



Financial Plan
Social Lending

Version 1.0

Name	Matric No	Contact
Augustine Goh	HT042194H	<renaissm@hotmail.com>
Choo Zhi Min	HT052430X	<zm@nus.edu.sg>
Ryan Teoh	HT052433H	<Ryan_Teoh@adp.com>

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Social Lending

Name of Company

KARZ (www.karz.com)

Name of Product or Product Line

Kash

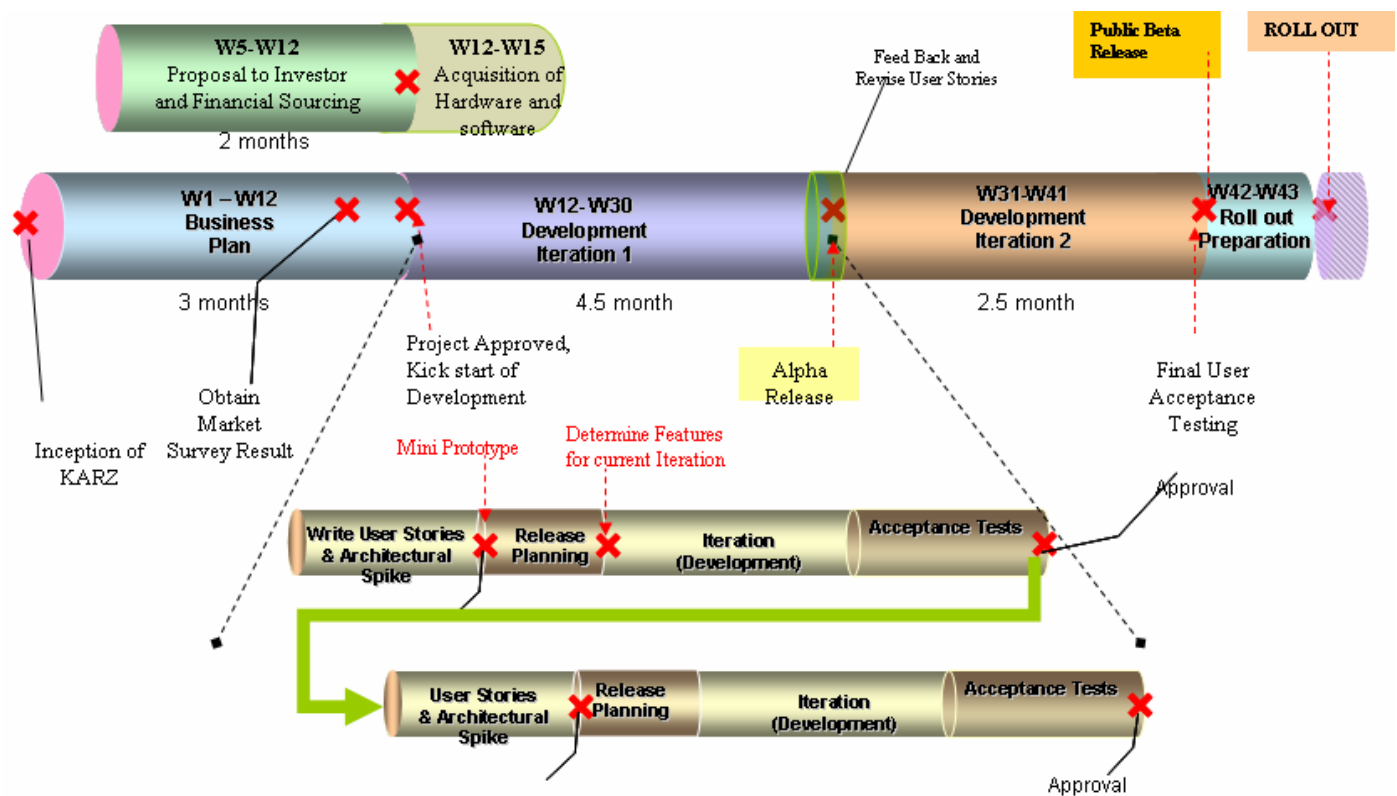
We propose this financial plan to raise fund to start Karz as the first social lending website in Singapore. We believe in providing customer centered service as well as a rewarding experience in social and individual change. To achieve this, we plan to raise a sum of \$515,435 to fund the startup with a projected positive cash flow in month 19 after inception. We project breakeven point in month 30 after inception. We sincerely invite you to invest in our company to grow the market leader of social lending in Singapore.

