

## Open Letter to the Investment Community

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Dear all,

Thank you for your interest in Micro Connect. As you read this letter, I hope you will not only see a trailblazing investment platform but, more importantly, appreciate our genesis and our revolutionary mission and investment paradigm.

### Mission Statement and Investment Strategy


We believe that China's small businesses represent vast investment opportunities that have not yet been accessible to global investors. Our mission is to pioneer the access to such opportunities by providing small businesses with funding that is tailored to their development needs, in a way replicating the great agricultural success of "drip irrigation". We believe this will unlock the growth potential that will transform these small businesses and provide investors with the opportunity to participate in the potential upside of such growth and secure sustainable, highly diversified and quality returns.

### We have a simple but firm conviction about investing:

- Small is beautiful;
- Small and in huge number is fantastic; and
- Small, in huge number, but digitally executed and intelligently priced is revolutionary.

To achieve our mission, we seek to implement a simple and straightforward investment strategy, with the acronym "SHARPE", where:

- "S" stands for small in amount for each individual investment, a new path to access and invest in small businesses;
- "H" stands for huge in the number of investments to be made, a new approach to fundamentally diversify risks;
- "A" stands for ARM ("Automated Repayment Mechanism"), a new way to "connect" and "collect" through digital technology;
- "R" stands for RDR ("Revenue-based Distribution Right"), a new, fit-for-purpose investment product targeting small businesses enabled by digitalisation;
- "P" stands for progressive and intelligent position allocation strategy, a new way to discover price and deploy capital; and
- "E" stands for exchange-enabled ecosystem, a new central platform for small business investing where our investment paradigm can be implemented at an accelerated pace. We believe that our future success will be enhanced if our RDRs are provided with liquidity in a new vibrant exchange platform.



We adopt “**SHARPE**” as an acronym for our investment strategy for a clear purpose: we seek to apply the concept of risk-adjusted returns to our investments, building strong portfolios made up of a huge number of small investments with exposure to growth opportunities in a diversified range of small businesses in China

### **Why Small is Beautiful**

Conventional wisdom has it that investing in small businesses is unattractive and economically unfeasible because they are too small, too vulnerable and have higher default risks. The following are also true, however, about small businesses, which

1. on average grow faster and achieve greater rate of returns than larger enterprises;
2. are nimbler and more flexible when faced with adverse market conditions; and
3. are the most representative of China’s real economic conditions.

As important contributors to China’s economic development, fiscal revenue and employment, quality or promising small businesses (“Micro Growth Units” or “MGUs”) deserve proper funding from the financial industry. Thanks to China’s massive digitalisation at the grassroots level of its economic system, this has finally become practicably and economically feasible. Our mission is to invest in the best of China’s MGUs and provide flexible capital to support their long-term growth.

### **Why Huge in Number is Important**

“Huge in number” is important because we need to continuously diversify our investment portfolio. Given the small size of each individual investment, we aim to deploy a large pool of capital across a huge number of investments with low correlation, which will enable us to achieve risk diversification at the portfolio level.


### **How to Achieve “Small in Amount” but “Huge in Number”**

To execute our strategy, we intend to

1. Find a new way to “connect” to and “collect” from our investments through digital technology;
2. Develop a new fit-for-purpose investment product;
3. Adopt a new way to price and allocate our investments; and
4. Seek an appropriate exchange platform designed for small business investing.

### **A New Way to Connect and Collect through CC Partners with ARMs**

In order to reach as many MGUs as possible and make a huge number of investments in a cost and time effective manner, we seek to collaborate with a wide network of connect and collect partners (“**CC Partners**”). CC Partners are industry/sector leading enterprises with strong established business relationships with or technology enterprises which provide technology platforms to the MGUs in their ecosystems. CC Partners can potentially assist us in identifying, “connecting” to and “collecting” from MGUs and we will collaborate with them to screen, select and invest in prospective MGUs. An enterprise with a strong ARM, which refers to the digital ability to control the revenue streams of the MGUs within its ecosystem, is a potential CC Partner, and we can then leverage its ARM to digitally collect revenues from the investee MGUs.



Our collaboration with CC Partners may take different forms depending on the specific circumstances of the CC Partners and the underlying MGUs. Through collaborating with Micro Connect, prospective CC Partners seek to support the MGUs in their ecosystems, therefore expanding their business influence and competitiveness. In particular, CC Partners' ecosystems are likely to be strengthened with the development of quality MGUs as a result of the funding support facilitated by our investment paradigm. The expansion of the relevant CC Partners' businesses will in turn increase their ability to attract more aspiring MGUs to their ecosystems. This will, in the long term, generate a self-reinforcing network effect and enhance the vitality of the CC Partners' ecosystems.

