STARTUP ECOSYSTEM IN HONG KONG

A MARKET OVERVIEW

May 2017
Business Sweden Hong Kong
HONG KONG IS INCREASINGLY POSITIONING ITSELF AS THE START UP HUB OF THE APAC REGION

Total number of 1925 start-ups in Hong Kong
- 24 % increase compared to 2015
- The total number of staff employed by start-ups reached 5 300 in 2016
- An Increase of 41% compared to 2015
- Biggest sectors are Information & Technology and E-commerce

Hong Kong has the 5th fastest growing start-up ecosystem
- Ranks as the top 25th start-up hub
- Ranks 10th place with regards to Market Reach and Talent

There are 71 co-work spaces, incubation & acceleration programmes
- 21 local funding schemes, 38 co-working spaces and 12 different Incubators and Accelerators
- The first co-working space opened in 2007
- 3 co-working spaces in 2010 became 34 in September 2015 – a whopping 10X in 5 years

SOURCE: INVEST HK
NOTES: FIGURES AS OF 2016
SMALL COMPANIES = ENGAGING LESS THAN 20 PEOPLE,
FOREIGN COMPANIES = COMPANY WITH PARENT COMPANY OUTSIDE HONG KONG
IOT, FINTECH AND E-COMMERCE ARE SECTORS ON FIRE IN THE HONG KONG START-UP ECOSYSTEM

As a global finance center and logistics hub it is no surprise that fintech and e-commerce are the most vibrant sectors for Hong Kong start-ups.

Hong Kong is a supply chain management hub and is neighbouring to China’s most productive manufacturing region.

This also brings potential for start-ups combining hardware and software such as wearables and Internet of Things.

The most successful Hong Kong start-up is 9GAG who has achieved global recognition.

“IoT has made its way into the global startup consciousness and Hong Kong and Shenzhen are near instant associations. (…) When we started Brinc a year and a half ago, Hong Kong still felt like it was just getting started. Today, it feels like the startup scene is on fire!”

- Bay McLaughlin, COO & Co-Founder of Brinc.io, January 2016
SWEDISH STARTUPS HAVE A STRONG POSITION TO TAP INTO OPPORTUNITIES IN APAC THROUGH HONG KONG

EDGE OF HONG KONG

ACCESS TO CHINA: A MANUFACTURING HUB

• On the doorstep to the Chinese market & only 15 minutes to Shenzhen.
• Close to the pearl river delta: the manufacturing hub of China and the world.

A STRONG POSITION AS AGATEWAY TO APAC

• On the doorstep to the Chinese market and Asia’s key markets within a 4 hour flight
• Simple and low tax and regulatory system making it perfect for regional functions
• Global business hub where east meets west and long tradition of international business

A TESTBED FOR SERVICES FOR APAC

• Easy market access and early adopting consumers will allow foreign companies to get their best-practice for APAC in APAC
• Population of 95% ethnic Chinese while 29% of the users use social media in English, making it a perfect test market

OPPORTUNITIES FOR STARTUPS

1 ICT, IOT AND NEW TECHNOLOGIES COMBINING HARD- AND SOFTWARE

• Leading market in Asia on telecom and information systems
• Proximity to Shenzhen provides easy access to inexpensive and rapid prototyping
• R&D collaboration with the Pearl River Delta
• Pool of experienced IT professionals

2 E-COMMERCE AND ONLINE SOLUTIONS

• Perfect test bed and springboard for start-ups within e-commerce and new digital solutions
• Efficient and global logistic hub partners
• High internet usage, connectivity and social media in English

3 LIFE SCIENCE AND MEDTECH

• Robust intellectual property rights
• Wide usage of patented drugs, an ageing population and increasing health expenditures
• High demand of mid-to-high end product portfolios

Strong base to propel innovative start-ups in APAC with an ecosystem of funding, infrastructure and international cooperation
HONG KONG START-UP ECOSYSTEM HAS GREAT POTENTIAL