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1 Review Inputs

1.1 Product Development Time

1.1.1 Project Timeline



1.1.2 Project Milestones

	Activities	Description	Date of Completion
1. Inception Phase			
1	Market Survey Result	Obtaining Market Survey Result	Month 2.50
2	Business Plan	Approval of Business	Month 3.00
3	Proposal and Financial Sourcing	Obtaining Financial and other HR Resources	Month 3.00
4	Acquisition of Services & Software	Complete the acquisition of development software, online server hosting services.	Month 3.75

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	Activities	Description	Date of Completion
2. Development Phase			
1	Alpha Release	Alpha Release of website for User test, and also testing of concept	Month 7.50
2	Beta Release	Beta Release of product	Month 10.00
3. Roll Out Phase			
1	Final roll out	After user acceptance test	Month 10.50

With the product development time reflected in the above project timeline and milestone, it is paramount in determining who and what to be engaged during which part of the project phase. In this way, the running costs and production costs are more easily worked out.

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1.2 Production Costs

The production costs come from mainly the acquisition of building platforms. The acquisition of hardware as outlined in the technical plan has been reviewed for its plausibility and feasibility. As a startup, especially an internet startup entering uncharted business (social lending) in Singapore, we have decided to lower our risk of failure and conserve capital by utilizing online server hosting services.

There are no costs in the procurement of software, product components, integration and testing technologies since they are all open-source freeware. Our team has done a thorough cost-benefit analysis and evaluation of the open source and felt that at the inaugural stage of the project, it is wiser to leverage on the huge source of stable open-source software already deployed widely in the market because of the low cost and to avoid vendor lock-in. We will also acquire two PCs and one printer for product development.

1.2.1 Building Platforms

Usage	Specification	Cost and Quantity	Total Cost	When to acquire	When to setup
Web 2.0/AJAX development	MyEclipse 4.1 GA	US\$32 X1	US\$32 = S\$45	Before the architectural spike activity of the application development phase	Before the architectural spike activity of the application development phase
Flash video maker	Adobe Flash CS3 Professional	US\$699 X1	US\$699 = S\$967	Same as above	Same as above
Development PC	Dual core processor. 2GB RAM. 250GB hard disk.	S\$2000 X2	S\$4000	Same as above	Same as above
Printer	Inkjet printer	S\$200 X1	S\$200	Same as above	Same as above

1.3 Running Costs (Operating Costs)

The operating costs will mainly include the costs of employing staff for the running of the company and the infrastructure costs (server hosting space, internet service, utilities)

1.3.1 Labour

Skills	Labour	Quantity	When to acquire
Project Manager	One of the founders of Karz	1	N.A.

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Business Analyst	One of the founders of Karz	1	N.A.
System Analyst	One of the founders of Karz	1	N.A.
GUI design and review	Consultant	1	Before the user stories development activity of the application development phase
Developers/System Admin/Database Admin	The three founders of Karz and two full time staff	5	For the two full time staff, acquire before the architectural spike activity of the application development phase
Testers for acceptance test	Contracted staff	2	Before the Alpha release of the application

Proposed Monthly Rates

Skills	Quantity	Monthly Rate	Duration of service
Project Manager	1	\$3000	Permanent
Business Analyst	1	\$3000	Permanent
System Analyst	1	\$3000	Permanent
GUI consultant	1	\$100 per hour	Outsourced
Developers/System Admin/Database Admin	2	\$3500	Permanent
Testers for acceptance test	2	\$30 per hour	Outsourced

1.3.2 Infrastructure

For office space, we assume that we can get a small office of 500 square feet at a rate of \$4 per square feet per month. For utilities, internet, phone and office overhead, we project an expense of \$1000 per month.