### **The RDR as a New Equity-like Investment Product – Alignment of Interests, Transparency and Exit Opportunities**

In order to make a “huge number” of small investments efficiently, we have to differentiate our investment products from traditional financial products whose features are not truly fit-for-purpose for MGUs:

1. Credit products are too inflexible for the diverse universe of MGUs in terms of tenure, terms, and collateral requirements;
2. Equity investments are unfeasible to investors as the cost to effectively document, monitor, value and exit many small private investments is difficult to justify
3. Venture capital aims at profiting only from a small number of MGUs with the most spectacular growth potential; and
4. Supply chain finance helps MGUs to optimise their working capital, but does not address their broader financing needs.

Our investment strategy calls for the adoption of a simpler, more flexible product with its returns digitally collectable, namely the RDR. The RDR is a new investment product that is fit-for-purpose for MGUs. Unlike traditional equity investments under which an investor holds a fixed percentage of the MGU's permanent ownership, the RDR is based on a commercial contract under which an RDR investor and an MGU owner agree to co-invest in the MGU and each holds respective rights to receive an agreed percentage of the MGU's future revenue that is collected at pre-determined intervals. The proportion of revenue for collection is based on industry metrics and with safety buffers taking into account the observed level of operating expenses of the relevant MGU and its industry. The RDR therefore functions as permanent capital similar to equity, but with digital and direct collection of economic interests from the MGU's revenue through the CC Partners, commencing immediately from the time of investment and continuing throughout the life of the RDR.

The key benefits of the RDR include:

1. A complete alignment of interests between MGU owners and RDR investors;
2. Prompt revenue distribution in an economically viable manner;
3. Highly transparent and frequent disclosure of the MGUs' revenue performance hence RDRs' investment returns; and
4. The possibility of a secondary market sale or listing of RDRs on a suitable exchange platform, thereby allowing investors to achieve exit that has otherwise been difficult to date.

## **A New Progressive and Intelligent Position Allocation Strategy – “Trust, Verify and Evolve”**

In light of the “huge number” of small investments we need to make, our investment and allocation decisions will be made on a top-down basis, encompassing an effective self-learning process based on accurate, transparent and frequent digital disclosure.

More specifically, our investments will be made in four different stages:


1. We will select the sectors or regions in which we would prioritise our allocations from a macro perspective, based on the investment experience of our management team;
2. We will select the most appropriate CC Partners from the sectors or regions which we have prioritised and work with such CC Partners in formulating the most appropriate investment plan. Such in-depth discussions with the CC Partners will enhance our insights into the sectors or regions we invest in, which will allow us to further optimise our allocation decisions for the first stage;
3. We will then work with the selected experienced CC Partners to invest in specific MGUs in their respective sectors or regions in small amounts and in multiple batches. For instance, we will make investments within the ecosystem of one CC Partner in different batches and different amounts depending on the size, location and other relevant characteristics of the MGUs in question.
4. We will then evaluate the return profiles of the investments we have previously made and readjust our portfolio to include the most appropriate MGUs that meet our latest investment criteria.

This layered approach will allow us to start the allocation process with our industry experience leveraging the rich insights of the CC Partners in their respective sectors or regions. With the ever-increasing volume and ever-improving quality of the data that have been generated from our investments, we will deepen our understanding of the various industries, CC Partners and MGUs, and will be able to continually optimise our progressive and intelligent position allocation decisions. This ongoing process of evolution and self-learning will in turn lead to more effective price discovery and better investment performance.

## **A New Exchange Platform for MGUs – Sustained Liquidity and Price Discovery**

In the initial phase of our development, we will generate investment returns primarily from revenue distribution from our invested RDRs. In addition, we may sell our interests in these RDRs on a bilateral basis, thereby creating liquidity for the RDRs and enabling us to exit our positions at a premium.

In the next phase of our development, we plan to list and trade the RDRs we have invested in on an exchange platform which we are currently developing (“**NumaEx**”). The benefit of having such an exchange platform, which is designed for institutional and professional investors, is the ability to consolidate and optimise the accumulation of market data in one place, which will in turn enable RDR Holders including us to leverage data analytics to conduct investment and trading activities at a rapid pace.



While our investment paradigm is not dependent on having an exchange platform, we believe our future success will be greatly enhanced by such a platform, given that:

- We can benefit from deeper liquidity and better price discovery, allowing us to enjoy a sustained and consistent competitive advantage as an early mover.
- MGUs may consider the listing of their RDRs as an alternative form of “IPO”, allowing MGU owners to instantly capitalise the MGUs’ revenue streams regardless of their size. They can also buy back or sell more of their RDRs directly on the exchange platform.

In summary, we intend to make small investments in huge number. In order to achieve that, we intend to find a new way to connect and collect through CC Partners with strong ARMs, adopt RDR as a new investment product, develop a progressive and intelligent position allocation strategy, and ultimately list and trade our invested RDRs on a new exchange platform for small business investing. Through our investment strategy, we are heralding a revolutionary and disruptive way of investing to help the “little guys” succeed while delivering to our investors sustainable, highly diversified and quality returns.