced by micro and small businesses and allow global investors to profit from their growth.

Regulated by the Monetary Authority of Macao, MCEX is a global exchange platform for a new revenue-sharing asset class and investment products backed by future cash flows of micro and small businesses. Through operating the market and maintaining close dialogues with stakeholders including investors, micro and small businesses, and regulators over the past year, MCEX has developed a better understanding of the market and continues to come up with new approaches to grow it. As we continue to develop the market, we encounter new challenges and acquire new insights, and we would like to share with the market our experience and thoughts gathered to date.

1. MCEX Pilot Stage: Explorations and Achievements

MCEX aims to build an efficient and transparent financial market that allows China's micro and small businesses to access low-cost financing while providing global institutional investors with attractive returns.

An ambitious project that has never been done before, we had to blaze a trail for investors during the pilot stage. By introducing appropriate financing products and building the requisite systems and infrastructure, we wanted to demonstrate that China's micro and small businesses are accessible and investable opportunities for global investors.

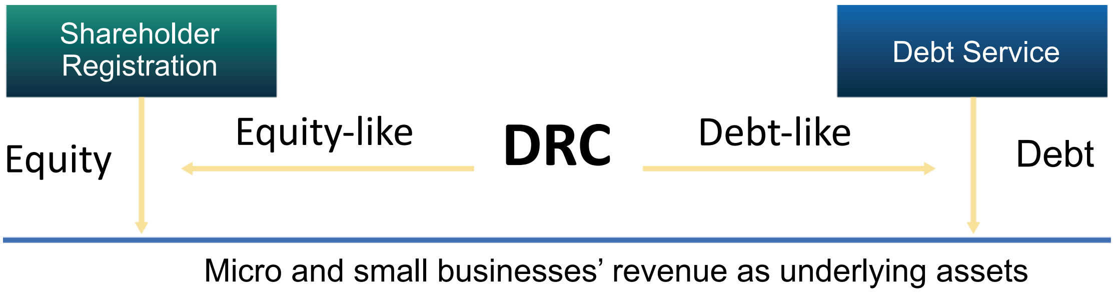
1.1 Products and Infrastructure

The significant disconnect between micro and small businesses and global investors is largely due to the two having completely different standards. So, to achieve its goals, MCEX looks to provide two tools to address this disconnect – 1) standardized products that are simple, transparent, and acceptable to both sides; and 2) a market infrastructure covering the entire country that accurately captures and distributes information and revenue to investors.

1.1.1 Daily Revenue Contract (DRC) and its Corresponding Exchange-Traded Product (Daily Revenue Obligation, or DRO)

Thanks to the digitization of China's consumer economy, future revenue of micro and small businesses can be used as underlying assets to secure financing. However, traditional equity and debt financing have their limitations. Equity financing comes with the difficulty of exit and determining profits, especially in the case of micro and small businesses. Debt financing requires regular repayments of principal and interest, which puts greater cash flow pressure on micro and small businesses. Our proprietary asset class, Daily Revenue Contracts, has become an alternative asset class that is fit-for-purpose for micro and small businesses.

Diagram1-1: Equity-like DRC and Debt-like DRC



DRCs are revenue-sharing contracts based on the daily revenue of micro and small businesses. They neither entail any ownership of equity nor require repayment of principal and interest. DRCs stipulate that the investor invests a sum of money in a business in exchange for an agreed upon percentage of daily revenue over an agreed period. The actual return on investment depends entirely on the amount of revenue generated during the contract period. Even if investors end up collecting less than their initial invested capital during the contract period, the businesses are not obligated to compensate the shortfall.

DRC terms can be adjusted to fit the risk-return profiles of both equity-oriented and debt-oriented investors. For equity-like DRCs, the investor acts akin to a franchisee who provides capital but does not get involved in the operations, and shares the store's revenue for the period agreed in the contract. When the store performs well, the investor's returns increase, and vice versa. We focused only on equity-like DRCs during the pilot stage.

For debt-like DRCs, the contract will state a total return that the investor wants to receive during the agreed contract period, and once that expected return is met, the contract terminates. In this case, the key difference compared to traditional debt is that an investor has no further recourse with the invested store after the contract ends, even if the expected returns are not met.

Since DRCs are contracts signed onshore in Mainland China, administrative costs are too high for most international investors to make such investments. To improve the ease of access, MCEX's onshore entities (also known as wholly foreign owned enterprises, or **WFOEs**) would sign DRCs with micro and small businesses on international investors' behalf, and MCEX would issue to investors Daily Revenue Obligations, instruments that are listed and traded on MCEX and represent economic entitlements to their corresponding DRCs.

1.1.2 Infrastructure to Connect with Micro and Small Businesses

Like other international exchanges, MCEX operates a complete value chain for product registration, listing, trading, custody, clearing, and settlement. However, since DRCs / DROs entail the disclosure of micro and small businesses' daily revenue data and distribution of their daily cash flows, MCEX has also introduced the Automated Repayment Mechanism (ARM) to perform such services, enabling investors to capture data flows and settle cash flows from small merchants at very minimal cost. ARM has been embedded in China's financial infrastructure and most small merchants across the country.

The ARM is connected to the SaaS / payment aggregation solutions / ERP systems adopted by stores to ensure that daily revenue data are captured in a timely and accurate manner according to terms of the DRCs. The ARM is also connected to the store's bank accounts that allow daily revenue to be split digitally in accordance with the terms of the DRC.

1.1.3 Model Development

Our trailblazing journey began with developing a model of how the market works. To do this, Micro Connect performed the roles of different market participants to show prospective investors, market intermediaries, micro and small businesses, and others, how the market, products, and infrastructure work.

Micro Connect Leadership Fund was established to showcase how to screen, value, and construct portfolios with DRCs / DROs. An in-house business development team was set up by Micro Connect showcased how to establish and improve ARM capabilities, as well as how to source and connect with potential investments. An exchange team was set up to build and operate MCEX to complete the value chain.

1.2 Achievements in the Pilot Stage

1.2.1 Micro and Small Businesses

Through MCEX, global investors have provided close to RMB 4 billion to over 10,000 brick-and-mortar stores distributed across over 200 cities in 31 provinces, municipalities, autonomous regions, and the Macao Special Administrative Region. These investments span 120 sectors under four major industries – food & beverage, retail, services, and culture & sports. From our experience, we know that:

1) There is still significant unmet demand for financing from China's micro and small businesses.
2) The DRC has become a popular financing tool among micro and small businesses.
3) By diversifying investments across a very large number of contracts, investors can achieve more stable and sustainable returns.

1.2.2 Investors

More than 50 institutional investors around the world have become Qualified Investors (Members) of MCEX, including commercial banks, brokerages, asset managers, wealth managers, venture capital and private equity firms, and hedge funds, etc. MCEX and DROs have gained international recognition among mainstream financial institutions. Products with DROs as underlying assets have also received ratings from major rating agencies, allowing the risks of DROs to be more easily quantified.

1.2.3 MCEX

MCEX has been in smooth operations for five months now. As of December 31, 2023, the issuance volume of all DROs listed on MCEX reached close to RMB 4.0 billion, with more than 10,000 listed stores, covering 270 cities and 688 brands. A total of over 10,000 DRO listings have been processed, resulting in RMB 1.06 billion in revenue shares for investors[1]. We have proven that DRCs as a new asset class has been effective in channelling global capital to China's micro and small businesses.

2. MCEX Scaling Stage: Establishing Common Language and Market Standards

2.1 Challenges and Strategies

Following a successful pilot stage, MCEX must now move on to the scaling stage, where Micro Connect will shift its focus from model development to exchange operations and allow market participants to naturally fulfil their roles in the market. We hope to see global investors making

[1] Data on revenue share captured is calculated from Dec 2021 (before MCEX officially commenced operations) to Dec 2023.

independent investment judgements, micro and small businesses determining the amount, cost, and conditions of financing they seek, and various intermediaries leveraging their expertise to provide professional services to market participants.

As MCEX enters its next stage of development and builds a vibrant ecosystem with broad market participation, we need to raise awareness among various stakeholders of DRCs / DROs and guide market participants on the following:

(1) For investors, how to value the expected cash flows and their corresponding risks of every Daily Revenue Obligation (DRO).

(2) For micro and small businesses, how to identify an optimal revenue-sharing ratio and contract period in order to secure funding from investors.

There are metrics investors often refer to when evaluating investments in traditional finance, such as price-to-earnings ratio (P/E), price-to-book ratio (P/B), and credit ratings. There needs to be similar metrics and tools universally adopted by participants when evaluating investments in our new market.

This is the purpose of the MCEX Market Accepted Protocol (MAP). With it, we hope to provide market participants a standardized language and set of tools with which they can approach our new market.

2.2 Setting the Foundation for the MAP

Through the pilot stage, we have realized the following:

1) The future revenues of individual brick-and-mortar stores are hard to determine but can be estimated based on the historical revenues of related stores.
2) Investing in individual stores carries higher risks. These risks can be mitigated through diversification and investing in DROs with higher returns.
3) Store revenue shared through a DRC must account for risks, taxes, and fees before becoming actual returns for the investor. These costs are unavoidable in the conversion process between DRCs and DROs.

2.3 Key Principles of the MAP

Now with over 10,000 DROs issued and listed, we have now acquired a fuller understanding of market preferences and behaviors, based on which we have set the key principles of the MAP.

2.3.1 Simplicity

Each DRC is unique, with potential differences in industry, region, scale, revenue-sharing ratio, contract period, and risks. To conduct in-depth analyses on each DRC would be a complex, lengthy, and costly exercise. Therefore, our first principle for the MAP is to be simple, and for its tools to be easily understood and used by market participants.

We begin by approaching the problem using the law of large numbers. There are millions of micro and small businesses in China hailing from different regions and industries. By using the law of large numbers, we can leverage the historical revenue of similar stores to create estimates for stores that we want to evaluate. While not perfect, this method can serve as a powerful reference point when predicting an individual store's future revenue, and inevitably improve the reliability of revenue forecasts for DRCs / DROs.

Contract Cash Flow Risk (CCR) is one simple tool that we have devised for market participants to use. Calculated by dividing the total revenue received (by investors) by the total revenue estimated to be paid (by micro and small businesses and after deducting taxes and fees), CCR is a measure of the risk associated with the revenue of micro and small businesses, and should serve as the core for investors' judgment and decision-making.

Table 1-2: Example of Contract Cash Flow Risk

Micro and Small Business Estimated Payment (after taxes and fees)	*CCR*	*Investor Estimated Collection*
RMB 1,350 (-RMB 100)	*0.9*	*RMB 1,125*

The next question is: how much is the investor willing to pay for this contract? If the investor seeks a 1.125x return on investment and the estimated cash flows from the contract is RMB 1,125, the maximum amount that the investor is willing to pay would be RMB 1,000.

In other words, the investor is willing to purchase the estimated payment of RMB 1,250 (after deducting taxes and fees) from the store for a price of RMB 1,000. This is similar to P/E ratio in the equity market, which represents the amount an investor would be willing to pay for every dollar of future earnings.

To provide the market with an intuitive tool, we have introduced a benchmark indicator called the Price-to-Net Contract Payout Ratio (**P/P ratio**).

$$P/P\ Ratio = \frac{DRO\ Investment\ Amount}{DRC\ Total\ Estimated\ Payment\ (after\ taxes\ and\ fees)}$$

Table 1-3: Example of Price-to-Net Contract Payout Ratio

Micro and Small Business Estimated Payment (after taxes and fees)	*P/P Ratio*	*Contract Price*
RMB 1,350 (-RMB 100)	*0.8*	*RMB 1,000*

According to the example in Figure 1-3, the P/P ratio for this contract is 0.8 (1,000 / 1,250). If we aggregate all the contracts traded in the market, we can obtain a market-wide P/P ratio. Investors can look at the P/P ratio for different groupings of DRCs / DROs based on contract durations, industries, and regions, etc. Similar to metrics in traditional markets, varying levels of P/P ratio illustrate the different views investors have for different industries, regions, or any other grouping of contracts.

Like P/E ratios, P/P ratio represents the current market consensus and provides a tool for buyers and sellers to express their different views. In another example, if the P/P ratio for a specific industry is 0.75, and the total estimated payment from the store (after deducting taxes and fees) is RMB 1,000, then the price the market is willing to pay would be RMB 750. As the number of contracts in the market grows, the P/P ratio for different grouping of contracts will become more representative and meaningful due to the law of large numbers.

2.3.2 Opportunity for Professional Institutions

Accurate future revenue estimates are essential for generating positive returns through investing in DRCs / DROs. While P/P ratio represents the overall market sentiment, it cannot reflect the real situations of individual or specific categories of DRCs / DROs. This provides an opportunity for professional institutions to play a role in the market.

Table 1-4 paints three scenarios using our previous example. If a professional investor seeking 1.125x returns estimates that the estimated revenue share (after deducting taxes and fees) from the store will exceed RMB 1,250, then it would suit them to purchase this contract for RMB 1,000. On the other hand, if the expected return is lower than RMB 1,250, the return would be lower than 1.125 times and the investor should refrain from purchasing the contract.

Table 1-4: Example of Investor Expectation for Total Estimated Payment from Micro and Small Businesses

	Micro and Small Business Estimated Payment (after taxes and fees)	*CCR*	*Investor Estimated Collection*	*Return*	*Contract Price*
Benchmark Estimate: Contract Listing Terms	*RMB 1,350 (-RMB 100)*	*0.9*	*RMB 1,125*	*1.125*	*RMB 1,000*
Estimate 1: Bull Case	*> RMB 1,350 (-RMB 100)*	*0.9*	*> RMB 1,125*	*>1.125*	*RMB 1,000*
Estimate 2: Bear Case	*< RMB 1,350 (-RMB 100)*	*0.9*	*< RMB 1,125*	*<1.125*	*RMB 1,000*

Given the diverse nature of micro and small businesses, with significant industry and regional differences, we believe that over time, professional institutions with expertise in specific industries and regions will emerge to provide more accurate professional opinions to the market. With more accurate opinions and analysis, astute professional investors will be able to achieve returns superior to market average.

2.3.3 Faith in Market Forces

Revenue forecasting is the crux of DRC / DRO investing. As the market develops and attracts more participants, there will be an increasing diversity of opinions on the best methods and models to forecast the future revenues of micro and small businesses and the valuations of their corresponding DRCs / DROs.

The purpose of the MAP is to provide as many benchmark indicators as possible – such as CCR and P/P ratio – to help investors navigate this new financial market. We believe that as MCEX continues to scale, there will be a greater number of professional institutions developing their own revenue forecasting models with increasing accuracy. Along with this increasing accuracy comes fewer risks will be borne by the market, lower risk premiums demanded by investors, and lower financing costs faced by micro and small businesses. Ultimately, through the growth of MCEX and the natural forces of this financial market, we will achieve our mission to provide an attractive investment opportunity to global investors while meeting the significant unmet demand for financing from micro and small businesses.

3. Welcoming Feedback and Insights from All Stakeholders

3.1 Market intermediaries: brokerages and professional services providers

Until now, market intermediaries could provide financing services to issuers in the form of equity and debt raising. With MCEX and the MAP, they can now provide additional services through the issuance of DROs. We look forward to developing a vibrant market where market intermediaries will leverage their network to source quality micro and small businesses and bring these opportunities to MCEX.

3.2 Investors: asset managers

In the past, investors who are bullish on China's consumer retail sector could only profit from its growth through equity and related investments. With DROs, they have an alternative and more direct channel to access this market. We believe experienced investors focused on the consumer retail sector will bring us insights into how best to invest in this market and achieve great returns.

3.3 Capital seekers and institutions representing micro and small businesses: brands / franchisers / chains and industry associations

Until now, micro and small businesses have had very limited financing options. They can now raise capital more easily using DRCs. There could be positive spillover effect – a strong performing store could help lower the financing cost of stores under the same brand, region, or industry, resulting in more financing activities and supporting the growth of more micro and small businesses.

In the first two chapters this document, we discuss how MCEX, using its three-tier product design, has successfully aggregated and organized the capital needs of micro and small businesses into investable opportunities for global capital.

From the third chapter onwards, we hope to explain and consult the market on how the MAP is used in the design and structuring process of DRCs, how the MAP showcases the performance of the overall market, how micro and small businesses use the MAP determine their estimated financing cost, how investors use the MAP to project investment returns, and how individual contracts are benchmarked against broader market performance.

We hope to engage with all market stakeholders to determine how to use the MAP to encourage the broadest participation possible by global investors and micro and small businesses.

In the appendices, we give an overview of the different types of services provided by MCEX.

MCEX Market Accepted Protocol (MAP)

MCEX’s Existing Product Suite

Chapter 1: Introduction

To realize the vision of connecting institutional capital with micro and small businesses, we have established Micro Connect Macao Financial Assets Exchange (MCEX) under the approval of the Chief Executive of the Macao Special Administrative Region in Executive Order No. 47/2022.

MCEX aims to create a new financial market for global investors and millions of Chinese micro and small businesses. Under the supervision and management of the Monetary Authority of Macao, MCEX has been operating smoothly for five months and has provided nearly RMB 1 billion in financing to over ten thousand micro and small businesses, gaining widespread attention and recognition in the process. Following our experiences, we have established the MCEX Market Accepted Protocol (MAP) to formulate and design standardized DRCs, guide micro and small businesses on how to raise funds through these products, and guide investors on how to invest in DROs and DRPs.

This document attempts to explain the following three points in this paper:

- Introduce the existing "DRC – DRO – DRP" three-tier product conversion of MCEX.
- Guide micro and small businesses on how to list[2] and raise funds through these products by using the MAP.
- Guide investors on how to invest through these products by using the MAP.

In Chapter 2, we introduce the products traded on MCEX and how Micro Connect converts the funding needs of tens of thousands of micro and small businesses into attractive investment opportunities for global investors through the three-tier product conversion of "Daily Revenue Contract (DRC) – Daily Revenue Obligation (DRO) – Daily Revenue Portfolio (DRP)". DRC serves as the underlying asset for DRO, which, along with DRP, are the products traded on MCEX.

In Chapter 3, we discuss how micro and small businesses and their Listing Services Intermediaries[3] can raise funds through DRCs on MCEX. Depending on the situation, the standard DRC can be designed to be debt-like and equity-like. We discussed how micro and small businesses can generate and create DRCs with ease. Based on the previous practices on MCEX, we also discuss the financing costs for micro and small businesses in the current market and the methods to measure them.

In Chapters 4 and 5, we discuss how to compare and select different DRO and DRP products at the time of creation and how to subsequently monitor them. DRO and DRP are cash flow products and require a standardized disclosure of cash flow information to effectively monitor and compare them. We further discuss how to measure the risk-adjusted investment returns of DRO and DRP products. The goal of MCEX is to make the risks of DROs and DRPs easily identifiable, and their risk-adjusted returns comparable to the long-

[2] Listing refers to the process through which a micro and small business, as a listed entity, raises funds through MCEX.
[3] Listing Services Intermediaries are professional services providers that assist micro and small businesses in listing and raising funds through MCEX.

term returns of stock indices – approximately 10% annualized returns have been achieved by the S&P 500 over the past century.