For online server hosting services, we will engage a Singapore based hosting company for a dedicated server at a monthly fee of \$600. The hardware specification is as follow:

- AMD Quad Opteron 844 Processor
- 8GB RAM
- 2x 146GB SCSI (hardware RAID 1)
- 2x 146GB SCSI (JBOD)

1.4 Marketing and Promotion Costs

From our marketing plan, the costs come from printed advertisement and seminars. For printed advertisement in newspapers, it will start at the beginning of beta phase at month 7.5. We project the cost to be \$300 per advertisement per day for newspaper ads.

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For brochures to be sent together with utilities bills, it will start after the website goes live. We plan to engage DM Rocket, a division of Singapore Post Ltd at a rate of \$20,000 per delivery to reach 250,000 households. We plan to use their service once per quarter.

For seminars and road shows, we will start after the website goes live. We budget \$1000 per month for renting seminar and road show facility.

1.5 Product Price

Kash's charging plan is straightforward. For borrower, Kash charges 1-3% closing fee depending on their credit grade. For lender, Kash charges 0%-1% annual loan servicing fee. There are no fees to use the site, post a listing or place bids.

Kash's fees are very straightforward. There are no fees to use the site, post a listing or place bids. Fees only result from obtaining a loan as a borrower or receiving payments on a loan as a lender.

1.5.1 Borrower Fees

1-3% closing fee

If you are a borrower and your loan is funded, you will be charged a percentage of the amount borrowed or \$25, whichever is greater, depending on your credit grade:

- **AA:** 1% closing fee
- **A - B:** 2% closing fee
- **C - HR:** 3% closing fee

For example, if you are a borrower with a B credit grade and you take a loan for \$5,000 to help pay for your wedding, you will be charged \$100. The 2% is taken from your loan immediately, so in this example your loan is for \$5,000 and you'd receive \$4,900 in cash deposited into your bank account. This means that if you're using Kash to purchase something specific (like a wedding dress), make sure you ask for enough to cover the dress and the closing fee.

1.5.2 Lender Fees

0%-1% annual loan servicing fee

The annual servicing fee is accrued daily, and is based on the current outstanding loan principal. This fee is accrued the same way that regular interest is accrued on the loan. The amount of the servicing fee depends on the borrower's credit grade:

- **AA:** 0% annual loan servicing fee
- **A - HR:** 1% annual loan servicing fee

For example, on a \$5,000 A credit grade loan at 10% interest, the servicing fee would be \$80.70 over its full 3 year length. Because the servicing fee is based on the daily principal balance (which is an amortized value), it will change on a monthly basis, and the servicing fee for a loan will vary based on the prevailing bank interest rate and the length of the loan (if the borrower happens to pay it back in less than 3 years).

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Collection agency recovery fee

In the event that one of the loans becomes more than 1 month late, Kash will assign a professional collection agency to attempt to collect the overdue amount. Each collection agency has its own fee structure, but will only collect a fee for their services if funds are recovered.

1.5.3 Delinquency Fees

\$15 failed payment fee

If the borrowers' automatic monthly payment fails due to insufficient funds or because they closed their bank account and forgot to inform Kash, they will be charged \$15 on the first failed payment of each billing period. This fee may vary depending on the prevailing bank interest rate. This fee is paid to Kash, and covers the fees that Kash's bank charges for failed payments.

1.5.4 Late payment fee

If the borrowers' monthly payment is 15 days late. Late fees are passed on to lenders; Kash does not profit from late fees. Any payment later than 15 months, please refer to the next section for more details of the fee scheme.

