

Hong Kong reaches out to VCs

City wants venture capital investors to take advantage of its tech startups' strategic location linking China to Southeast Asia

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As Hong Kong seeks to be an international hub for innovation and technology, more funding from global investors is expected to help startups scale up.

Speaking on Nov 1 at the Cyberport Venture Capital Forum 2017, Secretary for Innovation and Technology Nicholas Yang said the Hong Kong Special Administrative Region government wants to leverage "the expertise, business network and investment wisdom" of venture capitalists to help Hong Kong's startups "grow and thrive".

Cyberport is an innovative digital community with about 1,000 tech companies. It is managed by Hong Kong Cyberport Management Company, which is wholly owned by the Hong Kong SAR government.

According to Yang, Cyberport startups attracted total investment funding of about HK\$1 billion (\$128 million) from April to September this year. He affirmed that the government will continue to support and fund local startups as well as entrepreneurs at different stages of development, and said that building a more complete funding ecosystem for startups is a top priority.

In her policy address last month, Hong Kong Chief Executive Carrie Lam Cheng Yuet-ngor said the government will step up efforts in eight key areas for Hong Kong to catch up in the innovation and technology (I&T) race and to become an international I&T hub. These include resources for research and development (R&D), nurturing a talent pool, venture capital, scientific research infrastructure, review of legislation, opening up data, government procurement, and popular science education.

The policy address set a goal to double the expenditure on R&D as a percentage of Hong Kong's GDP from 0.73 percent to 1.5 percent, reaching HK\$45 billion a year.

In September, the government launched a HK\$2 billion fund to encourage venture capital investment, whether from Hong Kong or overseas, in local startups. Yang said more than 40 inquiries have been received so far, and he expects to see venture capitalists playing a bigger role in the startup ecosystem in Hong Kong over time.

"Hong Kong is the most international city in China," Yang said. "With all the comparative advantages and opportunities from the Guangdong-Hong Kong-Macao Greater Bay Area initiative, I am sure Cyberport will go from strength to strength to enhance our startups' entrepreneurship journey."



Duncan Chiu (front row, left), chairman of the Cyberport Investors Network Steering Group, Nicholas Yang (center), secretary for innovation and technology, and Cyberport chairman George Lam (right) attend the opening ceremony of the Cyberport Venture Capital Forum on Nov 1. PARKER ZHENG / CHINA DAILY

First detailed by Premier Li Keqiang in March, the Guangdong-Hong Kong-Macao Greater Bay Area aims to develop a world-class city cluster in southern China.

Digital Silk Road

Jonathan Larsen, speaking as chief innovation officer of Chinese financial giant Ping An Insurance Group, admitted that small startups in China may find it difficult to attract investment, since most of it tends to be concentrated on large companies and in sectors like digital payment, wealth management and peer-to-peer lending services.

Larsen is also the chairman and CEO of Ping An Global Voyager Fund, a \$1 billion overseas investment fund that he said will focus mainly on fintech and healthcare technologies. The fund will typically invest \$10 million or more, mostly in startups at mid-stage and growth stage.

Venture capitalists and startups see opportunities beyond Hong Kong and the Chinese mainland via the digital Silk Road.

During the Belt and Road Forum for International Cooperation in Beijing in May, President Xi Jinping said China aims to build a digital Silk Road, as it identifies innovation as the driving force to pursue the Belt and Road Initiative — the plan to boost trade, infrastructure and connectivity between Asia, Europe and Africa by reviving the ancient Silk Road routes.

Chua Kee Lock, group president and CEO of Vertex Venture Holdings, the venture capital arm of Singapore state investor Temasek Holdings, said he expects more immediate impact on Israel and Southeast Asia from the Belt and Road Initiative.

"A lot more things are happening as a result of China's dominant and large companies, as they are expanding beyond their own border," Chua told the Cyberport forum, adding that in Southeast Asia particularly, heavy investment can be seen from Chinese e-commerce firms like Alibaba and JD.com.

Following its \$1 billion deal with Southeast Asia e-commerce platform Lazada last year, Alibaba invested another \$1 billion in July to raise its stake in Lazada to 83 percent.

Ku Kay Mok, a partner at Gobi Partners who looks specifically at the Southeast Asia market, said the new venture capital wave hitting Asia is driven by low-priced smartphones from China.

"The Chinese smartphones are so dominant in the emerging market," said Ku. "And the smartphone penetration is still so low (in the region), so there is still a lot of room to grow."

In the face of this new wave, Ku said entrepreneurs in Hong Kong should take advantage of the city's unique geographic location so close to the Chinese mainland. Following the lead of expanding Chinese investors and corporations is the key, he suggested.

Alex Kong, founder and CEO of Hong Kong homegrown fintech startup TNG Wallet, said the company, since its formation two years ago, has already made Southeast Asian countries its target, especially developing countries like Indonesia, the Philippines, Malaysia and Thailand.

According to Kong, monthly transaction volume on the e-wallet platform has exceeded HK\$800 million. In September, the company raised \$115 million in a Series A funding round.

Kong sees big market potential for fintech companies in Southeast Asia due to the low use of banking services in the region.

A report by McKinsey & Company, citing data from the World Bank, estimated that around 80 percent of the people in Indonesia, the Philippines and Vietnam, and about 30 percent of those in Malaysia and Thailand, have no banking relationships.

Help for entrepreneurs

Kong said Hong Kong can serve as a gateway for startups wanting to expand to developing countries along the Belt and Road, as the city's high-quality professionals can help entrepreneurs better execute their business plans.

Kong also believes that when entering the Southeast Asia market, building a team from the local talent pool will help companies navigate and adapt.

Chua from Vertex Venture Holdings added that companies should be aware that the Southeast Asia market is made up of different countries, with different regulations, religions, languages and cultures.

Ku from Gobi Partners said that besides entering other markets via mergers and acquisitions, startups with technology and market-driven products or services will still find themselves needed in their home market.

The forum at Cyberport also marked the launch of a new key initiative, the Cyberport Investors Network (CIN). CIN is a structured platform that engages worldwide investors of leading venture capitalists, angel investors and private equity funds, to enhance the fundraising and deal-making capabilities of Cyberport startups.

According to Duncan Chiu, cofounder and managing director of Radiant Venture Capital as well as chairman of the steering group of CIN, more than 100 investors from over 50 funds and individuals have signed up. He said he expects to reach 100 funds by the first quarter of next year.

Cyberport also announced a strategic partnership with the China Mergers and Acquisition Association of Hong Kong, a nonprofit, non-governmental organization which aims to better facilitate deal flow and cross-border business development for technology companies.