In Appendix 1, we introduce the two main categories of services in the MCEX ecosystem. First is the basic services provided by MCEX, including ARM and its related services. ARM services include cross-border fund transfer, information collection, cash flow settlement, entitlement authentication and irregularities management. Routine services include issuance and subscription, secondary offering, registration and custody, clearing and settlement, and account management. The second category is value-added services provided by market service institutions, including asset origination, due diligence, research and analysis, financial forecast, contract structuring, legal due diligence and document drafting, and DRO/DRP pledge financing services.

The MAP specifies the standard format for selling revenues by the financing side (micro and small businesses) and the methods for measuring and purchasing revenues by the investment side (institutional capital). The MAP is an innovation of MCEX and reflects our current understanding of the micro and small business economy. As the MCEX ecosystem of MCEX continues to grow, MCEX will update the MAP on an ongoing basis to incorporate market feedback and key learning from our own experience.

Chapter 2: What Products Are Traded on MCEX?

MCEX has a mission of connecting institutional capital with micro and small businesses through a suite of revenue-sharing products. A revenue-sharing investment, as the name suggests, is where investors provide funds to a target company in exchange for a share of the company's future revenue over a fixed period.

Revenue sharing as a business model has existed since ancient times. In China's rich agricultural history, there has long been a model of "one party provides land and animals, the other provides labor, and at the end of the day, both parties will share the bounty as agreed at harvest".

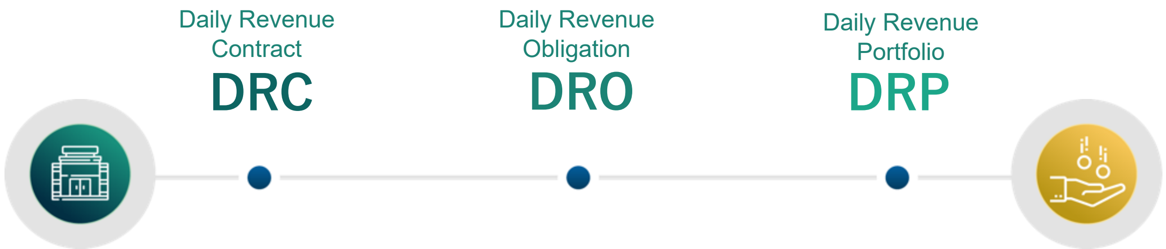
In Islamic finance, the revenue-sharing business model is also widely adopted. Since charging and paying interest is prohibited in Islamic Law, the revenue-sharing model embodies the Islamic principles of risk-sharing, equity and responsibility, and the sanctity of contracts.

In today's business world, revenue sharing is even more common. The apps we download from app stores share revenue with Apple, Android, Huawei, and other platforms. Similarly, the content creators of the videos we watch and the music we listen to every day also share revenue with each of their streaming platforms.

From MCEX's early trailblazing experience, we found that the revenue-sharing model can be an alternative financing product for micro and small businesses to equity and debt financing. Equity markets find it difficult to serve micro and small businesses due to the lack of transparent information and exit channels. Meanwhile, debt markets struggle to meet the funding needs of micro and small businesses due to the lack of credit history and collaterals. Bank loans funded by depositors' money also struggle to truly share the operational risks with businesses.

MCEX carries out the revenue sharing model through the three-tier product conversion of "Daily Revenue Contract (DRC) - Daily Revenue Obligation (DRO) - Daily Revenue Portfolio (DRP)". This conversion transforms the funding needs of tens of thousands of micro and small businesses into investment opportunities palatable to global institutional capital. In this chapter, we will elaborate on this three-tier product conversion. (Diagram 2-1).

Diagram 2-1: The Three-Tier Product Conversion of MCEX



1. Daily Revenue Contract (DRC)

DRC is a risk and revenue-sharing investment model. Thanks to the highly digitized Chinese consumer economy, we have created an investment product called Daily Revenue Contract (DRC). DRC is not a traditional loan nor equity investment, but a commercial contract signed between investors and micro and small businesses. The core terms of a DRC include an investment amount, an agreed revenue-sharing ratio, and an agreed contract period. Investor returns depend entirely on the business's revenue during the contract period, making DRC an investment that shares "operational risk" with the business:

- **Operational Risk:** DRC investors share the risks and uncertainty of a business's operations. Higher revenue leads to higher returns for the investor; lower revenue results in lower returns; no revenue means no returns for the investor.

DRC is a meaningful financing instrument for micro and small businesses for a few reasons: 1) DRC is not a traditional loan and does not require mandatory repayments; 2) DRC has the nature of growth capital but with a definite sharing period and no dilution of shareholders' equity. DRC is also a valuable investment product to investors: 1) Investors can enjoy the upsides of micro and small businesses' revenue growth, unlike traditional loans where the return is capped; 2) DRC captures and distributes revenue shares every day directly and automatically, it achieves risk control and realizes investment exit from day one.

Who is suitable for DRC financing? To obtain DRC financing, micro and small businesses (and their servicing banks) are required to have a robust digital infrastructure – they must have a highly digitized control system (such as SaaS systems commonly used in chain stores) that allows the daily revenue to be observed (by investors) and the ability to automatically capture, split, and distribute cash flows to investors. In other words, a business must demonstrate **transparent and visible revenue data and cash flows** that can be automatically monitored and collected.

Who participates in a DRC? The contracting parties of a DRC are a micro and small business and an MCEX entity (which is authorized to represent investors). Investors so far have successfully financed more than 10,000 of brick-and-mortar stores, with a total investment amount of almost RMB 4 billion. The investments are distributed across four major consumer industries – food & beverage, retail, services, and culture & sports – and more than 120 categories within them. Geographically, the stores are scattered over 200 cities across 31 provinces, municipalities, autonomous regions, and the Macao Special Administrative Region.

Empirical evidence has shown that there is a large demand for financing in the micro and small business space in Mainland China, and DRC has become a popular financing product among micro and small businesses.

2. Daily Revenue Obligation (DRO)

DRO is an instrument that is tradable, registered, and custodied on MCEX, and represents economic entitlements to its corresponding DRC. DRC is the underlying asset of DRO, and DRO is a foundational product of MCEX. To provide investment opportunities and direct access to the domestic Chinese consumer economy to international investors, MCEX acts as a “connector”. MCEX has established wholly-owned subsidiaries in Mainland China to sign DRCs on behalf of international investors. Concurrently, MCEX issues back-to-back instruments, namely Daily Revenue Obligations (DROs), to international investors, which give investors the economic entitlement and other rights to their DROs’ corresponding DRCs.

After a transaction is matched and completed on MCEX, a DRO corresponding to the DRC is created. This financing approach is a common practice in the modern financial world, like many Chinese companies listed in the US in the form of American Depositary Receipts (ADRs) as an example.

It should be noted that although DRO represents the economic rights of its underlying DRC, taxes and institutional fees need to be deducted from the DRC cash flows (the amount collected by MCEX from micro and small businesses) before it can be converted to the DRO cash flows (the amount distributed by MCEX to investors).

- **Taxes:** DRC investments are mostly carried out in Mainland China, where MCEX’s wholly-owned subsidiaries represent investors in signing DRCs with micro and small businesses. These DRC investments are subject to Mainland Chinese national tax laws and regulations. The wholly owned subsidiaries shall pay corporate income tax.

  On the DRC level, the revenue share pre-payback is not subject to corporate income tax; while the revenue share post-payback is subject to a standard tax rate of 25% (in some regions with favorable tax policies, the tax rate can be as low as 15%). In addition, revenue share post-payback is also subject to VAT and surtax at an aggregated rate of approximately 6.72%.

  Lastly, when the wholly-owned subsidiaries remit dividends overseas, they pay a 10% withholding income tax to Mainland Chinese tax authorities (reducible to 5% if the subsidiaries meet the requirements under the Mainland China-Hong Kong / Mainland China-Macao tax treaties). These are the tax obligations of DRO investors and need to be deducted from the DRC revenue shares before the cash flows are passed on to investors offshore.

- **Institutional fees**: Throughout the lifecycle of a DRO, various market services providers are involved, including MCEX. MCEX classifies these services into two categories: **basic services** provided by MCEX and **value-added services** provided by market services agencies, all of which incur respective fees.

Why convert DRCs into DROs? Through a series of back-to-back legal arrangements, MCEX converts DRCs to DROs, a divisible and tradable exchange product. For example, a DRC with an original investment amount of RMB 200,000 can be converted into DROs, allowing investors to hold part or all the rights attached to the DRC and trade them among themselves without changing the contract terms of the underlying DRC.

How are DRCs converted into DROs on MCEX? Micro and small businesses that meet the listing requirements can disclose their store information and the key contract terms that need to be signed (such as financing amount, contract period, revenue-sharing ratio, etc.) on MCEX. If the businesses are favored by investors and successfully matched, MCEX will then arrange for its wholly-owned subsidiaries to sign DRCs with the micro and small businesses on behalf of investors. MCEX will transfer the agreed funds to the micro and small businesses and register the corresponding DROs in the name of investors.

During the lifecycle of a DRO, MCEX leverages the Automated Repayment Mechanism (ARM) to collect payments from micro and small businesses and distribute the revenue shares to investors. Similar to a traditional exchange, MCEX also offers clearing, settlement, and custody services, etc.

There are three types of DRO offerings: "Initial Offering (IO), Add-on Offering (AO), and Secondary Offering (SO)" (Chart 2-2).

An Initial Offering is when the issuer (referred to as the "listing entity" hereinafter), namely a micro or small business, offers DROs on MCEX for the first time. An Add-on Offering is when a micro or small business, seeks additional funding by issuing more DROs after an Initial Offering. A Secondary Offering is when DRO investors buy and sell DROs among themselves on MCEX.

When micro and small businesses proceed with an Add-on Offering, since the stores have a relatively more established track record with historical data (especially the revenue data), the information disclosure and approval required for the ongoing offerings will be greatly simplified.

Diagram 2-2: The Three Stages of DRO Issuance (IO—AO—SO)

Who are the participants in a DRO transaction? Micro and small businesses that come to MCEX to raise funds are DRO issuers, they are the "sellers." Investors, certified by MCEX, that come to MCEX to subscribe to DROs and provide funds are “DRO dealers”, namely the DRO investors, the “buyers”.

As of December 31, 2023, the cumulative total asset size of DROs issued on MCEX reached close to RMB 4.0 billion, with more than 10,000 stores covering 270 cities and 688 chain brands. MCEX has completed a cumulative total of over 10,000 DRO transactions and captured revenue shares of RMB 1.06 billion for investors[4].

MCEX certified "Micro Connect Leadership Fund" as a "DRO dealer" to represent investors to subscribe to DRO products when we first started the exchange. Today, we are ready to

[4] Data on revenue share captured is calculated from Dec 2021 (before MCEX officially commenced operations) to Dec 2023.

gradually open the "DRO dealer" qualifications to more institutions to participate further in the DRO market. To date, the performance of Micro Connect Leadership Fund has demonstrated that diversified DRO investments can bring relatively stable and sustainable returns for investors.

3. Daily Revenue Portfolio (DRP)

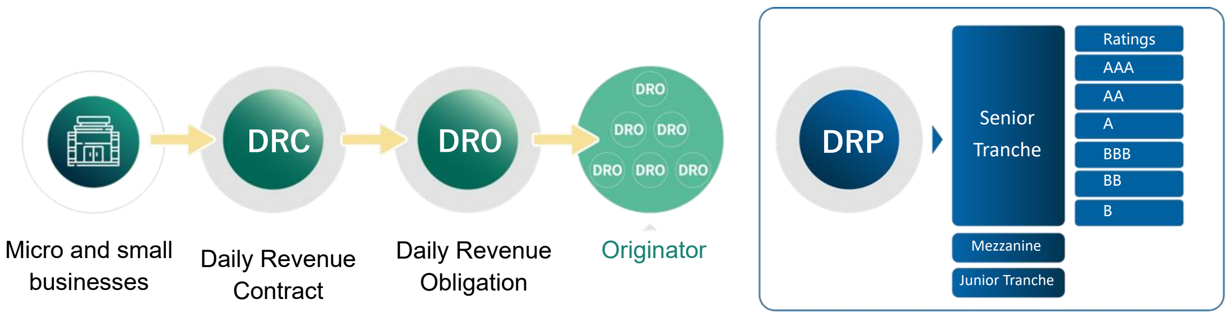
DRP represents a basket of Daily Revenue Obligations (DROs), which is a collection of DROs assembled according to specific investment guidelines and criteria. The issuer of a DRP shall be a qualified member of the exchange that holds DRO shares (referred to as the "DRP Issuer"). DRP issuer would select DROs and construct them into a DRP and list it on MCEX, completing the conversion process from a DRO to a DRP.

Each DRP issuance would require prior approval from the exchange. Meanwhile, a DRP investor is entitled to the daily cash flow distributions from the underlying DROs held by the DRP stipulated by the DRP product's arrangement.

The conversion between DRP and DRO is known as securitization in the traditional finance world. DRP enables the creation of a wide range of products with specific themes or structures based on the nature of the store's business or the cash flow characteristics of the underlying DROs. This innovation significantly enhances opportunities for more creative and collaborative efforts on revenue-sharing products.

Similar to asset-backed securities in the traditional capital markets, Daily Revenue Portfolios can be structured in tranches, such as the "senior–mezzanine–junior, to meet the needs of investors with different risk appetites (Figure 2-3). Like DROs, once a DRP is initially offered on MCEX, DRP holders can transfer their shares via secondary offerings on the exchange.

Diagram 2-3: The Layered Structure Design of DRP



Who are the participants in DRP trading? The DRO holders are the issuers of DRPs and act as the sellers. Qualified Investors (Members) who subscribe to DRP shares through MCEX are the "buyers."

All Members of MCEX are professional investors. To date, over 50 global institutional investors have become Members of MCEX, including commercial banks, securities firms, asset and wealth management companies, private equity, venture capital, and hedge funds. This signals MCEX has gradually gained recognition from mainstream international financial institutions, and revenue-sharing products such as DROs and DRPs have become increasingly accepted by the market.

As DRPs started to receive ratings from major rating agencies, the risks associated with revenue-sharing products can be more easily assessed, supporting traditional investors in making more informed investment decisions.

Applications of Market Accepted Protocol (MAP)

Chapter 3: MCEX Market Accepted Protocol (MAP)

Micro and small businesses seeking financing through MCEX require clear guidance on what kind of contract terms can attract investor interest. Negotiation costs between buyers and sellers can only be reduced through the standardization of DRC terms, thus consequently promoting an scalable market. However, we fully appreciate the vast diversity within the micro and small business universe and recognize the difficulty of applying a “one-size-fits-all” approach. In this chapter, we discuss the formats, terms, and metrics of a “standard” DRC, and how micro and small business (as well as their Listing Services Intermediaries) can leverage these to self-design their own DRCs. We also aim to cover a key focus of micro and small business – the financing costs of DRC in the latter part of this chapter.

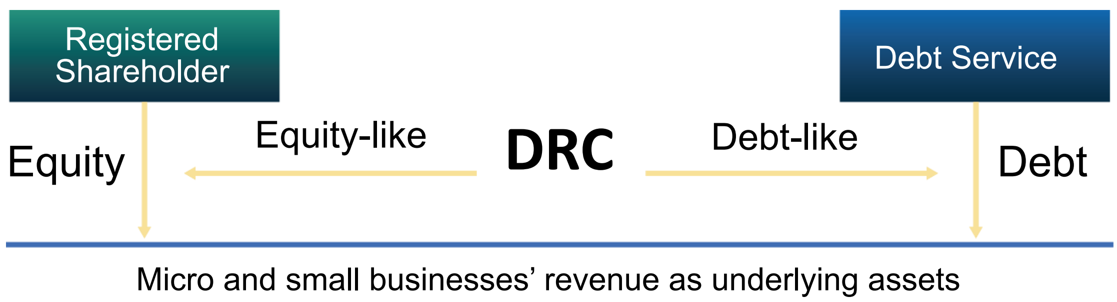
The primary task of MCEX in its early stage was to explore how DRCs can be designed in a way that is acceptable for micro and small businesses across various scenarios of their operations. As we continue to accumulate data and experience during the early stage, we have proven that DRC terms can be more standardized, thus reducing manual contract negotiation and making it easier for investors to study with reference to benchmarks.

Other than standardizations, the design of DRCs also requires broad participation from stakeholders. The micro and small business universe is vast in nature for listing on MCEX and drives a significant number of market services providers (besides MCEX) working together to identify financing needs, negotiate contract terms and assess DRCs risks. To promote market participation, the MAP needs to provide clear guidance to facilitate asset originations and DRC structuring for market services providers.

1. A 'Standard' DRC: Formats, Terms, and Metrics

We categorize standard DRCs into two formats: equity-like DRCs and debt-like DRCs. They cater to different operating scenarios and are mainly reflected in different contract structuring. (Diagram 2-4)

Diagram 2-4: Equity-like DRC and Debt-like DRC



Key terms of Equity-like DRCs. There are four key terms for equity-like DRC: 1) Contract Period; 2) Financing Amount; 3) Pre-Payback Revenue Sharing Ratio (λ_1); and 4) Post-Payback Revenue Sharing Ratio (λ_2). The revenue-sharing ratio here refers to the percentage of the daily revenue that investors are entitled to, while pre- (and post-) payback refers to the revenue sharing amount paid by micro and small businesses before (and after) the financing amount is fully paid. In this contract format, the fundraiser (micro and small business) agrees on an entitled proportion of operating revenue with the investors, e.g., higher revenue leads to a higher investor sharing and vice versa. Given its strong equity characteristics, we call it "equity-like DRC". Applicable scenarios for equity-like DRCs are generally micro and small businesses with high operating cash flow margins, highly variable turnover, or short contract periods. MCEX's initial endeavors were primarily in equity-like DRCs, hence the subsequent discussions in this document will entirely revolve around equity-like DRCs.

An equity-like DRC example: investor agrees with micro and small business A on a financing amount of RMB 100,000. In the pre-payback period, the business pays 10% of its revenue to the investor, while after payback it pays 3% of its revenue until the three-year contract period ends.

The equity-like DRC's contract period is divided into two phases, corresponding to different revenue-sharing ratios (λ_1&λ_2). In other words, we can see a DRC as comprising of two individual contracts – before and after payback of investment amount. Contract 1 is where the fundraiser (micro and small business) shares a certain percentage (λ_1) of revenue with investors for payback – the higher (or lower) the business' revenue is, the sooner (or later) the payback period will end. Contract 2 is where the fundraiser (micro and small business) shares a certain percentage (λ_2) of revenue with investors as investment returns. At this stage, the revenue share paid by the micro and small business can be seen as a "financing cost".

Imagine an entrepreneur and an investor forming a joint venture partnership using the equity-like DRC arrangement with the investor providing the capital and the entrepreneur managing the daily operations of the store. The former is akin to a Limited Partner (LP) in a partnership, while the latter resembles a General Partner (GP). The GP works hard to ensure the LP gets its investment back as soon as possible; once the principal is paid, the capital returns ought to be shared between them as agreed. The GP's "commission" on capital gains and what remains for LP are respectively $1-\lambda_2$ and λ_2.