START-UP ECOSYSTEM HONG KONG VS. SINGAPORE

- **Market**: Cultivating on strong background in finance Hong Kong has FinTech start-ups while Singapore start-up scene is still more diverse
- **Growth**: Small domestic markets makes it vital for start-ups to have an regional expansion plan from start
- **Location**: Singapore is viewed as the entry point to ASEAN, while Hong Kong offers direct access to China and the rest of APAC
- **Talent**: Singapore has stricter immigration policies and is a lot more dependent on foreign start-up founders
- **Quality**: Hong Kong and Singapore are still novices compared to the start-up ecosystems of the West
- **Regulations**: Hong Kong government is playing an more active role than Singapore
- **Funding**: There is no shortage of capital in Hong Kong but high-net worth individual tend to favor traditional investments
**HONG KONG GROWS MORE TOP FOUNDERS THAN SINGAPORE**

**ORIGIN OF START-UP FOUNDERS**

- **From Overseas (35%)**
- **Hong Kong Locals (65%)**

**TALENTS HONG KONG VS. SINGAPORE**

- There is a good supply of local talent in Hong Kong and Singapore.
- There are a number of publicly-funded universities which play a key role in producing local talent – eight in Hong Kong and six in Singapore.
- Singapore has been infamous for their local workforce protectionism against its foreign workers.
- Despite Singapore’s strict foreigner employment policy, the Singapore ecosystem still very much relies on the foreign entrepreneurs.
- Meanwhile, the outlook in Hong Kong remains much brighter.
- In order to attract more foreign talent, the Hong Kong Immigration Department has announced a set of newly enhanced measures in 2015.

**ORIGIN OF FOUNDERS**

1. USA 21%
2. UK 13%
3. Mainland China 11%
4. France 10%
5. Australia 5%
6. Canada 3%

**NOTE:** HONG KONG LOCALS INCLUDE 3% HONG KONG RETURNES
LOW MARKET BARRIERS AND ENGLISH AS USER LANGUAGE MAKE HONG KONG A PERFECT TESTMARKET

Regional Growth Out of Hong Kong

- Hong Kong is a strong base to help propel start-ups abroad
- Hong Kong sits on the doorstep to the Chinese market and have Asia’s key markets within a 4 hour flight
- Hong Kong’s proximity to Shenzhen adds to the potential by providing easy access to inexpensive and rapid prototyping
- The long tradition of international trade and the presence of expats and western-educated locals translate into a demonstrated ability to penetrate foreign markets
- Hong Kong has a population of 95% ethnic Chinese while 29% of the users use social media in English, making it a perfect test market

SOURCE: ODDUP, INVESTHK
THE FUNDING LANDSCAPE FOR START-UPS IN HONG KONG HAS GREAT POTENTIAL

ACCESS TO START-UP FUNDING

- There is no shortage of capital in Hong Kong but high-net worth individual tend to favor traditional investments
- In recent years Hong Kong has had a number of start-ups that successfully secured early stage funding
- For start-ups raising under $500,000 USD, the access to capital is relatively easy in Hong Kong
- However, for later stage funding, only a few companies have raised significant amounts
- Most start-ups are still at early stage funding round
- Among close to 2,000 start-ups, 52 of them have raised over US$1 million as of 2015 (publicly announced)
- A continued increase in the quantity/quality of start-ups and successful exits in Hong Kong will strengthen the confidence in the start-up ecosystem
- Hong Kong is the gateway to 5.1 million high net work individuals in APAC with wealth totaling US$17.4 trillion
- As an example, Fintech companies in Asia raised $3.5B in investment during 2015

SOURCE: STARTMEUPHK

- Ranked 5th in the VC and PE Country Attractiveness Index 2016
- Approximately 70 of the world’s 100 biggest banks are present
- More than 350 Members in the Hong Kong VC and PE association
- Every year since 2002 Hong Kong has been in the world’s top five in IPO fundraising
EARLY STAGE FUNDING

HONG KONG FUNDING STAGE DISTRIBUTION

- Series A: 13%
- Series B: 4%
- Series C: 1%
- Seed: 82%

MARKET INSIGHT

“Angel investors, venture capitalists, and wannabes have flocked to Hong Kong as investment opportunities have increased. Every day in Hong Kong seems to witness the opening of a new co-work space, and every evening it feels as though there are 10 start-up launch parties or other start-up related events”
- Josh Steimle, founder of the digital marketing firm MWI