1.6 Sales Revenue

We revise our sales target as follow:

1. Revenue: 100 completed loan deals per month in the first month of operation as we expect initial low pick up rate for social lending in Singapore.
2. Revenue growth: with our aggressive marketing campaign we project a spike in growth of completed loan deals, followed by a stable growth, as shown below.
 - a. 10% growth per month on completed loan deals for the first 6 months of operation,
 - b. 12 % for the following 6 months
 - c. 15% for the following 6 months
 - d. 10% for the following 6 months
 - e. 5% for the following 12 months
 - f. 3% for the rest of the months

Below are our assumptions:

- (a) For our customer base, we assume ¼ AA graders, ¼ A-B graders, ½ C-HR graders.
- (b) An average of \$5,000 per loan as we target medium-high income group.

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2 Cash Flow

2.1 Cash Flow Out

Table 1 shows the various cost extracted from chapter 1. The “Rem” column refers to the section in this document.

Table 1: Various startup cost

	Rem	QTY	COST (\$)	TOTAL (\$)	NOTE1	NOTE2
Hardware/Software						
Development PC	1.2	2	2000	4000		
MyEclipse 4.1 GA	1.2	1	45	45		
Adobe Flash CS3 Pro	1.2	1	967	967		
Printer	1.2	1	200	200		
Development Cost						
Project Manager	1.3.1	1	3000	3000	per month	Karz founder
Business Analyst	1.3.1	1	3000	3000	per month	Karz founder
System Analyst	1.3.1	1	3000	3000	per month	Karz founder
GUI Consultant	1.3.1	40	100	4000	per month	Contract staff working 40 hour per month at \$100 per hour
Developers	1.3.1	2	3500	7000	per month	Karz staff
Tester	1.3.1	160	30	4800	per month	Two contract staff working total 160 hour per month at \$30 per hour
Running Cost (Recurring, Monthly)						
Human Resource						
Project Manager	1.3.1	1	3000	3000	per month	
Business Analyst	1.3.1	1	3000	3000	per month	
System Analyst	1.3.1	1	3000	3000	per month	
Developers	1.3.1	1	3500	3500	per month	For maintenance job
Infrastructure						
Web Hosting	1.3.2	1	600	600	per month	
Office Rental	1.3.2	1	2000	2000	per month	
Utilities, Overhead	1.3.2	1	1000	1000	per month	
Marketing						
Printed Media	1.4	4	300	1200	one ad per week	
Brochures	1.4	0.333	20000	6660	20k per quarter	
Seminar, Roadshow	1.4	1	1000	1000	per month	
Total Running Cost				24960		per month

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Hence, the monthly cash flow out is as follow.

Table 2: Monthly cash flow out

Month	Infra	HR	MKTing	TOTAL	
1		9000		9000	Only 3 founders for HR
2	3000	9000		12000	Only 3 founders for HR
3	8212	20000		28212	Hire Developers and GUI consultant. All development hardware ready
4	3000	20000		23000	
5	3000	20000		23000	
6	3000	20000		23000	
7	3600	24800		28400	Hire tester. Start paying for server hosting.
8	3600	24800	1200	29600	Start newspaper ads
9	3600	20000	1200	24800	
10	3600	20000	1200	24800	
11	3600	20000	8860	32460	Karz goes live. Start full marketing.
12	3600	12500	8860	24960	Retain only one developer
13	3600	12500	8860	24960	
14	3600	12500	8860	24960	
15	3600	12500	8860	24960	
16	3600	12500	8860	24960	
17	3600	12500	8860	24960	
18	3600	12500	8860	24960	
19	3600	12500	8860	24960	
20	3600	12500	8860	24960	
21	3600	12500	8860	24960	
22	3600	12500	8860	24960	
23	3600	12500	8860	24960	
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31	3600	12500	8860	24960	
32	3600	12500	8860	24960	
33	3600	12500	8860	24960	
34	3600	12500	8860	24960	
35	3600	12500	8860	24960	
36	3600	12500	8860	24960	
37	3600	12500	8860	24960	
38	3600	12500	8860	24960	
39	3600	12500	8860	24960	
40	3600	12500	8860	24960	

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2.2 Cash Flow In

We table the cash flow in as below, starting from the first month of operation at month 11. The “Rem” column refers to the section in this document. We include only closing fee as income as this is the major source of income.