Key terms of Debt-like DRCs. There are also four key terms for debt-like DRC: 1) Contract Period; 2) Financing Amount; 3) Pre-Payback Revenue Sharing Ratio (λ_1); and 4) Agreed Capital Return. The difference between the debt-like DRC and the equity-like DRC lies in the asks for "investment return" certainty. The equity-like DRC "capital return" is reflected as a percentage of revenue λ_2, whereas in a debt-like DRC it is much more definite — possibly a specific daily return rate based on the **financing amount**. Once the expected return is met, the contract terminates ahead of its original schedule; if the contract term expires without the full payback of the financing amount as anticipated, the investors will need to bear the loss without further recourse to micro and small businesses. Applicable scenarios for debt-like DRCs typically are micro and small businesses with lower operating cash flow margins, stable turnover or longer contract periods. Though it resembles debt in certain aspects, debt-like

DRCs fundamentally differ from a debt: once the contract ends, investors have no recourse to the business concerning their invested principal and estimated return, regardless of how much principal has been recovered. MCEX has not initiated trial runs for debt-like DRCs yet, thus we wish to discuss the practicality with market participants and regulators through this paper. For the avoidance of doubt, the further information and presentation discussed in the paper are referring to equity-like DRCs.

The core DRC metric is the "MCEX DRC Total Estimated Payment (per RMB 1,000 financed) - M_{DRC}." Whether it is an equity-like or debt-like DRC, the essence of which is swapping capital and return between today (financing amount) and tomorrow (a portion of future operating revenue). The difference between these two formats of DRCs is the level of uncertainty on future revenue that the investor needs to assume. Investors of equity-like DRC bear a higher risk of uncertainty for "tomorrow" while investors of debt-like DRC bear lower to a certain extent. Thus, both DRC formats can use the same core metric M_{DRC}, which is the total estimated revenue sharing amount paid by the micro and small business on a RMB 1,000 financed basis:

- $M_{DRC} = \frac{DRC\ Total\ Estimated\ Payment}{DRC\ Financing\ Amount} \times 1000$

For example, a RMB 1,500 M_{DRC} means that a micro and small business expects to pay RMB 1,500 in total on an initial RMB 1,000 financed amount by the contract period end. If the contract period is 4 years, the "financing cost" is RMB 125 per year. For 2 DRCs with the same contract periods, a higher M_{DRC} will suggest a higher estimated financing cost for the fundraiser. The average contract period is c. 3 years for existing over 10,000 DRCs, and the average M_{DRC} for the 3-year contract is c. RMB 1,400.

2. How to Design a Standard DRC: Principles and Tools

MCEX has established the MAP to formulate and design standardized DRCs. To promote DRCs, the core structure of a standardized DRC has to be simple yet intelligent, enabling easy generation of contractual terms with a single click. During the pilot stage, Micro Connect Leadership Fund has participated in the design, investment and post-investment monitoring of over 10,000 DRCs. Based on the experience and lessons learned, MCEX has developed the following protocols, as part of the MAP, for the market to consider.

- **MCEX Market Accepted Protocol 1 (Reasonable and Verifiable Revenue Projections)**: DRC terms design must start from a revenue projection of micro and small businesses. The future revenue is naturally best known to the businesses themselves, but global investors would find it hard to make any credible assessments. In order for DRC to be widely accepted by the market, the revenue projection must start with factual numbers, and the projection methodology need to be reasonable and projected numbers can be easily verified.

  What does that mean? If a micro or small business has more than 90 days of its historical revenue data available on MCEX when a trade takes place (e.g. in the AO stage), its own track record can be used to judge and verify whether future estimates are reasonable or not. In other words, the estimation needs to be evidence-based. To the contrary, if a micro or small business has less than 90 days or lack of its available historical operating revenues on MCEX when a trade takes place (e.g., in the IO stage or for newly opened stores), the business (and / or its Listing Services Intermediaries) needs to provide other corroborative evidence for reasonable future revenue projections. For example, micro and small businesses need to provide historical revenue data of other stores under the same brand (or other evidential bases for revenue forecast), along with factual information for reference e.g. floor area, detailed location, lease terms and etc. There are certain ratios, for example correspondence between rents and sales within specific locations (the "rent-to-sales ratio"), which help investors estimate the revenue of a business.

- **MCEX Market Accepted Protocol 2 (Lease-Based Contract Period and "Half-Term Payback")**: The DRC contract period should not exceed the existing remaining lease of micro and small businesses. When businesses (or their Listing Services Intermediaries) are formulating their DRC terms, MCEX suggests using "half-term payback" as a general rule of thumb – the precedents have witnessed a general payback period of no more than 3 years.

- **MCEX Market Accepted Protocol 3 (Pre-Payback Revenue Sharing Ratio $\boldsymbol{\lambda_1}$ Not Exceeding Half of Operating Cash Flow Margin)**: To avoid the revenue sharing affecting the operational cash flow of micro and small businesses, MCEX suggests that the Pre-Payback Revenue Sharing Ratio λ_1 should not exceed half of the business' operating cash flow margin. For example, if a business has an operating cash flow margin of 20%, then Pre-Payback Revenue Sharing Ratio λ_1 should not be set to exceed 10%. MCEX will gradually publish empirical statistics for operating cash flow margins across different industries.

- **MCEX Market Accepted Protocol 4 (Determining Financing Amount):** The financing amount for micro and small businesses should be the total estimated operating revenue during the payback period multiplied by the Pre-Payback Revenue Sharing Ratio λ_1. Continuing on the previous example, if the contract period is 4 years and the payback period is 2 years with an M_{DRC} equal to RMB 1,500. We can calculate the total estimated revenue during the payback period will be RMB 5 million, assume a 10% Pre-Payback Revenue Sharing Ratio λ_1, the maximum financing amount can then be determined as RMB 500,000. Once the revenue projection, payback period (corresponding to the respective contract period) and Pre-Payback Revenue Sharing Ratio λ_1 are confirmed, the financing amount available for the micro and small businesses can be formulated. When a business is in the stage seeing highly volatile revenue and operating cash flow margin (e.g., a newly opened store), it is recommended that the financing amount should not exceed half of the total store investment.
- **MCEX Market Accepted Protocol 5 (Determining λ_2 by M_{DRC})**: The M_{DRC} represents the total estimated revenue paid by the micro and small businesses on a RMB 1,000 financed basis. As the financing cost exceeding the financing amount need to be achieved through the Post-Payback Revenue Sharing Ratio (λ_2), the ratio can be calculated correspondingly. Following the above example, for a contract with M_{DRC} of RMB1,500, the total estimated financing cost in the subsequent two years will be RMB

250,000. Assuming the revenue projection for the latter two years remains unchanged at RMB 5 million, it is easily to derive that RMB 5 million * λ_2 = RMB 250,000 implying a λ_2 of 5%.

- **MCEX Market Accepted Protocol 6** (Automatically Adjusting Revenue Sharing Ratio With Actual "Payback Period"): When micro and small businesses are fulfilling their DRC obligations, the actual payback period may be longer or shorter than the original "Half-Term Payback" target. Hence, DRC contracts need to build in an automatic adjustment mechanism to simplify investment decisions based on actual payback period. For equity-like DRCs, the contract should specify that the earlier the payback occurs, the more lenient the revenue-sharing ratio will be (reflected in a relatively lower Post-Payback Revenue Sharing Ratio λ_2 for the same M_{DRC}); Conversely the later the payback, the more stringent the revenue-sharing ratio (a relatively higher Post-Payback Revenue Sharing Ratio λ_2). This embedded automatic risk adjustment mechanism simplifies the transactions from a cash flow perspective, allowing both the fundraiser (micro and small business) to be less concerned on undervaluing and the investor to be less fretted about overpaying the future cash flow of the business.

MCEX Market Accepted Protocols 1-6 have determined the key terms of equity-like DRCs - contract period, financing amount, Pre-Payback Revenue Sharing Ratio λ_1 and Post-Payback Revenue Sharing Ratio (λ_2). MCEX will provide a standard DRC contract template to market service agencies for reference.

It is worth mentioning that revenue projections are crucial in assessing DRCs. The MAP released by MCEX will also provide as many metrics as possible to the market for reference. Take the average industry rent-to-sales ratio for example: while the contract rent is objective, the uncertainty lies in future revenue - Yet for physical stores, there is often a high correlation between rent and sales. If the comparable market's average rent-to-sales ratio is 15%, it means that every RMB 15 rent paid could generate RMB 100 in revenue. If a DRC has only a rental cost of RMB 5 but is estimated to generate RMB 100 in revenue, a rent-to-sales ratio of 5% might indicate an overly aggressive revenue forecast. We believe in the future that there will be a significant number of professional institutions developing distinctive revenue projection models, and the market will certainly come to form increasingly accurate forecast models driven by competition and accumulated experience. A more precise revenue forecast will result in lower uncertainty of cash flow sharing. The lower the investors' required risk premium, the lower the financing cost for micro and small businesses. Ultimately, we aim to sufficiently lessen the burden on micro and small businesses while keeping the return adequately attractive to investors.

Contracts designed in accordance with these six MCEX Market Accepted Protocols will have their M_{DRC} depicted as a DRC Market Baseline, colloquially known as the "Daily RMB 35 Cents Line." Why "Daily RMB 35 Cents"? Based on MCEX's experience from more than 10,000 DRCs, after deducting taxes, fees and risk losses, investors can expect an investment profit of c. RMB 10 cents per day (after collecting their investment principal), similar to the long-term average return of the S&P 500 Index.

This baseline conveys 2 important reference points to investors: 1) the Payback Period and 2) the total cash flow payout per RMB 1,000 financed. Once the contract period of a DRC is determined, a DRC Market Baseline can be generated. For example, assuming a 1,000 days contract period, the baseline payback period would be set at 500 days (Half-Term Payback) and a total estimated cash flow can be derived at 1000 + 1000*0.35 = RMB 1,350 (Daily RMB 35 Cents). When the contract period reaches 500 days, the principal (RMB 1,000) is estimated to be fully paid; when it reaches 1,000 days, a cash flow payout of RMB 1,350 can be estimated according to the baseline with the contract period matured.

The DRC Market Baseline provides an intuitive comparison of the cash flow status under a given contract length. However in the real world, the actual cash flow realized by each DRC does not always match the market baseline. The reasons for deviations are generally twofold:

- The differences in DRC contract terms. Each micro and small business has different negotiations for its DRC, causing potential deviations in each DRO terms at listing and consequential cash flow deviations from the market baseline.
- The differences in business operations. Each micro and small business operates uniquely with different risks, causing DRCs signed under standard terms to deviate from the market baseline in actual cash flow.

But it is precisely these deviations that accentuate the significance of the market baseline. Investors can use it as a universal ruler to measure and compare: 1) the merits of different contracts at the time of listing, and 2) the differences in cash flows compared to the baseline during contract execution - cash flows exceeding the market baseline are relatively "better," and those below the market baseline are relatively "worse." We also find that in some cases a DRC started with a below market baseline revenue projection indicates that investors tend to have a lower risk assessment of the micro and small business and anticipate a lower investment return.

Can “non-standard” contracts be listed?

Question 1: If a micro and small business has significantly higher revenue or much lower risk level than its peers, can it be listed on MCEX with a lower M_{DRC} or a longer payback period?

Question 2: If a micro and small business intends to formulate a contract with a payback period or revenue-sharing ratio deviated from Market Accepted Protocols, can it be listed on MCEX at all?

The answer to both questions is: Yes. For the former, if the micro and small business is doing its first-time listing on MCEX to the investors as a "stranger", it is challenging to expect investors to recognize it differently from the market average without conducting an in-depth due diligence. To avoid a pulled listing due to “false negatives”, we hereby propose 2 potential solutions. Either option or a combination of both are currently feasible at MCEX.

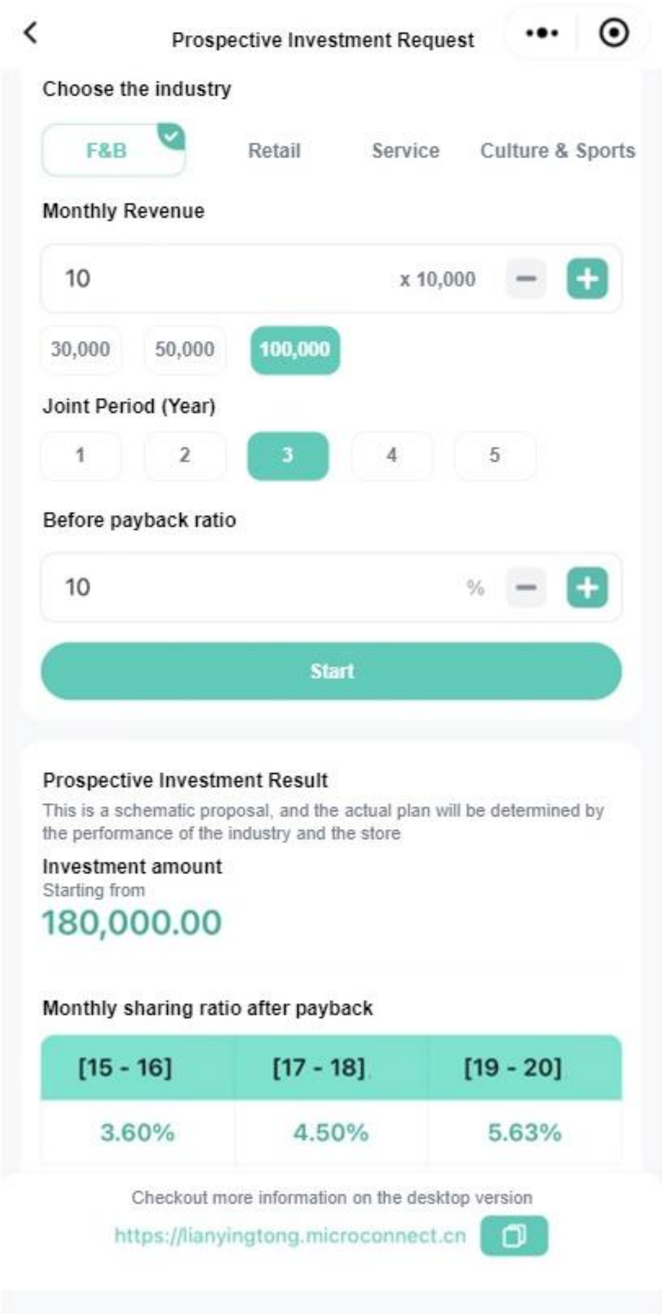
- Solution one: The micro and small businesses can organize more in-depth communications and onsite visits with investors during the listing process through its Listing Services Intermediaries, identifying its unique investment highlights and allowing investors to act in a role akin to traditional IPO “cornerstone investors” for a successful issuance.

- Solution two: The micro and small business can pilot an Initial Offering (IO) with a small amount to tap the market, then carry out an Add-on Offering (AO) after a minimum 90-day period to showcase its actual performance. We call this "Testing Before Scaling." Since MCEX will disclose the business' performance during the IO period, naturally its unique cash flow patterns and historical performance will be highlighted for the AO stage terms structuring. **Solution two fully reflects the advantages of MCEX: a micro and small business can list frequently at low cost, because when selling a portion of its cash flows, the length of time and amount of the cash flow can be of its own choice.**

Regarding the second question, although we do not endorse non-standard DRC structuring and listing, we understand that the diverse micro and small business world might need some flexibility in reality. For these types of contracts under identical conditions, probability of a successful issuance would likely to be lower compared to standard contracts. To increase the likelihood of a successful issue, we need to dial back to the two solutions mentioned earlier. Regardless of whether the contract terms are standard or not, MCEX will present DRC Market Baseline ("Daily RMB 35 Cents Line") on that DRC page to facilitate investor benchmarking.

Automated Contract Structuring Tool. In addition to defining MCEX Market Accepted Protocols and providing sample templates, we also rely on "smart" tools for contract “one-click generation”. Smart tool means an open contract structuring platform powered by accumulated big data and intelligent algorithms, enabling everyone to "one-click generate" key terms of contracts in seconds and decide MCEX market participation. MCEX is already developing this tool and will release it to the public once it is ready.

Diagram 2-5: Illustration of the DRC Standard Contract Structuring Tool



With this smart tool, micro and small businesses (as well as their Listing Services Intermediaries) just need to provide some basic inputs (e.g., industry, location, lease term, rent, etc.) and use of proceeds. The smart tool will automatically produce a standard DRC based on MAP principles, simplifying the process and making it more accessible for a broader range of businesses.

3. DRC's Cash Flow and Non-Cash Flow Information

Cash flow is the key information for assessing and monitoring DRCs. The most crucial metrics evolve around the revenue sharing a micro and small business pays to investors through a

DRC, including 1) the amount paid today; 2) the amount paid to date cumulatively; 3) the estimated total amount to be paid in the future. We define these cash flows as follows:

- **DRC Daily Cash Flow (DCF).** The amount paid by micro and small businesses on a particular day (commonly referred to as "daily cash payment").
- **DRC Actual Cash Flow (ACF).** The total daily payments paid by micro and small businesses from the contract period start date to present (including the present day), colloquially known as DRC's ACF. A simple sum of ACF gives us the "cumulative payment".
- **DRC Projected Cash Flow (PCF).** The estimated daily payments from micro and small businesses from the day after the present day to contract period end, colloquially known as DRC's PCF. A simple sum of PCF gives us the "estimated remaining payment".

DRC's Daily and Cumulative Payments. DCF only describes the payment amount by micro and small businesses on that particular day, while ACF describes the cumulative amount paid from contract period start date to present - They represent the cash flows distributed to investors in the past. To compare DCFs with different financing amounts and progresses in contract period, we standardize them to a metric based on "per RMB 1,000 financed" and "per contract day" – also known as "Micro Connect Cash Yield" (MCY). The daily MCY refers to the amount paid by micro and small businesses per RMB 1,000 financed **on a given day**. The average cumulative MCY refers to the average cash flow paid by micro and small businesses **per contract day** per RMB 1,000 financed.

