



Concept Document for:



Red Dawn Holdings will buy equity in top incubation programs in China.

AniCap Venture Partners can be retained to explore the feasibility of a new company. Red Dawn Holdings would be incorporated, listed, and – with funds raised on the stock market – buy equity in top incubation programs in China.

Red Dawn Holdings would provide management to incubators, build incubator capacity, and create an exciting new funding mechanism for top-tier incubator clients. AniCap Venture Partners could evaluate the feasibility of Red Dawn Holdings, provide advisory services, and provide research, training, consulting and related services to Red Dawn Holdings. Red Dawn Holdings, a new publically listed company, would buy incubator properties. AniCap would consider using an investment vehicle called a real estate investment trust (REIT), but other legal structures may be more appropriate.

Red Dawn Holdings will, in turn, buy equity in the country's top 10-15 incubation programs, which serve the most dynamic sectors and markets in China. Red Dawn Holdings will represent an investment in a portfolio of high-growth companies.

Possible steps for identifying incubators to purchase:

1. Identify a short list of China's most attractive incubation programs.
2. Rank strongest performers by sector, city, province and portfolio value.
3. Identify and rank the investment potential of the sectors represented among top-performing incubators.
4. With preference for sectors with greatest investment potential, pick the top incubators to purchase.

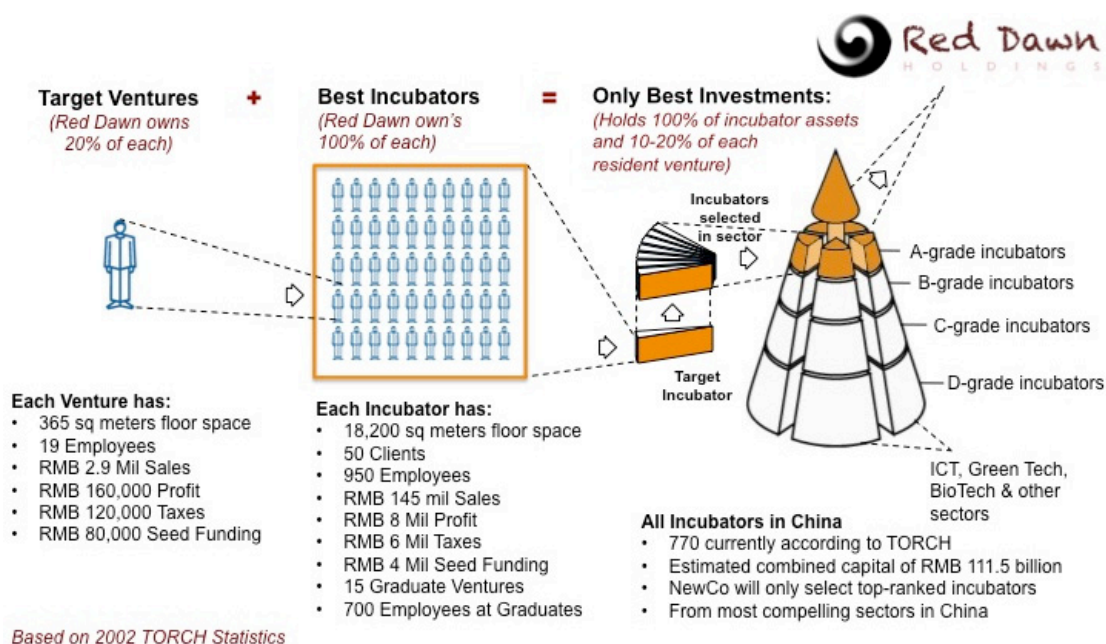
As suggested in Chart 1 below, selected incubators could buy 10 percent to 20 percent of the equity in each of their resident clients or in select companies. AniCap expects that bulk-equity purchase discounts would apply. The equity valuation of portfolio companies will be difficult to measure since they are start-ups, but standardized measurements would be used for all incubators and their clients. After receiving proceeds of initial public offering (IPO), incubator managers would allocate pro rata investments to resident companies based on standard guidelines. Much investment value would go toward value-added incubation services, other investment value would go to purchase facility and manager equity from China's government.



Red Dawn Holdings would seek to raise the combined present value of the all facilities, teams and client portfolio values at its initial public offering (IPO). Its target IPO price would capitalize (or be priced to reflect):

- The costs to develop and implement a compelling brand for incubators and clients.
- Adequate funding for marketing and relationship building.
- Funding the establishment of a new management company with a staff to oversee the portfolio of incubators.

Chart 1: The following diagram describes Red Dawn’s portfolio composition:



Note: if Red Dawn Holdings purchased 8 incubators, that would be 1% of all incubators in China. 77 would be 10%. Recommend larger quantity to ensure performance capture and hi-tech representation.

Red Dawn Holdings’s IPO price should also capitalize the costs to build the capacity in each incubator. This will help to ensure effective entrepreneur/venture support services. It also recognizes that incubators may require additional personnel.

Red Dawn Holdings would experience a liquidity event for the sale of the 10 percent to 20 percent equity position in exiting companies. The incubator or Red Dawn Holdings may reinvest in incubator service capacity or Red Dawn Holdings may distribute dividends to investors. Staff will develop a model to standardize client financial management and to improve incubator financial controls.