Table 3: Monthly cash flow in

Num Loan for first income	100
Average Loan Amount	5000
AA credit grade	1.0% closing fee
A-B credit grade	2.0% closing fee
C-HR credit grade	3.0% closing fee

Month	Growth	Num Loan	Borrower's Credit Grade			Total	Rem
			AA	A-B	C-HR		
			0.25	0.25	0.50		1.7 (a)
11		100	1250	2500	7500	11250	
12	10%	110	1375	2750	8250	12375	
13	10%	121	1513	3025	9075	13613	
14	10%	133	1664	3328	9983	14974	
15	10%	146	1830	3660	10981	16471	
16	10%	161	2013	4026	12079	18118	
17	10%	177	2214	4429	13287	19930	
18	12%	198	2480	4960	14881	22322	
19	12%	222	2778	5556	16667	25000	
20	12%	249	3111	6222	18667	28000	
21	12%	279	3484	6969	20907	31360	
22	12%	312	3903	7805	23416	35124	
23	12%	350	4371	8742	26226	39338	
24	15%	402	5027	10053	30159	45239	
25	15%	462	5781	11561	34683	52025	
26	15%	532	6648	13295	39886	59829	
27	15%	612	7645	15290	45869	68803	
28	15%	703	8792	17583	52749	79124	
29	15%	809	10110	20220	60661	90992	
30	10%	890	11121	22243	66728	100091	
31	10%	979	12233	24467	73400	110100	
32	10%	1077	13457	26913	80740	121111	
33	10%	1184	14802	29605	88814	133222	
34	10%	1303	16283	32565	97696	146544	
35	10%	1433	17911	35822	107465	161198	
36	5%	1505	18806	37613	112839	169258	
37	5%	1580	19747	39494	118481	177721	
38	5%	1659	20734	41468	124405	186607	
39	5%	1742	21771	43542	130625	195937	
40	5%	1829	22859	45719	137156	205734	
41	5%	1920	24002	48005	144014	216021	
42	5%	2016	25202	50405	151215	226822	
43	5%	2117	26463	52925	158775	238163	
44	5%	2223	27786	55571	166714	250071	
45	5%	2334	29175	58350	175050	262575	
46	5%	2451	30634	61267	183802	275703	

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47	5%	2573	32165	64331	192992	289489
48	3%	2650	33130	66261	198782	298173
49	3%	2730	34124	68249	204746	307118
50	3%	2812	35148	70296	210888	316332

2.3 Cash Flow Projection

Combine cash flow out and in, and apply discount rate of 0.8% per month, we arrive at the cash flow projection below. We also show the accumulated cash in the table below.