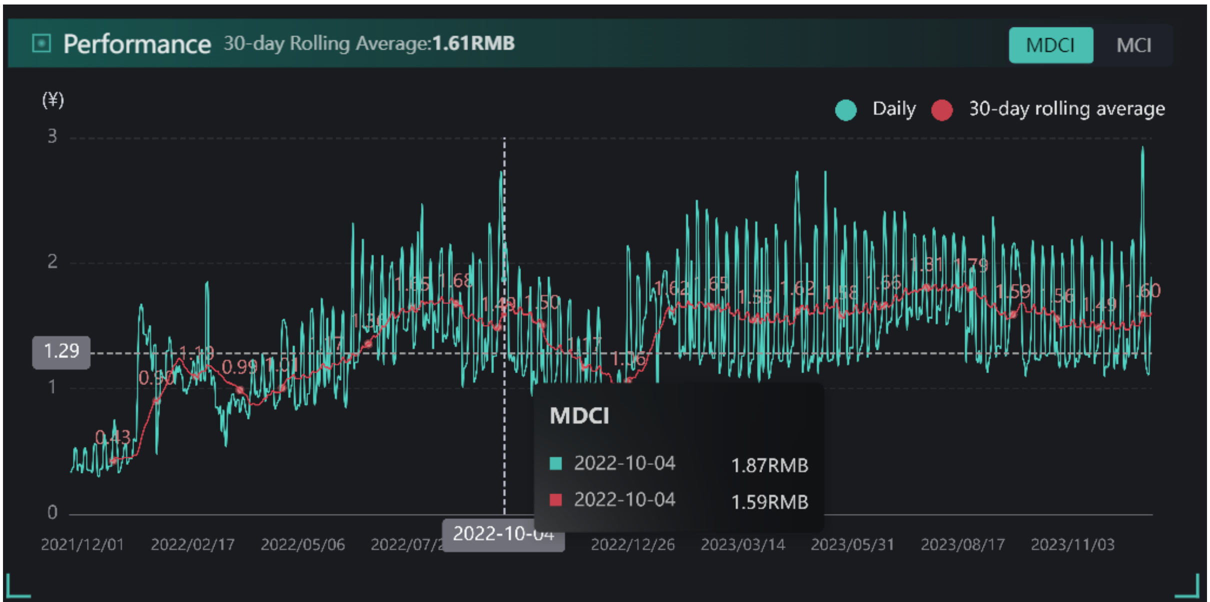
- *MCY (Daily)* = $\frac{DCF}{DRC\ Financing\ Amount} * 1000$
- *MCY (Average Cumulative)* = $\frac{Cumulative\ Daily\ MCYs}{Cumulative\ Contract\ Days}$

Pre-principal payback, the MCY is a metric of the payout speed. If a DRC has an average cumulative MCY of RMB 1, it corresponds to a payback period of c. 1,000 days (for RMB 1,000 financed). If a DRC has an average cumulative MCY of RMB 2, it corresponds to a payback period of c. 500 days. All else being equal, the higher the average cumulative MCY, the shorter the payback period and the safer the DRC financing (for investors). Post-principal payback, the MCY indication changes as it represents financing cost for micro and small businesses. All else being equal, the higher the post payback MCY, the higher the financing cost (investment return) for DRC with the same remaining period. To distinguish, we continue calling the pre-payback daily payout "MCY," and the post-payback daily payout "Micro Connect Return Yield (MRY)."

But is a higher MCY always better? Not necessarily. It also depends on the "other conditions" of the contract, such as the length of the DRC contract. A DRC with an average cumulative MCY of RMB 5 corresponds to a payback period of c. 200 days, if the contract period is only 100 days then it means that the DRC principal cannot be fully paid. Conversely, a DRC with an average cumulative MCY of RMB 2 corresponds to a payback period of c. 500 days, if the contract period is 1,000 days then it means that the DRC can yield substantial returns in addition to principal payout. MCYs in different stages for the same DRC are not directly comparable in this sense; MCYs are only comparable among contracts with the same or similar contract lengths. To present market conditions, we have constructed a series of MCY indexes.

- **Micro Connect Cash Yield Index (MCY Index):** This index measures for a basket of DRCs, the cash flow paid by micro and small businesses per RMB 1,000 financed on any given day. Diagram 2-6 shows an example. For all DRCs on the market, micro and small businesses paid RMB 1.87 per RMB 1,000 financed on October 4, 2022 (with an average of RMB 1.59 over the past 30 days). Besides the overall market, DRCs can also be constructed according to provinces, months, industries, cities or other user preferences.

Diagram 2-6: Micro Connect Cash Yield Index (MCY Index) (Example)



Monthly Data — Industry | City | Province

	2023/02	2023/03	2023/04	2023/05	2023/06	2023/07	2023/08	2023/09	2023/10	2023/11	2023/12	2024/01
All	1.68 3.70%	1.57 -6.58%	1.68 7.37%	1.62 -3.97%	1.70 5.10%	1.81 6.55%	1.78 -1.51%	1.63 -8.31%	1.54 -5.46%	1.48 -4.33%	1.64 10.78%	1.62 -0.80%
Food & Beverage	1.87 3.33%	1.70 -8.86%	1.90 11.33%	1.70 -10.22%	1.83 7.76%	1.94 5.74%	1.88 -2.86%	1.70 -9.59%	1.59 -6.47%	1.51 -4.97%	1.66 9.63%	1.65 -0.40%
Retail	1.64 -16.96%	1.54 -6.18%	1.68 8.96%	1.67 -0.52%	1.70 1.40%	1.75 3.21%	1.83 4.64%	1.78 -2.96%	1.69 -5.18%	1.55 -8.03%	1.76 13.84%	1.69 -4.16%
Service	1.52 60.64%	1.60 5.29%	1.42 -10.78%	1.57 10.41%	1.59 1.20%	1.62 1.63%	1.50 -7.19%	1.48 -1.09%	1.49 0.27%	1.48 -0.53%	1.53 3.71%	1.54 0.65%
Culture & Sports	1.45 22.02%	1.26 -12.69%	1.55 23.10%	1.39 -10.63%	1.58 13.98%	1.89 19.35%	1.90 0.52%	1.49 -21.73%	1.30 -12.19%	1.29 -0.90%	1.61 24.51%	1.60 -0.49%

MCEX plans to record and publish DCF and ACF information accumulatively, permanently and irreversibly through technological means (e.g. blockchain). This essentially builds a financial ledger and credit history for countless micro and small businesses, which itself is a significant social wide project.

DRC Estimated Remaining Payments. Compared to ACF, PCF is relatively more complex as it describes numbers that have not yet occurred and carries subjective forecasts. It entirely depends on who is making the forecast and the methods being used and there will never be a one-size-fits-all approach and outcome. Therefore, MCEX encourages market participants to develop and adopt a variety of forecasting methods. Once these methods are certified and accepted by MCEX, they will be published as public options for investors.

Let's define a simplest PCF projection model (hereafter referred to as the "Basic Model") as a basic benchmark. This model uses the **historical average revenue to forecast future revenue**. For a DRC that has been listed on MCEX for a period of time, we have observed that the average daily revenue is RMB 10,000. According to the Basic Model, the future daily average revenue for this micro and small business will be RMB 10,000. Taking the future projection plus the revenue sharing terms of a specific contract, the Basic Model can provide a PCF for specific DRC. The PCF derived from the Basic Model is updated daily along with the refreshed daily revenue of a business. We currently use average historical data ranging from a minimum of 90 days to a maximum of 365 days for future revenue projection in the Basic Model, which our experience suggests it's reasonably reliable. However, if a micro and small business does not have 90 days of historical revenue track record, we consider the reference insufficient and continue to use the initial estimation until adjustments are made after the 90-day observation period.

Complex models need to excel. Smart investors will inevitably be unsatisfied with the Basic Model. Some of them are willing to invest more time in research and adopt more complex models to improve future forecasts' precision and thus obtain a competitive edge in the market. Therefore, the Basic Model as the most basic projection model will serve the purpose of a benchmark - any complex model assessed and certified by MCEX to be published must outperform the Basic Model in certain ways. As an open platform, MCEX bears a responsibility to encourage market participants to share various "pay-to-use" or "free-to-use" projection models to enrich market diversity.

Besides cash flow, other non-cash flow information (including business and contract information) related to each DRC during and after its listing will also be displayed on MCEX's relevant platforms.

- **Store Information.** Store information is submitted by micro and small businesses in accordance with MCEX listing and trading rules, including but not limited to business nature and location (province, city, business district). MCEX verifies, standardizes and categorizes the basic information submitted by the store. Key aspects include industry (e.g. Retail, F&B, Services, Culture & Sports), segment (e.g. leisure drinks, general retail, medical health, culture & entertainment), category (e.g. fresh-made tea drinks, convenience stores, dental clinics, cinemas), brand, province, city, business district and other location details; business opening (or expected opening) time; floor area, lease, etc. By standardizing the basic business information, MCEX can also transform business information into labels that is understandable and searchable for investors.

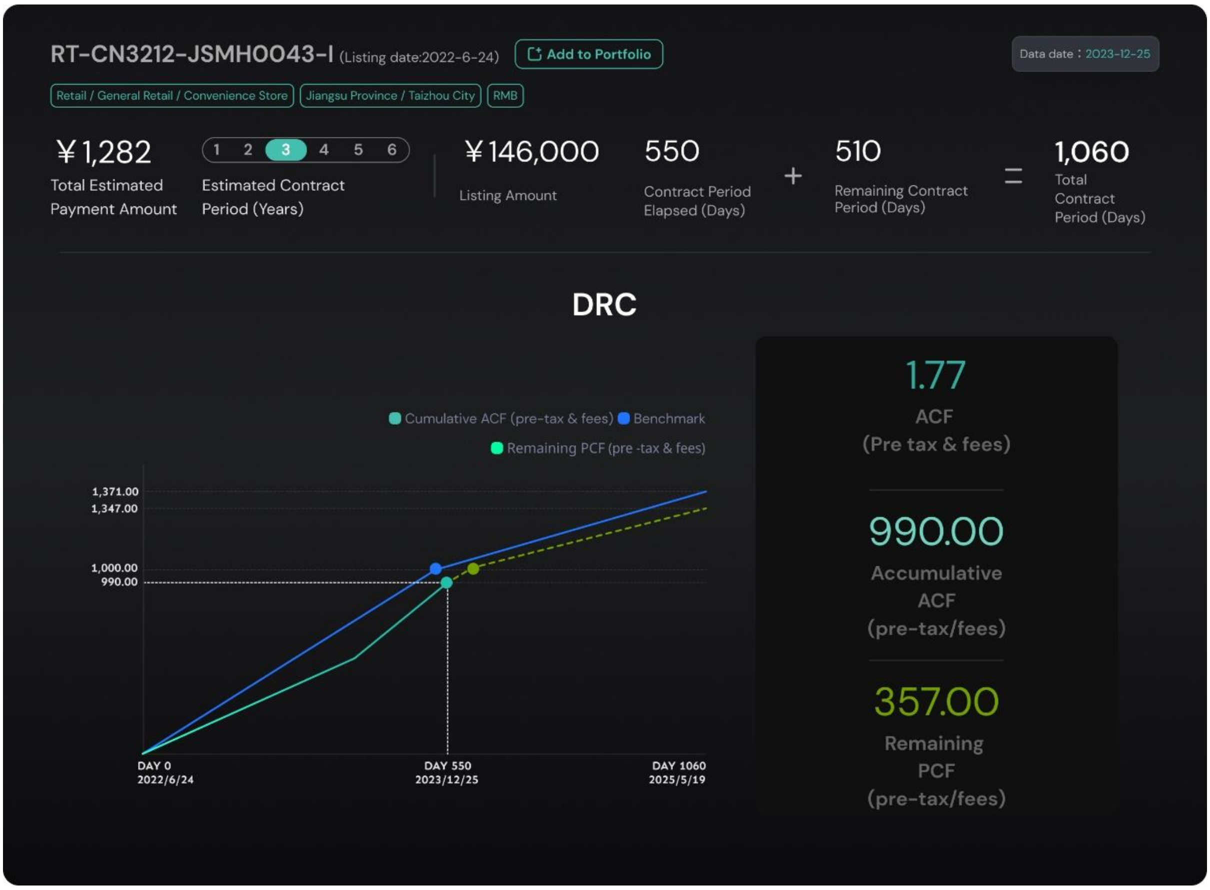
- **Contract Code and Label.** We need to create a system of DRC / DRO code and label for easy classification and retrieval. Contract Code is similar to a contract nameplate possessing uniqueness and (in most cases) immutability - mainly includes objective information that is unlikely to change, such as the industry and location. Contract Labels are akin to contract features, which may change over time or are more subjective, such as the number of employees, ESG themes, risk level etc. Please see Appendix 1 for details.

- **Contract Information.** Key DRC terms include financing amount, listing / pricing date, contract period, funding schedule (e.g. phased funding) and revenue sharing ratios. Store and contract information will be displayed at different levels according to the different users of the information.

4. How is DRC information displayed?

The figure below (Diagram 2-7) shows an overview of a DRC on M-Terminal. The DRC belongs to a convenience store in Taizhou, Jiangsu, with a financing amount of RMB 146,500 and a contract period of 1060 days (approximately 3 years). Standing on the date of December 25, 2023, the contract has run for 550 days, with 510 days remaining.

Diagram 2-7: DRC Information Display



In this example, we assume the M_{DRC} is RMB 1,282, meaning for every RMB 1,000 financed, the store is estimated to pay RMB 1,282 over its entire contract period. Thus, the estimated "financing cost" per RMB 1,000 is RMB 282, which translates to a daily cost of RMB 27 cents. The daily cashflow of RMB 27 cents is below the DRC Market Baseline (also known as the

“Daily RMB 35 Cents Line”), reflecting that at the time of contract signing, the investor’s required risk premium was lower than the market average. The lower required risk premium and thus a lower expectation of investment return can be resulted from strong management capabilities and robust operating cash flow of the store.

So how has this DRC performed to date? On the date of December 25, 2023, for every RMB 1,000 financed, the store paid RMB 1.77 on the day, cumulatively paid RMB 990 to date, and as the "Basic Model" suggests RMB 357 to be paid in the remainder of the contract period.

From the figure above, we can see that the daily received amount of RMB 1.77, is lower than the DRC Market Baseline, but shows a smaller deviation from the expected "half term payback".

The discussion of whether the investor can achieve profits of "RMB 10 cents” a day will be continued in the next section.

5. Are the financing costs high for micro and small businesses?

This is a question of financial costs and social values that concerns both the market and micro and small businesses. Through the M_{DRC} concept, we have demonstrated that the estimated financing costs for micro and small businesses vary due to the differences in industry, location, contract terms, and business operations. Though it cannot be easily generalized, we try to provide some references from our empirical statistics.

Chart 2-8: M_{DRC} (Per RMB 1,000 financed) (as of the end of December 2023)

DRC Contract Period	M_{DRC} (Per RMB 1,000 financed) (Market Median)
Year <1	RMB 1120
Year 1-2	RMB 1250
Year 2-3	RMB 1400
Year 3-4	RMB 1520
Year 4-5	RMB 1660
Year 5-6[5]	RMB 1800

As shown in the table above, the M_{DRC} for micro and small businesses ranges from RMB 1,120 (one-year DRC contract period) to RMB 1,800 yuan (six-year DRC contract period), namely, the estimated "financing cost" ranges from RMB 120 (one-year DRC contract period) to 800 yuan (six-year DRC contract period). When distributing the “financing cost” evenly annually, it ranges between RMB 120 yuan and RMB 150; when distributed daily, it matches the DRC

[5] The current DRC contract period is no longer than six years on average, thus limited data for DRCs with contract periods of more than six years.

Market Baseline, Daily RMB 35 cents line. Based on our empirical statistics, the estimated "financing cost" for micro and small businesses on average per RMB 1,000 financed is approximately RMB 35 cents per day.

It must be noted that M_{DRC} merely represents, the amount estimated to be paid by a micro and small business, which is calculated with the agreed contract period and revenue-sharing ratio under the estimation of the future revenues of the business.

If the revenue of a micro and small business is lower than expected, or a business are closed due to unforeseeable reasons, then the revenue shares to be paid by the business (calculated according to the agreed revenue-sharing ratio) will be below the initial estimates, ergo the real financing cost will be much lower than expected. Conversely, if the revenue of a micro and small business is higher than expected, then the real financing costs may be higher than the initial estimate. All the above reflects, for equity-like DRCs, the financing costs can vary according to the actual revenues of the micro and small businesses. We have been discussing about the financing costs of equity-like DRCs, while the social value aspect of it is a more difficult picture to depict.

A more convincing embodiment of social value is from the other side of the coin – whether the harvest of the micro and small businesses is effectively and efficiently transferred to DRO investment returns. As discussed earlier, the difference between the two lies in friction costs that includes, government taxes, institutional fees, and the operational risk of micro and small businesses. If micro and small businesses pay RMB 500 on DRC "financing cost", and the DRO investor only receives RMB 300 as the DRO investment return, it indicates that friction costs (including government taxes, professional fees, and operating risk) have consumed the other RMB 200.

When we say that financing for micro and small businesses is expensive, what we mainly refer to are the following points. First, there are not enough investors in the micro and small business financing market, the competition is yet to be sufficient, thus investors require higher risk premiums, and therefore ask for higher investment returns. Second, the friction costs of the taxes, fees and risks are high.

We will expand on these two points in section 3 of chapter four.

Chapter 4: How do Investors use the MAP to Invest in DROs?

Through the buying and selling of daily revenue obligation (DRO), DRO investors can own a portion of a micro and small business' operating income. Equivalent to those of DRC, the daily revenue metrics of DRO can be classified into DRO Actual Cash Flow (ACF), DRO Daily Cash Flow (DCF), and DRO Projected Cash Flow (PCF). Each metric can be defined as follows:

- DRO Daily Cash Flow (DCF): The daily amount of revenue received by the DRO holder on a particular day.
- DRO Actual Cash Flow (ACF): The daily revenue stream from the start of contract period up to the present day. Accruing the ACF provides a cumulative sum of the daily revenue that has been received (or "accumulated collection").
- DRO Projected Cash Flow (PCF): The projected daily revenue that the DRO holder will receive from the day following the present day up to the end of the contract period. Accruing the PCF provides a cumulative sum of the projected daily revenue to be received (or "estimated remaining collection").

1. How does DRC Cash Flow convert to DRO Cash Flow?

Discussion in the previous chapter on DRC Cash Flow raises the question of its relationship to DRO Cash Flow. They fundamentally represent two sides of the same coin – from the perspective of micro and small businesses, daily DRC Cash Flow is a contracted obligation with any surplus above the total fund raised serving as the cost of financing through DRC. In the case of DRO Investors, daily DRO Cash Flow constitutes the return on the capital provided, with any amount exceeding the principal regarded as the net investment return. Yet, when converting DRC to DRO, there are intrinsic differences in terms of taxes, fees, and the risks involved.

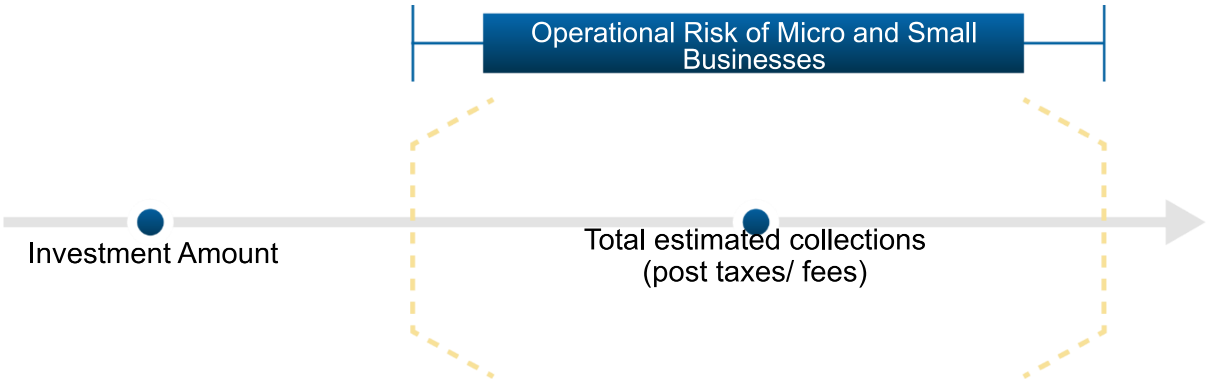
Government Taxes and Institutional Fees

DRC Cash flow paid out by micro and small businesses is subject to government taxation and institutional fees. When netted, it represents DRO Cash Flow received by investors. As the taxation and fee structure follow a fixed framework, so do the corresponding calculation methodologies.