SOURCES: WORLD FEDERATION OF EXCHANGE, FORBES, ODDUP
### MOST ACTIVE INVESTORS IN HONG KONG

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<thead>
<tr>
<th>Ardent Capital</th>
<th>MindWorks</th>
<th>Route 66 Ventures</th>
<th>Cyberport HK</th>
<th>Brinc</th>
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<tr>
<td><strong>E-commerce investments</strong>&lt;br&gt;Invests in early stage technology companies. eCommerce opportunities - including sourcing, fulfillment, retail, demand generation.</td>
<td><strong>Technology</strong>&lt;br&gt;Invests in early and expansion-stage, Asia-based technology start-ups.</td>
<td><strong>Fintech &amp; services</strong>&lt;br&gt;Invests globally in early and growth stage disruptors, incumbents and service providers throughout various sectors in the financial services ecosystem</td>
<td><strong>Fintech &amp; high tech</strong>&lt;br&gt;Incubator seed funding and growth funding up to 300k $. Managing a macro fund to invest in “gap” between seed and A-round funding</td>
<td><strong>IOT Harware program</strong>&lt;br&gt;Brinc Investments in consumer Electronics, Incubators, Hardware, Software, Internet of Things</td>
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<th>500 Startups</th>
<th>Intel Capital</th>
<th>Vectr Ventures</th>
<th>Y combinator</th>
<th>Arbor ventures</th>
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<tr>
<td><strong>500 Startups</strong>&lt;br&gt;Based in Silicon Valley, but the 500 Family exists all over the world. Broad investment strategy in high tech and services.</td>
<td><strong>Tech investments</strong>&lt;br&gt;Datacentre software, data centre-cloud, digital media, IOT, ultrabook, manufacturing and labs, security, services- open source, smartphones etc</td>
<td><strong>High tech investments</strong>&lt;br&gt;Seeds early-stage companies with global ambitions. Finntech, Marketplace / Media platforms, sw enterprise and logistics.</td>
<td><strong>Corporate program</strong>&lt;br&gt;Combinator provides seed funding for startups. Seed funding is the earliest stage of venture funding. $120k in return for 7% of the company’s equity.</td>
<td><strong>Tech ICT &amp; Finntech</strong>&lt;br&gt;Seed and early stage venture investments. Big data, financial services and digital commerce.</td>
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*SOURCE: COMPANIES WEB PAGES*
GOVERNMENT SUPPORT AVAILABLE

A government department providing free advice and customized services to help business succeed in Hong Kong.

A creative digital cluster that nurtures ICT industry startups and entrepreneurs, promotes collaboration to gather resources and create business opportunities.

A statutory body that had built a vibrant innovation and technology ecosystem to connect stakeholders and nurture technology talent.

A platform listing the latest startup events and various resources including government incentives and incubator schemes.

A one-stop portal gathering tech startup influencers and creators providing a dynamic environment.
INCUBATORS AND ACCELERATORS PROGRAMS

STARTUP NEXT
Pre-accelerator program
5 week program
Technology
No financial aid

SUPER CHARGER
Fintech program
12 week program
30 kHK$ for 5% equity stake
www.fintechsupercharger.com

FINTECH INNOVATION LAB
Fintech program
12 week program
Takes equity
3 cities NY, London, HK

AMPLIFI PAPERCLIOOP
SaaS & B2B program
12 week program
1.5 % advisory equity
Combines co-working space with accelerator program

BRINC
IOT HARWARE program
12 months program
Take equity stake
Provide access to back-end of China.

WEARABLE WORLD
IOT HARWARE program
15 week program
No funding available
Takes equity stake (3-4%)
Headquarter in San Francisco.

THE CAGE
Corporate program
Retail technology/services focus
Target fashion and lifestyle
12 week program
The Lane Crawford Joyce Group

BLUEPRINT
Corporate program
Mentor driven program
No initial equity stake
6 month program
Program powered by Swire properties

NEST
Corporate program
Healthcare accelerator powered by AIA
Smartcity & IOT accelerator powered by Infinity
Fintech accelerator incorporated by DBS

SOW ASIA
Social program
Funded by JP Morgan
No financial aid
12 week program
No equity stake

SOURCE: ORGANIZATIONS WEB PAGES