Table 4: Cash flow projection

Discount rate 0.8% per month

Month	Income	Expense	Net Cash (A)	Accumulated Cash (B)	Discounted (A)	Discounted (B)
1	0	9000	-9000	-9000	-9000	-9000
2	0	12000	-12000	-21000	-11905	-20833
3	0	28212	-28212	-49212	-27766	-48434
4	0	23000	-23000	-72212	-22457	-70506
5	0	23000	-23000	-95212	-22278	-92225
6	0	23000	-23000	-118212	-22102	-113595
7	0	28400	-28400	-146612	-27074	-139768
8	0	29600	-29600	-176212	-27994	-166652
9	0	24800	-24800	-201012	-23268	-188598
10	0	24800	-24800	-225812	-23084	-210185
11	11250	32460	-21210	-247022	-19586	-228103
12	12375	24960	-12585	-259607	-11529	-237821
13	13613	24960	-11348	-270955	-10313	-246246
14	14974	24960	-9986	-280941	-9004	-253296
15	16471	24960	-8489	-289430	-7593	-258878
16	18118	24960	-6842	-296271	-6071	-262895
17	19930	24960	-5030	-301301	-4428	-265236
18	22322	24960	-2638	-303940	-2304	-265435
19	25000	24960	40	-303899	35	-263294
20	28000	24960	3040	-300859	2613	-258591
21	31360	24960	6400	-294459	5457	-251081
22	35124	24960	10164	-284295	8598	-240491
23	39338	24960	14378	-269917	12066	-226516
24	45239	24960	20279	-249638	16883	-207835
25	52025	24960	27065	-222573	22354	-183831
26	59829	24960	34869	-187704	28571	-153801
27	68803	24960	43843	-143861	35639	-116941
28	79124	24960	54164	-89697	43679	-72334
29	90992	24960	66032	-23665	52828	-18933
30	100091	24960	75131	51466	59630	40848
31	110100	24960	85140	136607	67038	107561
32	121111	24960	96151	232757	75106	181814
33	133222	24960	108262	341019	83895	264266
34	146544	24960	121584	462603	93471	355640
35	161198	24960	136238	598841	103906	456723
36	169258	24960	144298	743139	109180	562278
37	177721	24960	152761	895900	114666	672481
38	186607	24960	161647	1057547	120373	787517
39	195937	24960	170977	1228524	126310	907577

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40 205734 24960 180774 1409298 132488 1032862

Positive cash flow is realized starting from month 19 or 1.6 years after inception. Breakeven is realized in month 30 or 2.5 years after inception. The figure below illustrates this.