Operational Risks of Micro and Small Businesses

Risks arise from uncertainties in future performance. While DRC Daily Cash Flow and Actual Cash Flow reflect realized performance, DRC Projected Cash Flow reflects unrealized performance that incorporates uncertainties such as future operating income risk and store closure risk. Diagram 2-9 illustrates the variance in projected cash flow, where the left dot represents the original investment amount, the right dot represents the projected total collection after accounting for taxes/fees, and the yellow bracket captures the downside and upside risks associated with the business.

Diagram 2-9 Potential Operational Risks of Micro and Small Businesses

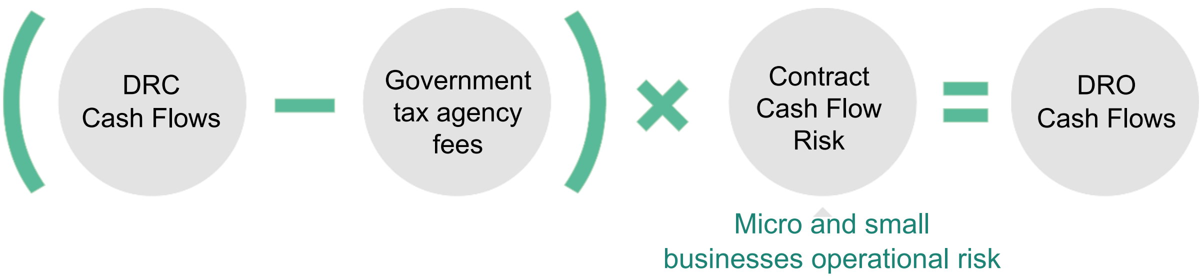


Investors can apply a “Discount Rate” to the DRC Projected Cash Flow to calculate the DRO Projected Cash Flow, accounting for the aforementioned operational risks. This “Discount Rate” is otherwise defined as “Contract Cash Flow Risk”.

- $Contract\ Cash\ Flow\ Risk\ (CCR) = \frac{DRO\ Total\ Estimated\ Collection}{DRC\ Total\ Estimated\ Payment(after\ Tax\ and\ Fee)} \times 100\%$

For any given DRO, the Contract Cash Flow Risk (CCR) reflects the difference between realized performance and expected performance. If the sum of DRO Actual Cash Flow is below expectations, CCR will be less than 1. Conversely, if the sum of DRO Actual Cash Flow is above expectations, CCR will be greater than 1. By applying a weighted average of CCR across all DROs, we derive the market average CCR that reflects the average performance of micro and small businesses in the current market. Therefore, a DRO with a CCR higher than the market average CCR indicates market outperformance, and vice versa. Ultimately, the market average CCR serves as a valuable benchmark for reference when investors lack conviction.

Diagram 2-10: DRC Cash Flow vs DRO Cash Flow



As illustrated in Diagram 2-10, applying the CCR (Contract Cash Flow Risk) to the DRC Cash Flow, adjusted for taxation and fees, results in the respective DRO Cash Flow for investors. Lower taxes/fees and higher CCR result in reduced slippage during the conversion from DRC to DRO, facilitating a near-parity outcome between businesses and investors.

How do we improve the efficiency of converting DRC Cash Flow to DRO Cash Flow?

The magnitude of slippage or friction costs from taxation, fees, and CCR in converting DRC Cash Flow to DRO Cash Flow, provides insight into the government's stance and the socio-economic outlook on micro and small businesses. In a bullish or growth-friendly environment, investors experience less slippage from lower taxes, lower institutional fees, and lower operational risk, and vice versa.

A supportive government policy of lower tax rates fosters growth in both the number and scale of institutions that service the listing of micro and small businesses. As a result, intense competition among these institutions is expected to drive down fees. This, coupled with a positive socio-economic outlook, instills greater market confidence, promotes increased spending, and reduces operational risk for businesses.

Following this, MCEX remains steadfast in its commitment to continually improve its efficiency as a "connector", bridging the gap between DRC Cash Flow and DRO Cash Flow in the case of the following 4 scenarios:

- **Government Tax Reduction:** The government introduces favorable tax policies for investments in micro and small businesses, such as offering eligible investors reduced tax rates or exemption from taxation.
- **Institutional Fee Reduction:** During Micro Connect Macao Exchange's initial launch, there were limited market participants offering listing services for micro and small businesses, prompting the Exchange to assume responsibility for some services. However, as of 2024, the Exchange has actively expanded the market and encouraged more market participants to provide listing services, fostering a fair and competitive market that bolsters service quality and introduces competitive fees. In line with this, as one of the pioneering institutions in the market, MCEX will reduce its fees in 2024. Please refer to Appendix 1 for details.
- **Micro and Small Business Operational Risk Reduction:** For investors, conducting individual risk analysis on a large portfolio of DROs with small notionals is impractical and uneconomical. Instead, leveraging market data and assuming a CCR based on current market conditions can be more feasible. MCEX can employ the following four approaches to help investors manage "risk premium" levels effectively: 1) collaborate with reputable and credible listing services intermediaries to filter out lower quality names and introduce higher quality names, thereby reducing market systematic risk; 2) promote businesses to issue DROs through Add-on Offering (only DROs that have gone through 90 days of Initial Offering are eligible to raise capital through Add-on Offering), allowing investors to base investment decisions on realized performance data and enabling higher quality businesses to issue closer to fair value; 3) encourage participation from cornerstone investors to enhance market confidence and understanding of each business' risk; 4) provide further education to listing services intermediaries to improve the accuracy of revenue projection. Over time, as more listings and performance data are gathered, the accuracy of revenue projections for micro and small businesses will improve, resulting in lower financing costs for these businesses.

- **Improve the Operational Efficiency of MCEX:** MCEX aims to build an ecosystem that better connects global investors with micro and small businesses. The Exchange encourages active participation from all stakeholders, including investors, micro and small businesses, and financial and regulatory institutions, to collectively develop and expand the ecosystem. Embracing the advancements of digitization in various industries, the Exchange aims to provide a transparent, efficient, and trustworthy marketplace. By continuously enhancing investor confidence in the Exchange's legal framework and technical capabilities, it aims to reduce the necessity for high "risk premium" of investing micro and small businesses among investors.

The efficiency of MCEX as a “connector” relies on the socio-economic environment in which micro and small businesses operate. Aligned with the government's agenda of fostering entrepreneurship among the public for common prosperity, we act as a launching pad for businesses to seize this opportunity and flourish. Through the active participation of various stakeholders within the ecosystem, MCEX strives to bridge the gap between businesses and investors, paving the way for a new era of growth in China's micro and small business market.

2. How do we measure DRO Risks?

As each DRO is unique, the risk that follows is also understandably varied. It would be a gargantuan task (and cost) to analyze each DRO and come up with a tailored risk assessment. Hence, we have determined a simple and straightforward method to measure DRO risk: Contract Cash Flow Risk (CCR).

The beauty of the CCR is that it is a measurable yet dynamic ratio. During the lifecycle of a DRO, its CCR is constantly changing in relation to the cumulative cash flow; only when the DRO matures does its CCR stabilize. By aggregating DROs of various industries, maturities, revenue share percentages, etc., we can deduce an average CCR as a metric to measure DRO risk. This average can take many shapes or forms - from systemic market risk down to a specific industry risk in a specific location. Logically, the higher the CCR (especially in comparison to the market average), the lower the DRO risk, and vice versa. **Ultimately, the price of a DRO will reflect the different markets’ views of its CCR.**

How can we predict a DRO’s CCR? The most straightforward method is to compare the average of similar DRO contracts. By referencing the comparable average CCR, investors can easily make an initial judgment on the value of a business’ total estimated payment amount. For instance, if the market average CCR is 0.9 and a business predicts RMB 1,350 in total estimated payment amount, investors can approximate that after taxes/fee (say RMB 100), they will receive RMB 1,125 ((1,350-100) x 0.9 = 1,125). As the DRO market develops and statistics are enriched, the relevance of the market average CCR also improves. Nevertheless, the market average CCR will never be able to precisely reflect the actual risk of each DRO, thus leaving a window for investors to apply their own assessment.

3. How do we measure DRO Performance?

Taking the previously defined DRO risks into consideration, how do we measure the performance of DRO? What metric can we use to draw comparisons across DRO Cash Flows?

Spearheading a new perspective, envision: “A lighthouse, and its beams.”

The "lighthouse" represents the metric, while the "beams" symbolize the measurable scale for comparison. Just as a lighthouse offers guidance and illuminates the path for ships, its beams of light serve as beacons, directing sailors away from dangerous reefs and toward a secure harbor. The lighthouse, embodying the metric, stands tall and steadfast providing guidance and framework for investors in the vast ocean of DRO investments. Meanwhile, the beams of light provide investors with a clear and quantifiable reference to navigate the complexities of DRO investments, enabling them to make informed decisions based on objective and measurable criteria. To elaborate further:

A lighthouse: M_{DRO} – DRO Estimated Collection per RMB 1,000 invested

We first establish a metric for investment return. In the case of DRO Total Collection per RMB 1,000 invested, we can define the formula as follows:

- $M_{DRO} = \frac{DRO\ Total\ Estimated\ Collection}{DRO\ Total\ Investment\ Amount} \times 1000 = \frac{DRO\ Cumulative\ Collection + DRO\ Estimated\ Remaining\ Collection}{DRO\ Total\ Investment\ Amount} \times 1000$

In essence, M_{DRC} is the estimated payment per RMB 1,000 financed from the micro and small business's perspective, while M_{DRO} is the estimated collection per RMB 1,000 invested from the investor's perspective. To illustrate, if an investor were to invest RMB 1,000 into a business issuing a DRO priced at $M_{DRO} = 1{,}125$, the total estimated collection by maturity would be RMB 1,125. With a contract period of 1,000 days, the daily average return would amount to RMB 0.125.

Diagram 2-11: M_{DRO} as a metric for DRO Return Multiple Performance

Consequently, M_{DRO} is a dynamic metric; as the estimated collection from a DRO is realized daily and the remaining estimated collection is updated accordingly, the M_{DRO} adjusts as well. At the beginning, M_{DRO} is the estimated collection per RMB 1,000 invested for the entire period; upon maturity, M_{DRO} reflects the realized return per RMB 1,000 invested throughout the period.

By combining formulas in Diagram 2-10 (DRC Cash Flow vs DRO Cash Flow) and Diagram 2-11, we can deduce that:

- $M_{DRO} = (M_{DRC} - DRC\ Taxes\ and\ Fees\ \ per\ RMB\ 1{,}000\ financing\ ) \times CCR$

MCEX has completed the trade lifecycle for over 10,000 DRO investments. Table 2-12 compiles this data, showcasing the median market M_{DRO} for contract periods that span from under a year to six years. Accordingly, an investor can expect to earn between 20 to 50 RMB for every 1,000 RMB invested.

Table 2-12: Summary of Market Median M_{DRO} (Data as end of December 2023)

DRO Contract Period (Year)	M_{DRO}（Market Median）
<1	1,020 RMB
1-2	1,050 RMB
2-3	1,100 RMB
3-4	1,140 RMB
4-5	1,190 RMB
5-6[6]	1,240 RMB

Now that M_{DRO} is defined, how do we assess DRO performance within the traditional financial framework? The well-established concepts of ROI (Return on Investment) and IRR (Internal Rate of Return) are prevalent in financial markets. For instance, a DRO with a 3-year contract period and a M_{DRO} of 1,100 would imply a ROI of 10%, which equates to an annualized rate of 3.3%. Meanwhile, IRR is the discount rate at which the net present value (NPV) of all cash flows from a given project equals zero, essentially reflecting an annualized effective compounded return rate. In the example given, the DRO with an annualized ROI of 3.3% could realize a higher IRR if cash flows are received early and reinvested effectively.

Although ROI and IRR are useful for evaluating DRO performance, the variable nature of business cash flows can affect their accuracy. ROI is simpler to calculate than IRR, but DROs offer daily revenue distributions that align investor returns more closely with IRR. With daily reinvestment, investors may achieve higher returns.

Beam of light: DRO Market Baseline

Investment performance hinges on various factors, including reinvestment frequency, risk tolerance, and duration. Having introduced M_{DRO} as an investor metric, we have created a DRO Market Baseline—a “beam of light” that offers investors a measurable scale to draw comparison across DRO performances. This is defined as follows:

- **DRO Market Baseline**: The DRO Market Baseline is determined by plotting the time series of Daily DRO Cash Flow for a RMB 1,000 investment, assuming payback occurs **two-thirds** into the contract period and Daily Revenue Collection after payback period amounts to **RMB 0.10**.

The DRO Market Baseline fixes two critical parameters: the payback point and the total DRO cash flow for a RMB 1,000 investment. With a defined contract period for any DRO, these baseline assumptions can be applied for comparative analysis. For instance, consider a DRO spanning 1,000 days. According to the baseline assumptions, the payback would occur on day 667 (two-thirds into the contract), and the total cash flow collected would amount to RMB

[6] In the current market, the longest period for a DRO is 6 years (as of December 2023)

1,100, calculated as follows: 1,000 days * RMB 0.10 daily revenue collection + the initial RMB 1,000 investment.

While the DRO Market Baseline is built on predetermined assumptions, it provides a standard benchmark for evaluating DRO performance. Typically, an investment of RMB 1,000 in a DRO outperforming the baseline is expected to yield an annualized return of approximately 10% when reinvestment is considered, aligning closely with the long term returns of the S&P 500. This benchmark facilitates investors in discerning whether a particular DRO's cash flow performance is above or below the established DRO Market Baseline, thereby indicating its relative investment merit.

Fundamentally, the DRO Market Baseline with its conditions reflects the prevailing DRO performance trends observed on the Exchange. As of December 2023, despite the economic challenges posed by the COVID-19 pandemic in previous years, the more than 10,000 DROs listed on the Exchange have marginally outperformed the DRO Market Baseline. This resilience underscores a reasonable return of investing in the DRO market and signals potential for growth in the wake of an economic recovery.

4. How do we value DRO?

Given that we have examined the metrics to determine the risks and returns of a DRO, it follows that we should now turn to assess its valuation – ostensibly, the "price" that investors are willing to pay for a DRO. To buy a DRO is to buy its projected cash flow. Let us revisit Diagram 2-7 where we suppose the DRC is projected to receive RMB 357 (pre-tax/fees) for RMB 1,000 invested – how much is this DRO "worth"? How can the market price this DRO?

To assist the market in this endeavour, we would like to introduce the Price-to-Net Contract Payout Ratio (P/P ratio). This is a comprehensive price indicator modelled after the price-to-earnings (P/E) ratio and can be calculated as below:

$$Price - \text{to} - Net\ Contract\ Payout\ Ratio = \frac{DRO\ Investment\ Amount}{DRC\ Total\ Estimated\ Payment\ (after\ tax\ \text{and} fees)}$$
$$= \frac{1000}{M_{DRO}} \times Contract\ Cash\ Flow\ Risk$$

The P/P ratio consists of two parts: firstly, the inverse of the return on investment (ROI multiple), which is 1,000 divided by M_{DRO}; and secondly, the Contract Cash Flow Risk, which is the DRO investment amount divided by the DRC total estimated payment amount (post tax/fees). The former reflects return, whereas the latter reflects risk. Therefore, we can understand P/P ratio as a price indicator that combines risk and return metrics – presumably, a given P/P ratio indicates when the risk is high (thus CCR is low), the ROI multiple is low, and vice versa.

Diagram 2-13 (1): P/P ratio as a measure of risk and return (when actual payout is below expectation)

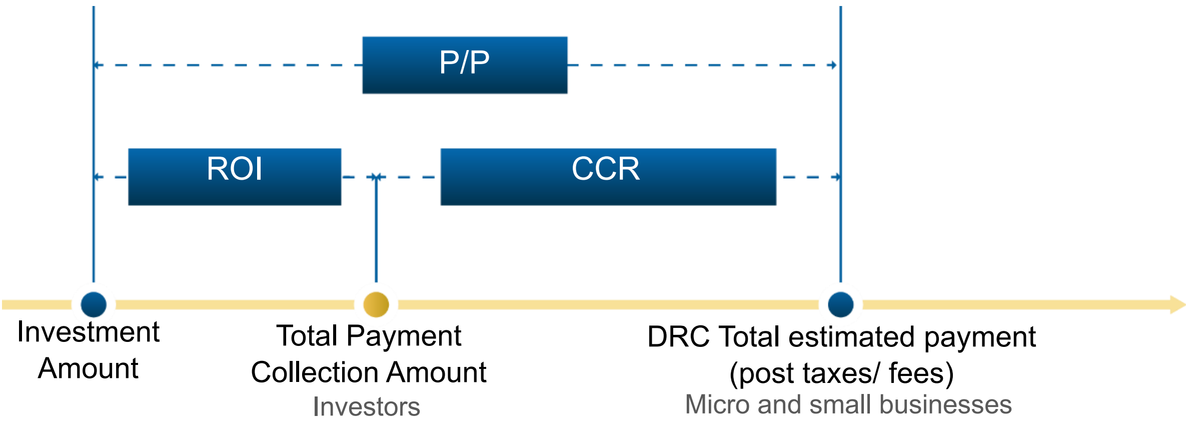
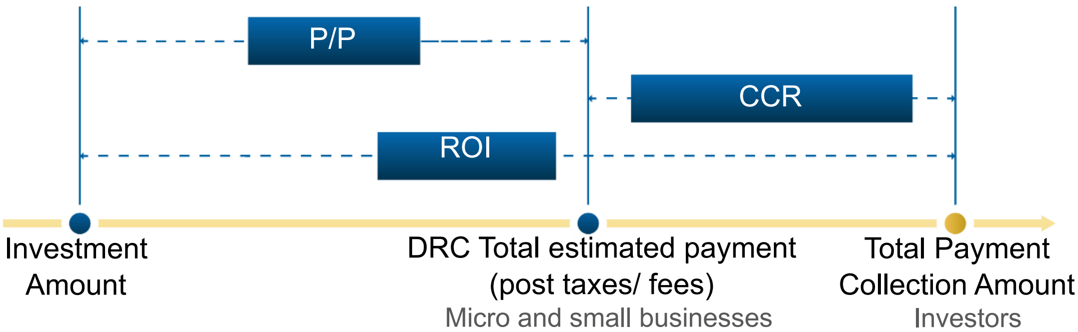


Diagram 2-13 (2): P/P ratio as a measure of risk and return (when actual payout is above expectation)



Diagrams 2-13 (1) and 2-13 (2) illustrate the relationship across P/P ratio, return on investment, and micro and small business operating risk. P/P ratio is a comparison between the amount an investor invests into a DRO and the amount a business is estimated to payout (post tax/fees) upon the maturity of the DRC. Due to the operational risks that exist in micro and small businesses, the final amount an investor receives (post tax/fees) may be higher or lower than expected. Diagram 2-13 (1) shows a scenario when the final payout is below expectation, whereas diagram 2-13 (2) shows a scenario when the final payout is above expectation. We can understand the difference between actual final payout and estimated final payout as a measurement of risk, while the ratio between actual final payout and investment amount as the ROI multiple.