Red Dawn Holdings staff should possess suitable advisory experience. A professional private-sector executive could oversee the management of each portfolio. Many government-owned incubators in China are run by officials without private business experience. By placing business professionals with the entrepreneurial experience in these roles, managers could alternate between an investor orientation and a management consultant orientation. New incubator managers should be excellent relationship builders who can secure improved institutional and organizational buy-in in their communities.

AniCap and a suitable local sponsor for the initiative will select a top-rated investment bank to underwrite the listing of a new security. The reputation of the investment bank can be the most important deterrent when raising money. They can advise on the most suitable corporate/investment structure. Preferably, Red Dawn Holdings will list in Hong Kong, Shanghai or Beijing. Prominence will improve foreign investor interest in this security. Dalian



also may be worth considering because it's trying to develop a financial industry. There may be more attractive consequences for launching this program out of a new market.

The role of Red Dawn Holdings will be ongoing oversight of portfolio of incubators and clients. It will provide relationship development support with appropriate resource providers to help ensure successful exit of portfolio companies, and develop a strong brand to achieve the greatest effect. Red Dawn will manage shared-services resources and provide management follow-up support to incubators and clients. It will provide a CFO and accountants to oversee incubator financial staff and financial management. It will ensure the incubator management staff implement best practices, and otherwise help make sure clients achieve their greatest potential.

AniCap Venture Partners will work with an investment bank to structure a vehicle that will achieve desired objectives. David Monkman will provide ongoing oversight on the board of the holding company or listed vehicle.

AniCap Venture Partners would improve training programs availed by Red Dawn Holdings's portfolio incubators. It will accredit incubators to help identify the best-performing incubation programs that should be chosen for Red Dawn Holdings investment. AniCap will develop training programs to meet the requirement of Red Dawn Holdings. It would oversee the provision of tailored consulting services to specific incubators within Red Dawn Holdings. It would develop standard reporting guidelines for incubators and clients within Red Dawn Holdings based on previously mentioned research to ensure better corporate governance and organizational transparency. AniCap would routinely audit Red Dawn Holdings's network of incubators.

A local sponsor will help to secure necessary government approvals needed to establish the new company. They would also facilitate identification of appropriate local consulting teams where required. They would also provide ongoing participation in management of the holding company or listed vehicle.

There is also an important role for Torch (or relevant central government department). They would approve New Dawn's approach and support throughout transaction process. They should endorse the new company as a novel approach to public-private partnership. Torch may wish to consider an equity participation with the private sector as a way to ensure long-term support to the new company and investor partners. It would be helpful if they create a resource desk that would help the new company access a variety of government grants and support structures, and facilitate incubator/client access to assistance.

Benefits for investors in New Dawn Holdings are manifold:

- Investment in a well-diversified portfolio of high-tech companies across China.
- Portfolio represents geographic diversity, sectoral diversity, and best-of-the-best incubators and high-tech client portfolios.
- Because security is listed, investors will appreciate having liquidity (private equity is not very liquid).
- Foreign investors will appreciate this liquidity along with this strategic portfolio of investments.

Benefits for clients (incubatees):

- First-round of equity funding allows clients to invest in their capacity and growth.
- Reputational advantages result from inclusion in a select portfolio of companies.
- Because security is traded, Red Dawn Holdings could be able to raise more funding in the future from stock and bond market.
- In turn, this means more investment in clients for improved growth and exit prospects.

Benefits for incubator managers:



- Funding can be used to improve services.
- Reputational advantages result from inclusion in the network of incubators.
- Higher quality start-ups will apply to become incubator clients.
- Improved standards for operations, that will inspire others to follow.
- Improved financial control.
- Access to higher standard of data gathering and transparency.
- Ownership structure is likely to improve access to financial services for clients.
- Become better incubators.

Benefits for the Chinese government:

- Return on previous investment, which may be reinvested to support other programs.
- Privatization model may apply to other state-owned enterprises.
- Ownership structure should help improve provision of services to clients/entrepreneurs.
- Securitization model could be used for other incubator groupings seeking to raise funding.
- Would help develop China's financial markets.

There are possible concerns with this initiative. There is an unknown amount of equity in nonprofit incubators. There may be a possible conflict of interest for incubator managers. Also, China's regulatory environment might not permit this approach.

AniCap Venture Partners recommends an in-depth feasibility study as a first step.

In summary, Red Dawn will buy equity in top incubation programs in China. Red Dawn Holdings will be a new incorporated company that is listed on a regional exchange. Funds raised on the stock market would provide capital to purchase equity in China's top incubation programs. Red Dawn Holdings would purchase equity in top incubation programs and the incubators would purchase equity in incubator clients. Red Dawn Holdings would provide incubator management, build incubator capacity, and create new funding mechanism. AniCap Venture Partners would provide feasibility research, advisory services, and research, training, consulting and related services.

We hope you'll agree that this initiative could make a powerful contribution to China's economic transformation.

I wish to thank you for considering New Dawn Holdings, an innovative new approach to high growth technology investment in China.

Best regards,

David Monkman
Chairman & CEO
AniCap Venture Partners