

SCMP(2021-08-09)

## **Venture capital managers ask Hong Kong government to speed up vetting process for US\$257 million tech co-investment fund**

- The Innovation and Technology Venture Fund is part of government efforts aimed at stimulating private investment in local start-ups
- The fund is in its fourth year, but the government has invested only about 6 per cent of the fund's overall size across 20 companies



Hong Kong's Victoria Harbour waterfront. There were about 3,360 start-ups in the city employing more than 10,600 employees as of last year. Photo: AFP

Venture capital managers have called upon the Hong Kong government to speed up its vetting process for a HK\$2 billion (US\$257 million) technology co-investment fund amid concerns that entrepreneurs could be discouraged from using the fund if they cannot access life-saving capital in time.



The Innovation and Technology Venture Fund (ITVF) is part of government efforts aimed at stimulating private investment in local innovation and technology start-ups. It was launched by the Innovation and Technology Commission in July 2018 after the commission selected five venture capital funds as co-investment partners for the scheme. Each co-investment manager must invest twice as much as the government in each round of investment in a start-up.

“The programme has encouraged venture capital funds like us to take on additional risk by investing in Hong Kong start-ups. It is also helpful for start-ups, especially those that are in early stages and are in need of life-and-death capital,” said Lap Man, co-founder and managing partner of Beyond Ventures, which has invested in 10 ITVF funded start-ups.

There are concerns, however, that a lengthy application process and the frequency of reporting that the commission requires from start-ups might have caused some entrepreneurs to get cold feet. The ITVF is entering its fourth year of operations, but the government has invested only about HK\$120 million – or 6 per cent of the fund’s overall size – across 20 companies. Moreover, the number of co-investment partners has grown to nine, but five of these venture capital funds have not yet made any investment, according to the ITVF’s website.

Entrepreneurs often need quick disbursement of funding because running a young start-up, they often do not have ready access to bank financing and they are, therefore, more reliant on early investor funding. The lack of this funding could readily close down their businesses, some managers said.



Lap Man, co-founder and managing partner of Beyond Ventures. Photo: KY Cheng

“To encourage more private venture capital to invest in local start-ups, we are considering inviting more venture capital funds as our co-investment partners,” Frankie Wong, information officer at the commission, told the Post.

There were about 3,360 start-ups in the city employing more than 10,600 employees as of last year, according to data from InvestHK, a government department tasked with promoting foreign investment. Hong Kong wants to play a key role in leading innovation and technology development in Beijing’s Greater Bay Area development zone.

The scheme has helped some start-ups grow into profitable businesses. For instance, YoHo Group, an online-offline e-commerce operator that received funding from the ITVF and Beyond Ventures, has grown into a company with HK\$28.7 million in net profit for the financial year ending March 2021. It applied for a listing on the Hong Kong stock exchange in June.

The ITVF and Beyond Ventures have also invested in Enabot, a start-up that makes smart robots, which can provide companionship to children and the elderly at home while helping with security as well. Enabot saw its valuation grow five times in a subsequent series A funding round, in which well-known venture capital firms such as Sequoia Capital also took part.



Mindworks Ventures, another co-investment partner, has invested in four Hong Kong start-ups alongside the government. These include Qupital, a fintech firm that provides financing to small and medium-sized enterprises operating on e-commerce platforms, and RaSpect, a proptech firm that provides predictive inspection services for skyscrapers using a combination of drones, artificial intelligence and internet of things.

These four companies are among more than 30 start-ups in which Mindworks has invested across three funds, said Joe Chan, a managing partner.

“We have seen that the ITVF’s vetting processes have been streamlined over time,” he said. “We may continue to support the subsequent financing rounds of the four companies beyond the early stages.”