Through the introduction of the P/P ratio, we hope we have demonstrated a clear and concise way to determine the correlation between DRO price and estimated DRC payout. Let us examine this further by using concrete numbers.

Diagram 2-14 (1): P/P Ratio at DRO Issuance

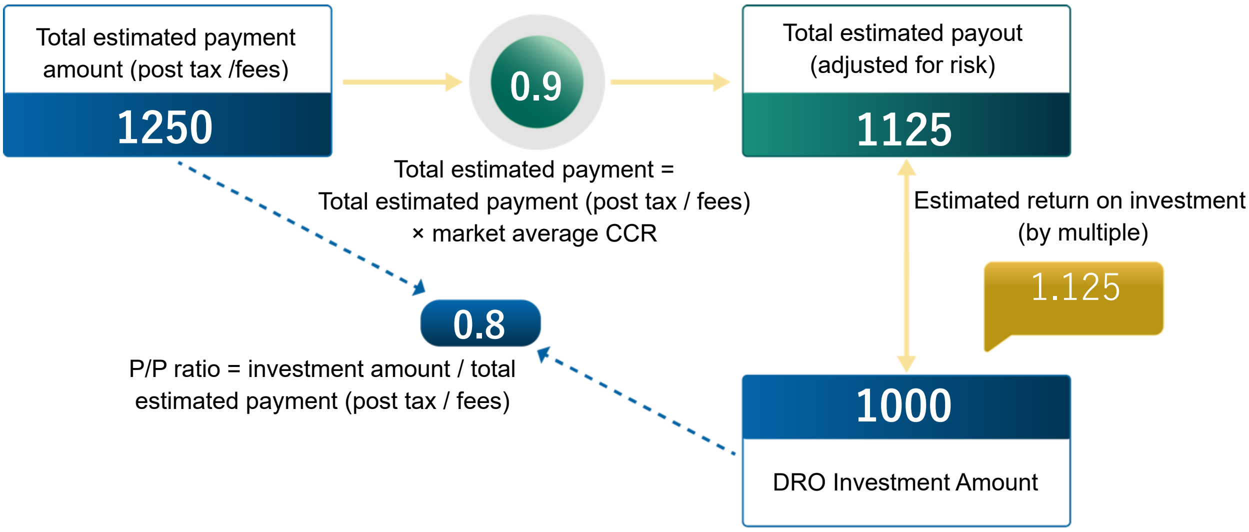
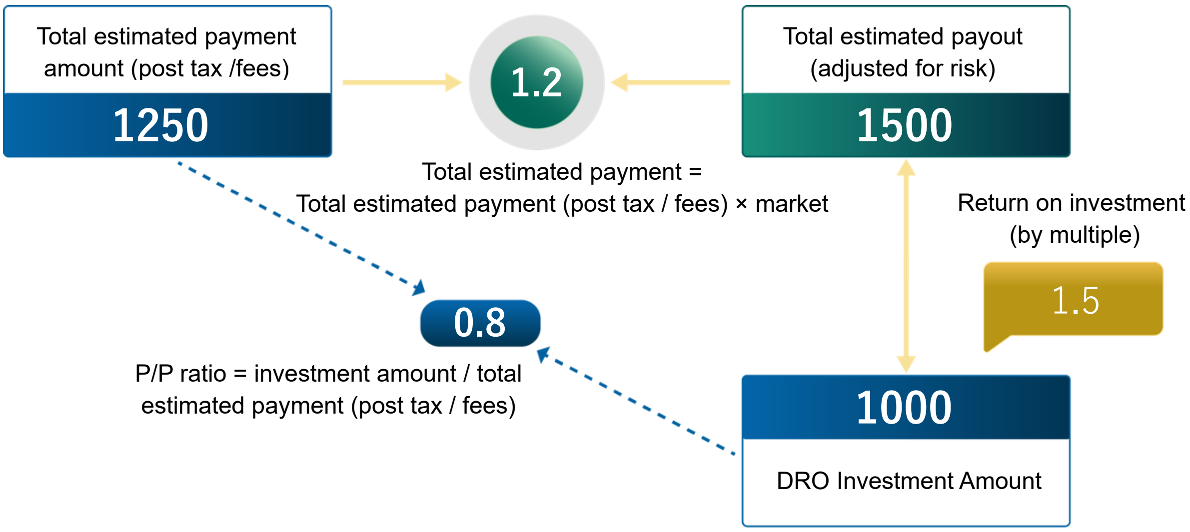


Diagram 2-14 (2): P/P Ratio at DRO Maturity



Consider diagram 2-14 (1), where a business wishes to finance RMB 1,000 with a contract period of 1,000 days and expects to payout RMB 1,350 (including taxes/fees of RMB 100) upon maturity. In other words, a DRO priced at RMB 1,000 is buying a projected payout of RMB 1,350 (minus taxes/fees of RMB 100). This correlation is the Price-to-Net Contract Payout Ratio – MCEX's "price-to-earnings ratio". In this instance, P/P ratio is 0.8 (1,000 divided by (1,350 – 100)). This means that investors are willing to pay 80 cents on the dollar for the projected post tax/fees payout of the micro and small business. If we now assume that the market CCR is 0.9, we can calculate the estimated payout adjusted for risk is RMB 1,125, which is 1.125x the investment amount (RMB 1,000).

Now consider diagram 2-14 (2), a plausible scenario occurring upon the maturity of the DRO whereby the business has outperformed expectations and produced final payout of RMB 1,500. Now we can calculate the "real" CCR of this DRO (RMB 1,500 divided by RMB 1,250 = 1.2; higher than the average CCR of 0.9) and the updated ROI multiple (RMB 1,500 divided by RMB 1,000 = 1.5; higher than the estimated 1.125x).

Ultimately, as depicted in the two scenarios above, the investor expectation of a DRO's price and value is dependent on the CCR. When the DRO is listed, if the investor expects the projected post tax/fee payout to be greater than RMB 1,250 (CCR>1), then purchasing the DRO at RMB 1,000 will result in ROI above 1.125x; if the opposite is true, the ROI will fall below 1.125x and the investment may even result in a loss.

Without doubt, the P/P ratio is closely tied to the tenor of the contract. It would be very difficult to compare the P/P ratio between a 3-Year DRO vs. a 1-Year DRO, just as it would be hard to compare the P/P ratio between a DRO that has just been issued vs. one that is about to mature. Hence, in actual calculations, we have adjusted the P/P ratio to a daily average value, which is dynamically changing as the DRO approaches the end of its contract. We can then benchmark this P/P ratio against a range of average P/P ratios, e.g. contract period, industry, location, etc. These different P/P ratios themselves can be viewed as a measurement of investor sentiment towards the respective DRO baskets. As the scale of the DRO market expands, the granularity of the P/P ratios will become progressively finer, and its reliability will strengthen. Like P/E ratio, P/P ratio creates market consensus, effectively opening a channel of communication between DRO buyers and sellers. In a sea of DRC/DRO contracts, where the scale of each contract is small, and the degree of dispersion is high, we strongly believe that the Law of Large Numbers is especially relevant to institutional investors and thus, P/P ratio will play an increasingly important role in DRO valuation.

In line with traditional valuation methods, we can also use the discounted cash flow (DCF) model to obtain a precise DRO valuation. This would involve two steps: 1) to deduct taxes/fees from the projected DRO cash flows and adjust for risk; 2) to discount the previous number based on an agreed discount rate. The discount rate would vary depending on the investor's circumstances (e.g. cost of capital) and understanding of the DRO market. As for the details of this DCF model, we will table for discussion in the future.

5. How is DRO information displayed?

Having discussed the cashflow conversion from DRC to DRO, as well as its corresponding risks, return and valuation methods, let us look at how these metrics are presented and used to understand a DRO on the proprietary MCEX platform "M-Terminal". In the example below, we will examine a DRO issued by a convenience store in Taizhou, Jiangsu Province and compare its performance against the industry average using some of the metrics mentioned in the earlier parts of this paper. The screenshot below reflects the statistics as of December 25, 2023 – 550 days after the DRO was issued.

Diagram 2-15: DRO Information Display

To summarize, RT-CN3212-JSMH0043-I was issued on June 24, 2022 as a 3-Year DRO with RMB 146,500 in funding, which is estimated to generate returns of RMB 1,282 (pre-tax/fees)[7] per RMB 1,000 invested. At the time of issuance, the DRO had a Price-to-Net Contract Payout (P/P) ratio of 0.83, which was higher than the industry average of 0.75. As of December 25, 2023, the DRO had accumulated cash flow of RMB 990 (pre-tax/fees) per RMB 1,000 invested and was projected to receive a further RMB 357 (pre-tax/fees)[8] per RMB 1,000 invested by the time the DRO matures.

We suggest two main points of consideration when viewing the MAP visualization:

1. M_{DRO}, and
2. Contract Cash Flow Risk (CCR)

To calculate the M_{DRO} on December 25, 2023, we take the cumulative post-tax/fees cash flow and discount the projected post-tax/fees cash flow by the industry average CCR 0.94: 990 – 20 + (357 – 72) x 0.94 = RMB 1,238. We can see that on Dec 25, 2023, this particular DRO reflected a positive return on investment. The chart on the right-hand side reiterates this point by showing that this DRO outperforms the DRO Market Baseline.

Following the previous point, we can now study the CCR of each DRO, which is a comparison of the M_{DRO} on a specific date against the post-tax/fees M_{DRC}. In this example, the post-tax M_{DRC} is 1,282 – 82 = RMB 1,200. Thus, we can conclude that the CCR of this DRO on December 25, 2023 was 1.03 (RMB 1,238 divided by RMB 1,200); higher than the market average of 0.94 and in turn reflecting the comparatively lower risk of this DRO. This echoes the higher-than-average P/P ratio at time of issuance. Additionally, when the CCR is greater than 1, it reflects that a business has delivered a strong and stable cash flow and exceeded investor expectations.

[7] Based on market average CCR, which in this case was a 0.94
[8] Based on the PCF Estimation Model described in Section 3

Chapter 5 – How do Investors Use MAP to Invest in DRPs

For most investors, investing in individual DROs is not easy. First and foremost, the investment amount for a single DRO is limited—micro and small businesses have relatively smaller sizes of revenues, which constrains the investment amount they are likely to receive. In the early days of Micro Connect, the total investment in a single DRO averaged less than RMB 300,000.

Secondly, individual DROs are subjected to each store's "idiosyncratic risk"—the micro and small businesses could be significantly impacted by individual and heterogeneous reasons such as road construction, power or water outages, illness of a store manager, or disputes among chefs. These trivial matters could affect the DRO cash flow substantially. The above reasons explain why traditional investors have always been hesitant to invest in micro and small businesses. As DRO investments are small in size, the risks are very specific and difficult to discern, DRO investors must expend substantial effort to evaluate these risks, and even so, arduous to achieve a considerable scale of investment.

With our highly digitized economy, we can observe and capture the daily revenues of micro and small businesses, making DRO investments feasible. Nonetheless, it has not changed the two characteristics of DRO investments: the small scale of individual investment and the difficulty in assessing individual risks. Ergo, we need to take a step further, select and group a basket of DROs into a sizable investment portfolio, namely a DRP, solving the DRO problem of limitation in investment size. Meanwhile, if the DROs in the DRP are sufficiently diversified, the individual heterogeneity significantly decreases—across a collective of 1000 DROs of 1000 different bakeries, the risk of road construction in front of a handful of stores is minimal.

With the innovation of DRP, risks are easier to assess, and the sizable investment sizes are more palatable to investors, making investment products based on revenue sharing more acceptable to the market.

As DRPs can be sizable, the DRP issuer can subordinate the DRP cash flows (consolidated from the DRO cash flows within the portfolio), and slice and dice the interests to different investors with a wide range of risk preferences. We call this the layering and structuring of DRP.

As DRPs can be sufficiently diversified, this could effectively eliminate the idiosyncratic risk of individual DROs, which enables traditional credit rating agencies to analyze and evaluate DRPs, especially structured DRPs. Traditional rating agencies can provide corresponding credit ratings to different tranches of DRPs, which makes the risk disclosures much more intuitive and directly comparable with traditional fixed-income market ratings. The involvement of traditional rating agencies greatly reduces the complexity for investors to participate.

Structured DRPs are similar to “asset securitization” in conventional capital markets. A DRO is like a real estate property, the investor would need to understand the specific information of a specific house, such as the condition of the house, location, utility installations, etc., prior to making a purchase. Whereas a DRP is like a portfolio of different real estate properties aggregated, the importance and significance of the characteristics of the individual property decreases. Instead, investors are more concerned with the portfolio structure, the macroeconomics of the real estate market, market rental income levels, and legal protections, etc.

1. How is the DRP constructed?

DRP is a portfolio of DROs actively traded on MCEX. To better illustrate the process, we have outlined the steps in constructing a DRP on MCEX:

- **DRP Issuance:** DRO investors will accumulate a certain amount of DRO units, select and group these units according to specific rules to a portfolio, and submit it to MCEX to apply for DRP issuance approval. Once the DRP issuance documents are approved by MCEX, the DRP can be issued and the DRP units can be sold to qualified investors on the exchange.

- **DRP Product Period:** When a DRP investor buys DRP units, the corresponding DRO units are registered and custodied by MCEX. MCEX collects and distributes corresponding cash flows to DRP investors periodically and supports the secondary transfer of DRP units.

The Composition of DRP. Since a DRP consists of a basket of DROs, investors are naturally concerned about its composition: Is the portfolio diversified enough? How many DROs are in the portfolio, and their respective units? How are they distributed among different brands, industries, and cities? Diagram 2-16 below displays the composition of the DRP portfolio as shown in M-Terminal.

Diagram 2-16: DRP Portfolio Composition

To date, MCEX has issued a total of five DRP products, but we have yet to collect significant data to answer THE question precisely: “How many brands and stores should a DRP include to be considered adequately diversified?”.

Our current experience suggests that a DRP with more than a hundred brands and thousands of stores has a good degree of diversification, with idiosyncratic risk no longer significant.

Furthermore, the composition of a DRP is dynamic and changes over time, due to the varying contract periods of the DROs included in the portfolio. The number of DROs will decrease over time as the contract period ends; some DRPs may also have new DROs added to the portfolio over time as new DROs are issued.

- When a DRP does not add new DROs during its product period, as stipulated in its offering documents, it is referred to as a "static DRP" (meaning no new DROs are added to the DRP, only reductions due to the conclusion of DROs). As a static DRP doesn't reinvest in new DROs and is able to distribute daily revenue share every day, DRP Investors can expect to receive daily cash distributions. To enhance returns, DRP investors can reinvest the cash distributions received each day at their discretion.

  When a DRP is obliged to purchase and add new DROs according to certain rules (usually in line with the DRP theme) by a specific institution (typically the DRP issuer) during its product period, as stipulated in the offering documents, it is referred to as a "dynamic DRP" (meaning the DRP continues to add new DROs). As a dynamic DRP recoups revenue share daily, and reinvests the cash into new DROs, it enables compound interests, and thereby enhances investor returns. MCEX has not listed any dynamic DRP products yet, and we will discuss with market participants and regulators before we launch those products.

DRP Cash Flow. As a portfolio, DRP represents a large aggregate cash flow composed of multiple smaller cash flows. The DRP cash flow is the sum of the underlying DRO cash flows, thus it includes Daily Cash Flow (DCF), Actual Cash Flow (ACF), and Projected Cash Flow (PCF). At present, the PCFs of the DRPs listed on MCEX are deduced from the Basic Model.

- **DRP Contract Period**: The start date of a DRP is its issue date, and the end date is determined by the DRO with the longest maturity within the DRP. Each DRP has a defined issue date and an end date.
- **DRP Daily Cash Flow (DCF)**: The total cash amount received on a particular day by DRP unit holders.
- **DRP's Actual Cash Flow (ACF)**: The cumulative actual daily revenue shares received by the DRP unit holders, from the DRP issue date to the present.
- **DRP's Projected Cash Flow (PCF)**: The cumulative estimated daily revenue shares received by the DRP unit holders, from the present to the end date of the DRP. This is calculated by aggregating the PCF of each DRO within the DRP.
- **DRP Market Baseline:** The aggregation of the cash flow corresponding to the DRO market baselines included in the DRP at the DRP issue date.
- **DRP Estimated Payment (per RMB 1,000 financed)**: The total amount of remaining projected cash flows (estimated total payment by the DRP issuer) per RMB 1,000 financed by the DRP issuer.
- **DRP Estimated Collection (per RMB 1,000 invested)**: The total estimated amount of collection by DRP investor per RMB 1,000 invested.
- **DRP Contract Cash Flow Risk**: DRP estimated collection (after taxes and fees) over DRP estimated payment. This ratio reflects the variance between the actualized cash flows during the DRP's product period and the projections at the time of issue.

It is noteworthy that since a DRP is a basket of DROs, DRP investors are concerned with how the daily cash flows during the product period of a DRP compare to the projections at the time of its issuance. The projected cash flows in the offering documents serve as the basis for investors to assess buying and selling decisions.

If the actual cash flows during a DRP's product period surpass those projected in the offering documents, the performance of the DRP is considered "above expectations," and vice versa. Thus, in the DRO section, we compare the M_{DRC} for micro and small businesses with M_{DRO} for investors. Similarly, in the DRP section, we compare the "DRP Estimated Payment" with the "DRP Estimated Collection ".

2. How are DRPs tranched and rated?

A DRP is a portfolio of cash flows similar to a traditional asset-backed portfolio. The cash flow can be tranched and subordinated to cater to different DRP investors with a wide range of risk appetites and return expectations.

Investors who invest in the "senior tranche" of a DRP, enjoy preferred rights to the allocation of the collected cash flows, hence incurring lower risks and rendering lower yields. Conversely, investors who invest in the "junior tranche" of a DRP, are only entitled to junior rights to the distribution of collected cash flows, hence incurring higher risks and rendering higher returns.

Aside from the subordination of cash flows, DRPs like traditional asset-backed securities require a series of legal arrangements, such as asset segregation to safeguard investors' interests.

Based on the allocation of DRP cash flows, credit rating agencies can rate different tranches of DRPs, allowing for comparison against the risk profiles of traditional fixed-income assets.

In December 2023, the first DRP credit rating was issued by CSPI Credit Rating. As more rating agencies are more deeply involved, we believe it will further facilitate investors' assessments of risk and return on DRPs.

The valuation of DRPs shares some similarities and differences from the valuation of DROs. They are similar because if we consider DRP as a large piece of DRO, the portfolio would be an aggregation of the DROs, and would present a risk-adjusted Projected Cash Flow (PCF), which, when discounted, can provide its net present value.