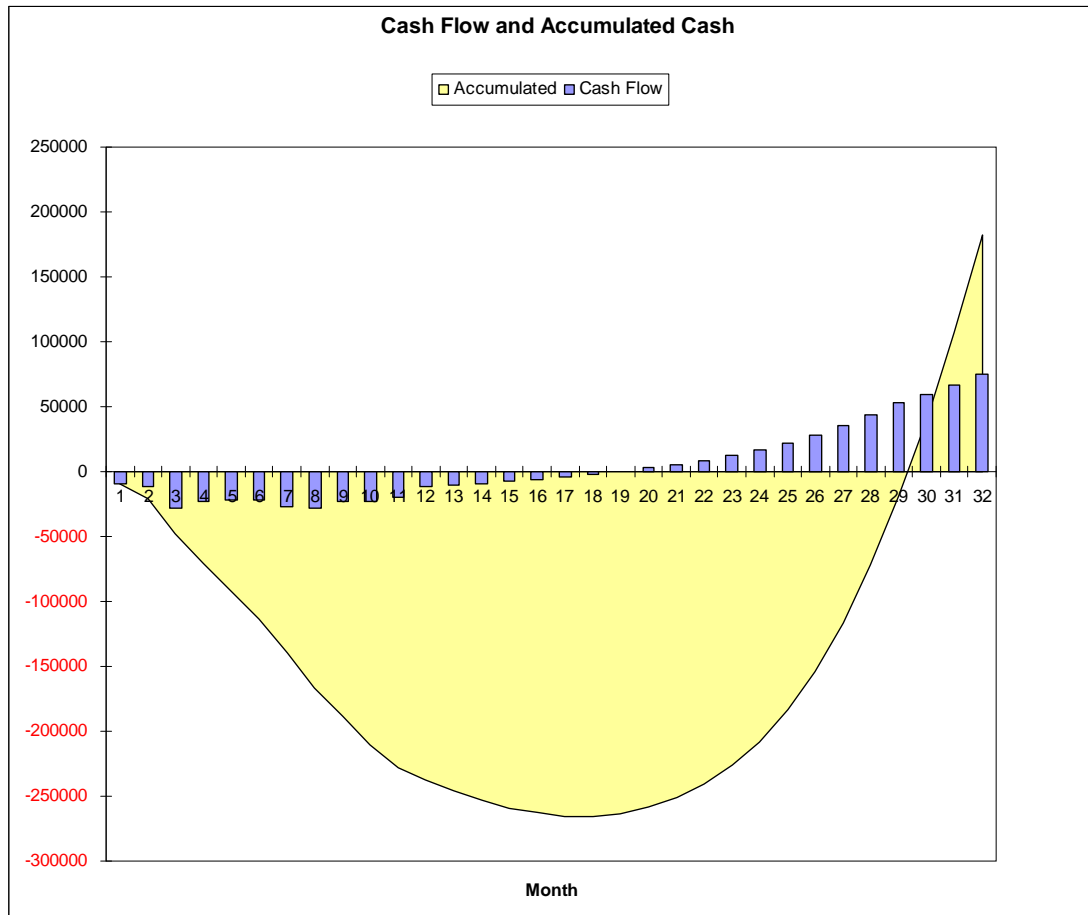


Figure 1: Cash flow and accumulated cash

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3 Review of Assumptions

We view the followings as critical assumptions that underline the cash flow projection presented above.

1. Labour cost, especially outsourced labour, remains stable and within control.
2. Office space at the cost projected above is available in the market.
3. Seminars and road shows cost as projected above are available in the market.
4. Sales revenue target is attainable.

We will explore the impact on cash flow when each of the assumption above changes.

3.1 *Increase in Labour Cost*

Assuming 100% increase in outsourced labour cost, the period to achieve positive cash flow is not affected. But the capital needed to reach positive is increased by about \$40,000. As we target to achieve positive cash flow and become a “going concern”, increase in outsourced labour cost does not affect us much.

3.2 *Increase in Office Space Cost*

Assuming 100% increase in office space cost, positive cash flow is delayed by only one month to month 20. The capital needed to reach positive is increased by about \$30,000.

3.3 *Increase in Seminars and Road Shows Cost*

Assuming 100% increase in seminars and road shows cost, positive cash flow is delayed by only one month to month 20. Compared with increase in office space cost, the capital needed to reach positive is increased by about only \$7,000.

3.4 *Decrease in Sales Revenue*

Suppose there is 50% decrease in average loan amount from \$5000 to \$2500, positive cash flow is delayed by 6 months. The same effect applies when there is 50% decrease in number of monthly loan deals from 100 to 50.

If there is 50% decrease in monthly growth rate of loan deals for all period, then positive cash flow will be delayed by 7 months.

As a summary, we see that the cash flow is sensitive to the revenue pattern, a 50% decrease in average loan amount, number of loan deals or growth rate will delay positive cash flow by 6-7 months. As we target low initial sign up and medium-high income group, and backed by aggressive marketing campaign to achieve high growth rate, we are confident that our assumptions are reasonable yet conservative.

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4 Capital Needs

The start-up period falls into 2 parts-

- Time until Karz gets into the market (10.5 months)
- Time until positive cash flow (19 months) which is also the point of maximum indebtedness

Capital investment is the expenditure that reduces the future cost of doing business.

It comes in the form of development cost, production cost, marketing and sales cost, support costs, management costs and general overheads. In our case (Tables 1 & 2), the costs lie in the development cost, production cost (operating costs), marketing and sales cost.

From cash flow projection (Table 4), the total capital investment needed to keep the company running until cash flow is positive is about \$265,435 (A).

Because of the high risk nature in high tech business and social lending is new in Singapore, we add a contingency reserve equivalent of (A), which is \$250,000 (B).

Hence the total capital we need to raise is \$515,435, which is the sum of (A) and (B).