The difference lies in the fact that a DRP's cash flow is an aggregation of a vast number of diversified DRO cash flows, often subordinated into tranches. The senior tranche of a DRP is most likely to receive a credit rating, which can be compared across different asset classes, and can be more straightforwardly priced at market value. For the junior tranche of a DRP, often more difficult to obtain credit ratings, we adopt the classic DCF model for as the valuation methodology.

3. Composite Investment Index

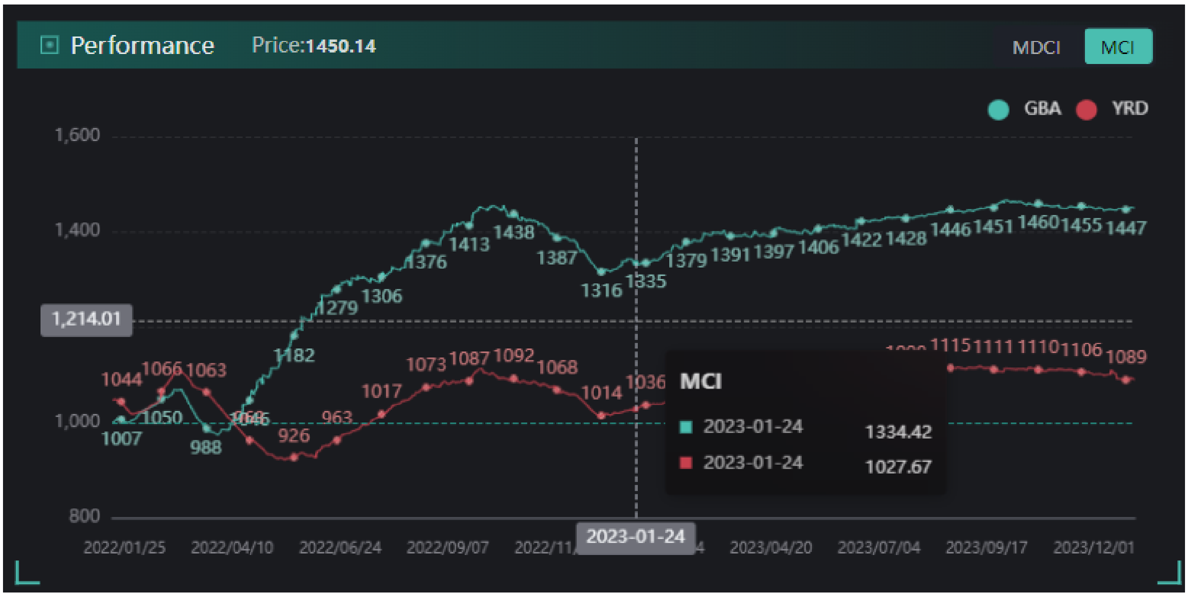
Historically, which industries and regions of micro and small businesses have demonstrated strong performance and growth momentum? Which sectors have been lackluster and stagnant?

To better assist investors in analyzing the market risks and trends, we have constructed and published various index composites using DROs from different industries/regions/themes to simulate and demonstrate the returns of those DROs composing DRPs. Furthermore, we are continually developing tools for investors to build their own bespoke portfolios with the DROs they are interested in.

To better showcase the market trends, we have constructed Micro Connect Composite Index to reflect the investment returns of a basket of DROs (simulating DRPs) specific to certain industries/regions/themes.

- **Micro Connect Composite Index**: This index measures the profit or loss for every RMB 1,000 invested by an investor in a basket of DROs on any given day. To measure the gains or losses of an investor involves complex math, we must consider both the cash flow returns as well as the DROs valuation that are still in position. Chart 2-17 showcases an example. For a basket of DROs in the Greater Bay Area, investors gained a cumulative 34.4% return on every RMB 1,000 invested from Jan 25, 2022, to Jan 24, 2023. In comparison, the returns from DROs in the Greater Bay Area were significantly higher than those in the Yangtze River Delta.

Diagram 2-17: Micro Connect Composite Index (Example)



As more DROs are listed and traded on MCEX, an even more diverse array of DRP portfolios will be issued on the exchange. Details such as the display of DRP information and the application of the “Projected Cash Flow Valuation Methodology” will be further discussed in the future.

Appendix 1: Micro Connect Macao Financial Assets Exchange (MCEX)

As the world's first licensed exchange for DRO products, MCEX is a regulated exchange platform for the listing, trading, registration, custody, clearing, settlement, information disclosure, and value-added services of DRO, DRP, and other related products. At the current stage, MCEX's business has already taken shape and is rapidly optimizing its function as a "connector".

MCEX officially commenced operations on August 3, 2023. As of December 31, 2023, the cumulative total assets listed and issued by MCEX reached close to RMB 4.0 billion, covering more than 10,000 stores in 270 cities and 688 brands. MCEX processed over 10,000 DRO listings and captured RMB 1.06 billion of daily revenue shares for its qualified investors[9]. MCEX also welcomed the first batch of 53 qualified investors from Hong Kong, Macao, Singapore, and other regions. These qualified investors include commercial banks, securities companies, asset management institutions, wealth management institutions, VC funds, PE funds, hedge funds, and other financial institutions.

MCEX is a complete ecosystem developed based on the unique cash flow characteristics of the new daily revenue-sharing asset class. We have established a relatively comprehensive product suite based on DRO and DRP markets, taking into consideration the varying needs of traditional financial markets and professional investors in terms of risk preference and asset allocation. MCEX offers two main categories of exchange services.

The first is basic services, centering around ARM and its related services, including cross-border fund transfer, information collection, cash flow settlement, and entitlement authentication, as well as standard services, including initial offering, secondary offering, registration and custody, clearing and settlement, and account management etc.

The second is value-added services, including but not limited to asset origination, due diligence, research and analysis, financial forecast, and contract structuring. This would require the participation of a large and diverse group of market participants, such as asset originators, rating agencies, valuation agencies, research institutions, and others. In the early stage of development, Micro Connect Group, as one of the market participants, has undertaken some of the value-added services as an anchor participant in this new asset class.

In order to facilitate broader participation from third-party market participants and to further enhance the depth and breadth of the market, MCEX will consider introducing third-party intermediaries to provide value-added services in the future. This idea would require sufficient communication with our relevant regulators. If this is subsequently approved after in-depth analysis and research, MCEX would like to invite third-party intermediaries to provide such value-added services.

We will first provide an overview of the rules and legal framework of MCEX, followed by an introduction of exchange services based on DRO and DRP products, as well as the service type, target, fee basis and detailed descriptions of each.

[9] Data on revenue share captured is calculated from Dec 2021 (before MCEX officially commenced operations) to Dec 2023.

I. Exchange Rules and Legal Framework

The exchange rules of MCEX are divided into three levels.

The first level is the "General Rules of Micro Connect (Macao) Financial Assets Exchange", outlining the legal status and overall regulations of the core operational functions of MCEX.

The second level of exchange rules is formulated to provide general provisions on the entire operational process of MCEX, including product listing, trading, registration and custody, clearing and settlement, information disclosure and membership management. The second level of exchange rules includes:

- "Product Listing Rules of Micro Connect (Macao) Financial Assets Exchange";
- "Product Trading Rules of Micro Connect (Macao) Financial Assets Exchange";
- "Registration and Custody Rules of Micro Connect (Macao) Financial Assets Exchange";
- "Clearing and Settlement Rules of Micro Connect (Macao) Financial Assets Exchange";
- "Information Disclosure Rules of Micro Connect (Macao) Financial Assets Exchange"; and
- "Membership Management Rules of Micro Connect (Macao) Financial Assets Exchange".

The third level of exchange rules is formulated to provide operational process-related rules on each specific product, covering product listing, trading, registration and custody, clearing and settlement, information disclosure, fees and other matters. The third level of exchange rules currently include:

- "Operational Rules for Daily Revenue Obligation Product of Micro Connect (Macao) Financial Assets Exchange"; and
- "Operational Rules for Daily Revenue Portfolio Product of Micro Connect (Macao) Financial Assets Exchange"

In terms of legal relationship, investors will sign a membership services agreement with MCEX, pay the corresponding exchange fees, and in return, enjoy services provided by MCEX and its subsidiaries. These services include product subscription, trade matching, information disclosure, data analysis, clearing and settlement, registration and custody, etc. If qualified investors subscribe or issue DRP products, they will also be regulated by the respective product information documents and exchange rules. MCEX is regulated by and operates in accordance with the laws, regulations and provisions issued by the Monetary Authority of Macao. In the future, MCEX, under the supervision of the Monetary Authority of Macao, will continue to refine and formulate rules based on its business needs and market feedback, including but not limited to rules on new exchange products and value-added services.

II. Exchange Services

1. DRO Services

Fees	Payer	Basis	Description
I. Basic Services			
ARM Services			
1. Cross-border fund transfer	DRO holder	Daily revenue share*	Providing market access for investors through cross-border fund channels
2. Information collection	DRO holder	Daily revenue share*	Daily collection of DRO revenue share data
3. Cash flow settlement	DRO holder	Daily revenue share*	Daily settlement of revenue share cash flow as agreed in the DRO contract
4. Entitlement authentication	DRO holder	Daily revenue share*	Daily authentication of information collected and cash flow settled as agreed in the DRO contract
5. Irregularities management	DRO holder	Daily revenue share*	MCEX to protect investor rights on behalf of DRO holders
Standard Services			
6. Initial offering	DRO subscriber	Subscription amount	Subscription and matching services for initial offering of DRO products
7. Secondary offering	DRO buyer/seller	Transaction amount	Trading and order matching services for secondary offering of DRO products
8. Registration & custody	DRO holder	Daily revenue share*	Registration and custody services for DRO products
9. Clearing & settlement	DRO holder	Daily revenue share*	Clearing and settlement services for DRO products
10. Account management	DRO holder	Daily revenue share*	Administrative and account management services for DRO holders
II. Value-Added Services			
Pre-Investment Services			
1. Asset origination	DRO subscriber	Subscription amount	Asset origination and sourcing
2. Due diligence	DRO subscriber	Subscription amount	Information collection, due diligence reports, asset rating, etc.
3. Research & analysis	DRO subscriber	Subscription amount	Analysis on an asset's industry, category, region, lifecycle; customized research report services
4. Financial forecast	DRO subscriber	Subscription amount	Revenue and cash flow forecast
5. Contract structuring	DRO subscriber	Subscription amount	Design revenue share and investment terms
6. Legal due diligence & document drafting	DRO subscriber	Subscription amount	Legal due diligence, legal document drafting and legal consultation

Post-Investment Services			
7. DRO pledge financing services	DRO holder *(seeking financing)*	To be quoted based on service scope	Additional services required by investors for DRO pledge financing, including issuing service reports, certification documents, etc.

**Note: Daily revenue share based on actual, pre-tax amount.*

1.1 DRO Basic Services

MCEX will consider introducing third-party intermediaries to provide value-added services in the future. This idea would require sufficient communication with our relevant regulators. If this is subsequently approved after in-depth analysis and research, MCEX would like to invite third-party intermediaries to provide such value-added services.

1.1.1 ARM Services

ARM, leveraging small and micro businesses' digital infrastructure, is an automatic revenue information capturing and cash flows splitting system specifically developed for small and micro businesses investment. ARM forms the core settlement infrastructure of MCEX and provides DRO investors with a comprehensive suite of services, comprised of cross-border fund transfer, information collection, cash flow settlement, entitlement authentication, and irregularities management. DRO investors shall pay fees, based on a percentage of the daily revenue share, for the ARM services provided by MCEX. The descriptions of each fee type are as follows:

(1) Cross-Border Fund Transfer

MCEX provides investors with market access through its cross-border fund channels, in strict compliance with the relevant laws and regulations. The specific fund channels are established and managed by MCEX's onshore and offshore entities through a series of arrangements under existing laws and regulations.

For northbound transfer (offshore to onshore), MCEX on behalf of investors will first remit funds from its wholly-owned offshore entities (offshore SPV) to its onshore wholly foreign-owned enterprises (WFOE) or onshore investment entities (onshore SPV), followed by the funding of DRO-listed entities through MCEX's onshore SPV.

For southbound transfer (onshore to offshore), MCEX on behalf of investors will first collect daily revenue share through its onshore SPV (or through its WFOE), followed by cross-border fund transfer to its offshore SPV, thereby enabling the daily revenue share distribution to the corresponding DRO holders.

(2) Information Collection

The ARM information system, by establishing connectivity with DRO listed entities' SaaS providers / order management platforms (through standardized interface or API), supports the automatic capturing of operating and revenue information based on the agreed investment terms.

(3) Cash Flow Settlement

The ARM cash system, by establishing connectivity with regulated financial institutions such as leading banks and payment companies, supports the automatic splitting and settlement of cash flows from the daily revenue share of DRO listed entities based on the agreed investment terms.

(4) Entitlement Authentication

The ARM authentication system, by integrating, analyzing and verifying the daily revenue share information of each listed entity through the ARM information and cash systems, enables the precise authentication of investors' rights to the underlying daily revenue share. Each piece of data would match with a specific DRC's daily revenue share amount and the corresponding entitlement, which is then cross-checked against the relevant transaction automatically captured under the regulated financial institutions' system. This enables the accurate distribution of daily revenue shares to DRO holders based on their contractual entitlements.

(5) Irregularities Management

In cases of irregularities in the underlying assets of a DRO (including but not limited to situations where the underlying assets cannot operate normally during the agreed contract period), MCEX can act as an authorized representative on behalf of DRO holders to protect their rights. This may include, but is not limited to, seeking compensation, or initiating arbitration based on terms of the contract. As such, DRO holders shall pay service fees, based on a percentage of the daily revenue share amount, for the irregularities management services provided by MCEX.

1.1.2 Standard Services

DRO standard services include initial offering, secondary offering, registration and custody, clearing and settlement, and account management services. The specific description of each service is as follows:

(6) Initial Offering

Investors participate in the subscription of newly issued DRO products by becoming qualified investors of MCEX. At the initial offering stage, qualified investors who successfully complete DRO subscription shall pay subscription fees, based on a percentage of the DRO subscription amount, for the subscription and matching services provided by MCEX.

(7) Secondary Offering

MCEX provides secondary offering services based on a centralized order matching system. On each trading day, MCEX would match buy and sell orders submitted by qualified investors based on price-time priority. Buyers and sellers of DRO products in secondary offering shall pay trading fees, based on a percentage of the actual transaction amount, for the trading and matching services provided by MCEX.

(8) Registration and Custody

MCEX's registration services include product registration, product transfer registration and others. Custody services refer to the centralized custody of the products held by investors through their trading accounts, as well as management and maintenance of the relevant interests of the products held by investors. DRO holders shall pay service fees, based on a percentage of the actual daily revenue sharing amount, for the registration and custody services provided by MCEX.

(9) Clearing and Settlement

DRO holders shall pay service fees, based on a percentage of the actual daily revenue sharing amount, for the various clearing and settlement services provided by MCEX. The clearing and settlement services include (i) product clearing and settlement, and (ii) trade clearing and settlement.

Product clearing and settlement: MCEX shall, in accordance with the relevant rules of MCEX and the provisions of the product issuance document, calculate the revenue corresponding to the DRO products held by qualified investors and the related taxes and fees. MCEX shall then generate the product revenue clearing results and settle the funds in accordance with the clearing results.

Trading clearing and settlement: On each trading day, MCEX shall calculate (i) the units receivable or payable for the DRO products under the trading account of the qualified investor, (ii) the amount receivable or payable by the fund account, (iii) the amount receivable or payable by the product listing applicant in accordance with the product trading results, and (iv) the fees and other relevant data, to generate the trading clearing results for that day. MCEX shall, based on the clearing results, arrange for products payable or receivable by the qualified investors to be transferred out of or into the corresponding trading account, and the funds payable or receivable to be transferred out of or into the corresponding fund account. MCEX shall also provide means for the qualified investors holding the DRO products to access the corresponding product certificate (if applicable).

(10) Account Management

An account refers to the trading account and fund account opened by MCEX and registered in the name of a qualified investor for the purpose of recording the type, quantity, registration, and custody of the products held, and the changes thereof. MCEX shall also provide master account and sub-account management and support services (if applicable). DRO holders shall pay service fees, based on the actual daily revenue sharing amount, for account management services provided by MCEX.

1.2 DRO Value-Added Services

1.2.1 Pre-Investment Services

Pre-investment value-added services for DRO include asset origination, due diligence, research and analysis, financial forecast, contract structuring, legal due diligence and document drafting, etc. These services can be provided by either (i) the business development team under Micro Connect Group; or (ii) third-party intermediaries. At the initial offering stage, qualified investors who successfully complete DRO subscription shall pay the related service fees, based a percentage of the DRO subscription amount, for the value-added services provided. The in-depth descriptions of the pre-investment value-added services for DROs are as follows:

(1) Asset Origination

Micro Connect Group's business development team or third-party intermediaries, through their proprietary network, asset origination capabilities and external referral, provides a vital supply of quality brand / franchise partners with financing needs for DRO subscribers. Key services include the origination, communication, recommendation, and initial evaluation of prospective brands / chains (relevant criteria may include the brand's / chain's years of operation, business scale, operating metrics, digitization level, legal and compliance record, etc.).

(2) Due Diligence

Micro Connect Group's business development team or third-party intermediaries is responsible for collecting revenue data and other relevant business information, and conducting risk assessment on metrics such as operational, system and reputational risks. Such information will then be summarized into a due diligence report and issued in line with the relevant product listing rules and market standards.

(3) Research and Analysis

Micro Connect Group's business development team or third-party intermediaries is responsible for providing DRO subscribers with research reports on the underlying asse's' industry, category, region, lifecycle, and any other customized topics. This service aims to facilitate informed decision making based on professional market analysis and research reports.

(4) Financial Forecast

Financial forecast of a micro and small business involves assessment of its revenue forecast, risk adjustment, as well as the use of the right forecasting tools. Micro Connect Group's business development team or third-party intermediaries, based on historical cash flows of specific DROs and their own relevant market experience (e.g. proprietary information on the 10,000+ existing DROs), can provide investors with the suitable financial forecast models.

(5) Contract Structuring

Micro Connect Group's business development team or third-party intermediaries can design investment terms for each prospective DRO-listed entity, on the basis that the terms would be acceptable by both the listed entity and investors. The contract structuring will consider the store's revenue, profitability, risk-adjusted return, etc., to ensure that the terms align with the sustainable development of the listed entities and the latest market conditions.

(6) Legal Due Diligence and Document Drafting

Micro Connect Group's business development team or third-party intermediaries, through their internal legal team or external legal counsel, may represent DRO subscribers to: (i) conduct legal due diligence, including commercial and judicial risk assessment, and (ii) draft and negotiate legal agreements, with the objective to safeguard the legal rights of DRO subscribers.

1.2.2 Post-Investment Services

(1) DRO Pledge Financing Services

Investors, when pledging DROs to creditors for the purpose of financing, shall pay the related service fees provided by MCEX. To guarantee the performance of a DRO financing contract, DRO holders may instruct MCEX to pledge their DRO products to creditors, in accordance with the relevant regulation and exchange rules. DRO holders, creditors or their appointed agents may then apply to MCEX for the pledging of DRO products, and the issuance of supporting service reports, certification documents, etc.

2. Services Related to DRP Products

Fees	Payer	Basis	Description
I. Basic Services			
1. Listing	DRP issuer	Absolute amount	Service for listing of DRP products
2. Subscription	DRP subscriber	Subscription amount	Subscription and matching services for initial offering of DRP products
3. Secondary offering	DRP buyer/seller	Transaction amount	Trading and order matching services for secondary offering of DRP products
4. Registration & custody	DRP holder	Daily revenue share*	Registration and custody services for DRP products
5. Clearing & settlement	DRP holder	Daily revenue share*	Clearing and settlement services for DRP products
6. Account management	DRP holder	Daily revenue share*	Administrative and account management services for DRP holders
II. Value-Added Services			
1. DRP pledge financing services	DRP holder *(seeking financing)*	To be quoted based on service scope	Additional services required by investors for DRP pledge financing, including issuing service reports, certification documents, etc.

**Note: Daily revenue share based on actual, pre-tax amount.*

2.1 DRP Basic Services

DRP basic services include listing, subscription, secondary offering, registration and custody, clearing and settlement, and account management services. The descriptions of each DRP fee type are as follows:

(1) Listing

For DRP product listing, DRP issuers shall pay listing fees (when submitting the listing application) to MCEX for the services provided. Listing applicant intended to apply for DRP listing is required to meet a list of requirements and submit a listing application to MCEX. MCEX will evaluate if the relevant application is suitable for listing based on the "Operational

Rules for Daily Revenue Portfolio Product of Micro Connect (Macao) Financial Assets Exchange". MCEX will then notify the listing applicant of the official result and process the related DRP product listing accordingly.

(2) Subscription

Investors participate in the subscription of newly issued DRP products by becoming qualified investors of MCEX. At the product listing stage, qualified investors who successfully complete DRP subscription shall pay subscription fees, based on a percentage of the DRP subscription amount, for the subscription and matching services provided by MCEX.

(3) Secondary Offering

MCEX provides secondary offering services based on a centralized order matching system. On each trading day, MCEX would match buy and sell orders submitted by qualified investors based on price-time priority. Buyers and sellers of DRP products in secondary offering shall pay trading fees, based on a percentage of the actual transaction amount, for the trading and matching services provided by MCEX.

(4) Registration and Custody

MCEX's registration services include product registration, product transfer registration and others. Custody services refer to the centralized custody of the products held by investors through their trading accounts, as well as management and maintenance of the relevant interests of the products held by investors. DRP holders shall pay service fees, based on a percentage of the actual daily revenue sharing amount, for the registration and custody services provided by MCEX.

(5) Clearing and Settlement

DRP holders shall pay service fees, based on a percentage of the actual daily revenue sharing amount, for the various clearing and settlement services provided by MCEX. The clearing and settlement services include (i) product clearing and settlement, and (ii) trade clearing and settlement.

Product clearing and settlement: MCEX shall, in accordance with the relevant rules of MCEX and the provisions of the product issuance document, calculate the revenue corresponding to the DRP products held by qualified investors and the related taxes and fees. MCEX shall then generate the product revenue clearing results and settle the funds in accordance with the clearing results.

Trading clearing and settlement: On each trading day, MCEX shall calculate (i) the units receivable or payable for the DRP products under the trading account of the qualified investor, (ii) the amount receivable or payable by the fund account, (iii) the amount receivable or payable by the product listing applicant in accordance with the product trading results, and (iv) the fees and other relevant data, to generate the trading clearing results for that day. MCEX shall, based on the clearing results, arrange for products payable or receivable by the qualified investors to be transferred out of or into the corresponding trading account, and the funds payable or receivable to be transferred out of or into the corresponding fund account. MCEX shall also provide means for the qualified investors holding the DRP products to access the corresponding product certificate (if applicable).

(6) Account Management

An account refers to the trading account and fund account opened by MCEX and registered in the name of a qualified investor for the purpose of recording the type, quantity, registration, and custody of the products held, and the changes thereof. MCEX shall also provide master account and sub-account management and support services (if applicable). DRP holders shall pay service fees, based on the actual daily revenue sharing amount, for account management services provided by MCEX.

2.2 DRP Value-Added Services

(1) DRP Pledge Financing Services

Investors, when pledging DRPs to creditors for the purpose of financing, shall pay the related service fees provided by MCEX. To guarantee the performance of a DRP financing contract, DRP holders may instruct MCEX to pledge their DRP products to creditors, in accordance with the relevant regulation and exchange rules. DRP holders, creditors or their appointed agents may then apply to MCEX for the pledging of DRP products, and the issuance of supporting service reports, certification documents, etc.

Fees	Payer	Basis	Description
I. Basic Services			
1. Listing	DRP issuer	Absolute amount	Service for listing of DRP products
2. Subscription	DRP subscriber	Subscription amount	Subscription and matching services for initial offering of DRP products
3. Secondary offering	DRP buyer/seller	Transaction amount	Trading and order matching services for secondary offering of DRP products
4. Registration & custody	DRP holder	Daily revenue share*	Registration and custody services for DRP products
5. Clearing & settlement	DRP holder	Daily revenue share*	Clearing and settlement services for DRP products
6. Account management	DRP holder	Daily revenue share*	Administrative and account management services for DRP holders
II. Value-Added Services			
1. DRP pledge financing services	DRP holder *(seeking financing)*	To be quoted based on service scope	Additional services required by investors for DRP pledge financing, including issuing service reports, certification documents, etc.

**Note: Daily revenue share based on actual, pre-tax amount.*

2.1 DRP Basic Services

DRP basic services include listing, subscription, secondary offering, registration and custody, clearing and settlement, and account management services. The descriptions of each DRP fee type are as follows:

(7) Listing

For DRP product listing, DRP issuers shall pay listing fees (when submitting the listing application) to MCEX for the services provided. Listing applicant intended to apply for DRP listing is required to meet a list of requirements and submit a listing application to MCEX. MCEX will evaluate if the relevant application is suitable for listing based on the "Operational Rules for Daily Revenue Portfolio Product of Micro Connect (Macao) Financial Assets Exchange". MCEX will then notify the listing applicant of the official result and process the related DRP product listing accordingly.

(8) Subscription

Investors participate in the subscription of newly issued DRP products by becoming qualified investors of MCEX. At the product listing stage, qualified investors who successfully complete DRP subscription shall pay subscription fees, based on a percentage of the DRP subscription amount, for the subscription and matching services provided by MCEX.

(9) Secondary Offering

MCEX provides secondary offering services based on a centralized order matching system. On each trading day, MCEX would match buy and sell orders submitted by qualified investors based on price-time priority. Buyers and sellers of DRP products in secondary offering shall pay trading fees, based on a percentage of the actual transaction amount, for the trading and matching services provided by MCEX.

(10) Registration and Custody

MCEX's registration services include product registration, product transfer registration and others. Custody services refer to the centralized custody of the products held by investors through their trading accounts, as well as management and maintenance of the relevant interests of the products held by investors. DRP holders shall pay service fees, based on a percentage of the actual daily revenue sharing amount, for the registration and custody services provided by MCEX.

(11) Clearing and Settlement

DRP holders shall pay service fees, based on a percentage of the actual daily revenue sharing amount, for the various clearing and settlement services provided by MCEX. The clearing and settlement services include (i) product clearing and settlement, and (ii) trade clearing and settlement.

Product clearing and settlement: MCEX shall, in accordance with the relevant rules of MCEX and the provisions of the product issuance document, calculate the revenue corresponding to the DRP products held by qualified investors and the related taxes and fees. MCEX shall then generate the product revenue clearing results and settle the funds in accordance with the clearing results.

Trading clearing and settlement: On each trading day, MCEX shall calculate (i) the units receivable or payable for the DRP products under the trading account of the qualified investor, (ii) the amount receivable or payable by the fund account, (iii) the amount receivable or payable by the product listing applicant in accordance with the product trading results, and (iv) the fees and other relevant data, to generate the trading clearing results for that day. MCEX shall, based on the clearing results, arrange for products payable or receivable by the qualified investors to be transferred out of or into the corresponding trading account, and the funds payable or receivable to be transferred out of or into the corresponding fund account. MCEX shall also provide means for the qualified investors holding the DRP products to access the corresponding product certificate (if applicable).

(12) Account Management

An account refers to the trading account and fund account opened by MCEX and registered in the name of a qualified investor for the purpose of recording the type, quantity, registration, and custody of the products held, and the changes thereof. MCEX shall also provide master account and sub-account management and support services (if applicable). DRP holders shall pay service fees, based on the actual daily revenue sharing amount, for account management services provided by MCEX.

2.2 DRP Value-Added Services

(1) DRP Pledge Financing Services

Investors, when pledging DRPs to creditors for the purpose of financing, shall pay the related service fees provided by MCEX. To guarantee the performance of a DRP financing contract, DRP holders may instruct MCEX to pledge their DRP products to creditors, in accordance with the relevant regulation and exchange rules. DRP holders, creditors or their appointed agents may then apply to MCEX for the pledging of DRP products, and the issuance of supporting service reports, certification documents, etc.

3. Other Services Provided

3.1 Fund Withdrawal Service

Investors, when withdrawing funds from their fund accounts, are required to pay certain bank handling fees based on the average fee level per instruction (MCEX will deduct from the withdrawal amount to pay bank fees on behalf of investors).

III. Exchange Information Disclosure

It is essential for MCEX to develop a system for disclosing and displaying information on the millions of small and micro businesses. Information on small and micro businesses should accurately depict both historical data and future projection. The mission of an exchange as a market operator is to (1) facilitate transactions, (2) ensure accurate and objective disclosure of historical data (including a store's location, contract terms and historical collection of revenue share), and (3) provide a useful reference for future projection (such as cash flow forecast). Like any other global exchanges, MCEX strives to utilize information disclosure to protect investors, focusing mainly on two types: cash flow information and non-cash flow information.

Revenue sharing products (DRO/DRP) are cash flow-based investment products of which cash flow information is the **most critical**. As such, MCEX's ultimate goal is to **make cash flow information visible and understandable for investors**. For cash flow-based products, cash flow information is akin to traditional financial reports of listed companies, requiring a standardized set of principles and metrics to accurately disclose such information. Traditionally, the financial reports of listed companies are prepared meticulously by professionals (e.g. accountants) in accordance with well-established standards (e.g. Generally Accepted Accounting Principles, GAAP). GAAP, developed and continuously refined over the years, requires years of training for professionals to become proficient. The preparation and publication of these financial reports, due to the high degree of professionalism and complexity involved, is costly. Even for listed companies, their financial reports are only published once every quarter at most. However, the level of information disclosed in the traditional market is impractical for the billions of small and micro businesses and their daily revenue share information in terms of workload, costs and efficiency. Therefore, our effort is directed towards disclosing cash flow information in a clear, concise and cost-effective manner. For instance, the market baselines developed for DRC/DRO/DRP reflect such efforts.

Non-cash flow information at the DRO-level includes: 1) store information, 2) contract information, and 3) market information. Store information and contract information are static and provide basic descriptions of the underlying assets, namely, who the small and micro business is and how the revenue sharing arrangement is agreed upon in the contract. Market information provides aggregated information on DROs, of which MCEX updates at a certain frequency. Non-cash flow information at the DRP-level includes: 1) portfolio composition and 2) credit rating. The aim of the non-cash flow information is to enable investors to make an informed decision on the return and risk of a particular contract or a portfolio of contracts.

Due to the intricate complexity of small and micro businesses, MCEX strives to create a market that is transparent and efficient. As with any market, transparency and efficiency are not always aligned – too little or too much information may not be suitable for different user groups and different purposes. Therefore, we need to categorize information disclosure into three levels – L1 to L3 – to meet the needs of different types of market participants (Table 3-1).

Market participants are diverse under MCEX's ecosystem. Participants include not only investors and small and micro businesses, but also regulatory authorities and professional services providers, among others. In particular, investors include those qualified to participate in the DRP market and those qualified for the DRO market, while professional services providers include but are not limited to research institutions, rating agencies and financial institutions. The participants mentioned above are all users of exchange information. The following table illustrates the different level of information disclosure under MCEX:

Table 3-1: Levels of Information Disclosure at MCEX

Category	Content	L1	L2	L3
DRC / DRO	Store Information	Basic	Advanced	Detailed
	Contract Information	Basic	Advanced	Detailed
	Cash Flow – Market Baseline	✓	✓	✓
	Daily & Historical Cash Flow	✓	✓	✓
	Future Cash Flow – Basic Model	✓	✓	✓
	Future Cash Flow – Complex Model			✓
	Market Indices and Risk Statistics	Basic	Advanced	Detailed
DRP	Portfolio Information	✓	✓	✓
	Cash Flow – Market Baseline	✓	✓	✓
	Daily & Historical Cash Flow	✓	✓	✓
	Future Cash Flow – Basic Model	✓	✓	✓
	Future Cash Flow – Complex Model			✓

IV. Exchange Products Codes and Labels

A DRC/DRO product code consists of a maximum of 19 digits or alphabetical letters, broken down as follows:

- **Industry**: represented by 2 letters – e.g., Food & Beverage (FB), Retail (RT), Service (SV), Culture & Sports (CS).
- **Country (Region)**: represented by 2 letters – e.g., Mainland China (CN), Hong Kong (HK), Macao (MO); other countries will adopt their corresponding ISIN codes.
- **Province:** represented by 2 digits.
- **City**: represented by 2-3 digits.
- **Brand and Store Code**: comprised of 4 letters and 5 digits. MCEX, except for brands with special arrangement during the IO phase, will announce the corresponding brand codes to qualified DRO participants. For brands in the AO phase, A01 will represent the first AO of its store.
- **Listing Type**: represented by 1 letter, where "I" stands for IO and "A" for AO.

Product labels, unlike product codes, can be added, removed, and changed at any time. Labels which may be a matter of greater interest to investors include:

- **Segment:** MCEX will announce the corresponding labels for different segments under each industry. The labels are relatively subjective and may be adjusted from time to time.
- **Category**: MCEX will announce the corresponding labels for different categories under each industry. The labels are relatively subjective and may be adjusted from time to time.
- **Theme**: thematic labels collected by services providers on specific themes, such as whether a store is gender and minority diverse, carbon neutral, sustainable and Shariah-compliant.
- **Intermediary:** an intermediary is defined by MCEX as a third-party services provider that originates, recommends, evaluates, and generate DRO contracts based on its underlying micro and small businesses. MCEX will publish a list of services providers.

Appendix 2: Glossary of Terms

Terms	Abbreviation	Definition
Actual Cash Flow 歷史現金	ACF	The cumulative cash received daily by investors through revenue sharing products (DRO/DRP) or paid daily by micro and small businesses (DRC's ACF) from the start of the contract period to the current contract day (current day inclusive). The simple sum of the ACF would equal to the “accumulated payment (collection)”.
Add-on Offering 新增發行	AO	Follow-on issuance of DROs by a listing entity of DROs following the IO of the DROs.
Automated Repayment Mechanism 確錢/確權抓手	ARM	ARM is an automated information collection and cash capturing system for micro and small business investment. Leveraging the digital capabilities of brand partners, ARM is the core of the settlement infrastructure of MCEX. ARM service includes cross-border fund transfer, cash flow settlement, information collection, entitlement authentication, and irregularities management, providing comprehensive DRO investment solutions.
Contract Cash Flow Risk 收付款風險率	CCR	The ratio of DRO total estimated collection to DRC total estimated payments (after taxes and fees).
Contract Period 聯營期	CP	The durations (in days) between the agreed-upon start date and end date of the revenue sharing period.
Cornerstone Investors 基石投資者	-	Strategic investors whose participation in an initial public offering, typically with a large investment amount, can serve as a “anchor” for general market participants.
Daily Cash Flow 當日現金流	DCF	The cash received (for DRO/DRP holders) or paid (for DRC holders) on a given day.
Daily Revenue Contract 每日收入分成合約	DRC	A revenue-sharing contract signed by a wholly-owned subsidiary of MCEX, on behalf of global investors, with micro and small businesses.
Daily Revenue Obligation 每日收入分成憑證	DRO	Daily revenue-sharing instrument listed, registered, and traded on MCEX which represents the economic entitlement to its corresponding DRC.
Daily Revenue Portfolio 每日收入分成組合	DRP	Daily revenue-sharing portfolios listed, registered, and traded according to the rules of MCEX.
DRC Market Baseline DRC 市場基準線	-	Total estimated cash flows per RMB 1,000 invested, based on the predefined conditions of (i) RMB 0.35 daily revenue collected, and (ii) 50% payback period (as % of total contract period), colloquially known as the “Daily RMB 35 cents Line”.

Terms	Abbreviation	Definition
DRO Market Baseline DRO 市場基準線	-	Total estimated collection per RMB 1,000 invested, based on the predefined conditions of (i) RMB 0.1 daily revenue collected, and (ii) 66% payback period (as % of total contract period), colloquially known as the “S&P Line”.
DRP Market Baseline DRP 市場基準線	-	The sum of the market baselines of each DRO in a DRP.
Initial Offering 首次發行	IO	The initial offering of DROs / DRPs by the listing entity of these products through MCEX.
Listing 掛牌	-	The process through which a micro and small business, as a listed entity, raises funds through MCEX.
Listing Service Intermediaries 掛牌服務機構	-	Professional services providers that assist micro and small businesses in listing and raising funds through MCEX.
Micro Connect Composite Index 滴灌通綜合投資指數	-	The cumulative profit and loss for every RMB 1,000 invested in a basket of industry/region/thematic-specific DROs on any given day.
Micro Connect Cash Yield Index DRC 千元融資日付款指數 (滴灌額)	-	The daily cash flows paid by micro and small businesses for every RMB 1,000 financed in a basket of DRCs.
Micro Connect DRC Estimated Payment (千元融資）預估付款	M_{DRC}	The total amount of funds estimated to be paid by micro and small businesses for every RMB 1,000 financed.
Micro Connect DRO Estimated Collection (千元投資）預估收款	M_{DRO}	The total amount of funds estimated to be collected by investors for every RMB 1,000 invested.

Terms	Abbreviation	Definition
M-Terminal 滴灌通澳交所終端	-	The terminal system used by MCEX to display trading and product information.
Operating Cash Flow Margin 現金流利潤率	-	The ratio of the cash flow generated by a micro and small business's operating activities to its revenue.
Payback Period 付本期	PP	The length of time required for a micro and small business' accumulated daily revenue share to reach the total investment amount.
Price-to-Net Contract Payout Ratio 市轉率	P/P Ratio	The ratio of the DRO investment amount to DRC total estimated payment (after taxes and fees).
Projected Cash Flow 未來現金流	PCF	Refers to the future daily cash flow, from the next contract day to the end of the contract period, estimated to be received by investors through revenue sharing products (DRO/DRP), or the daily cash flow estimated to be paid by micro and small businesses (DRC's PCF). The simple sum of the PCF would equal to the "estimated remaining payment (collection)".
Secondary Offering 二級轉讓	SO	Refers to the trading activities between qualified investors that involve the buying and selling of DRO products according to the rules periodically published by MCEX.

Micro Connect (Macao) Financial Assets Exchange Co., Ltd (MCEX)

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