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5 Capital Plan

There are a lot of means to garner funding for Karz, for eg. private funds, equity, debt, grants and loans or advances on products. But, all of them create business liabilities. As Karz is a small startup and think that our ROI from our product, Kash, is not too soon (breakeven period is only 2.5 yrs after commencement date), we think that the repayments might impose weight on our cash flow and the servicing of repayment will definitely prolong the period before we can reach breakeven.

Moreover, as a new startup, we have low credit worthiness which is an irony since we are providing loan service. It does not help especially when we are marketing a relatively new concept here, i.e. social lending. P2P is a new business concept. Lastly, our fixed assets, if any, are too small in value (only the development PCs and office automation and furniture) to be pledged for the loans.

With the various reasons listed above, we feel that an alternative source of funding is more appropriate. Our first recourse is via venture capitalists. There are several government venture capital funds, for e.g. Technopreneurship Investment Fund and Infocomm Investments Pte Ltd (IIPL). TIF Ventures Pte Ltd (TIFV) is a wholly owned fund-of-funds management company of the EDB Investments Pte Ltd. The Technopreneurship Investment Fund (TIF) seeks to draw more venture capital activities and develop a vibrant private equity environment in Singapore through its fund-of-funds investment activities. IIPL is a wholly owned subsidiary of the Infocomm Development Authority of Singapore (IDA) and was incorporated on 13 November 1996, under the name of NCB Holding Pte Ltd. IIPL changed to its present name on 9 June 2000. IIPL's aim is to use its equity investments to support IDA's industry development efforts to develop a globally competitive infocomm industry in Singapore.

With TIF and IIPL, we hope that they can bring us a spectrum of potential VCs to invest in our company. The terms and conditions of the ownership and operations control of Karz will be further discussed with the individual VCs. We understand that unlike angels, venture capitalists take an **active role** in the running of your business. The ability of venture capitalists to bring both money and experience sets them aside from other investors. They are in it for **profit**. By helping us to achieve success, the value of their investment goes up. The higher they can drive the value, the more money they make. Venture capitalists are usually prepared to buy a 40-50% stake in your business. A typical investment lasts between 2 - 5 years. They will expect a return on their investment of at least 30% for every year invested. When venture capitalists cash out, they take a big slice of the profits with them.

As we are new and our only tool lies with our product, we, alike to Google, hope to retain strong control over the company, so that we dictate on how we want to succeed with our product. Our end-in-mind is to give a good product that serves well to the loaning community which might well conflict with VC's commercial goals. Our strategy might well be like Google's. By engaging 2 giant VCs, the control will be returned to the company since neither of the VCs will want each other to have control.

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It can turn out be a win-win situation with a product which is need-driven rather than money-driven.

Meanwhile, we will also be actively looking out for angel investors from different sources for e.g. family and friends; key business associations in Singapore which includes Action Community for Entrepreneurship (ACE), Association of Small and Medium Enterprises (SMEs) and Singapore Business Federation (SBF); Chambers of Commerce; Online Networks which includes BuySingapore, Hub for Singapore, World Chinese Business Network (WCBN).

Angel investments bear extremely high risk, and thus require a very high return on investment. Because a large percentage of angel investments are lost completely when early stage companies fail, professional angel investors seek investments that have the potential to return at least 10 or more times their original investment within 5 years, through a defined exit strategy, such as plans for an initial public offering or an acquisition. Current 'best practices' suggest that angels might do better setting their sights even higher, looking for companies that will have at least the potential to provide a 20x-30x return over a five- to seven-year holding period. After taking into account the need to cover failed investments and the multi-year holding time for even the successful ones, however, the actual effective internal rate of return for a typical successful portfolio of angel investments might, in reality, be as 'low' as 20-30%.

While the investor's need for high rates of return on any given investment can thus make angel financing an expensive source of funds, we will look for cheaper sources of capital, such as bank financing, once we prove ourselves in the market and to qualify for traditional loans.