

創科創投基金

Innovation and Technology Venture Fund

SELECTION OF CO-INVESTMENT PARTNERS

ONLINE BRIEFING SESSION

17 NOVEMBER 2021

ITVF at a glance

- **HK\$2 billion** fund set up in 2017
- Objective: to encourage more private capital to invest in innovation and technology (I&T) startups in Hong Kong
- As of today, ITVF has 11 co-investment partners (CPs) and invested HK\$142 million in 22 investee companies

Co-investment partners



Investment portfolio



Eligibility of VC funds

- All **venture capital (VC) funds** – whether a newly established or an existing fund incorporated in Hong Kong, Mainland China or overseas ^(Note 1) – are welcome to apply
- The VC fund shall have –
 - an investment focus on **I&T startups in Hong Kong**;
 - a minimum remaining committed capital of **HK\$120 million** ^(Note 2); and
 - a remaining fund life of at least **five years** to co-invest with ITVF

(Note 1) Upon selection, the VC fund should have a place of business in Hong Kong to facilitate communication with local I&T startups and the ITVF Secretariat

(Note 2) Before the signing of the Master Agreement, the VC fund must provide certification to prove that it has a minimum remaining committed capital of HK\$120 million

Key features of ITVF scheme

- ITVF as a **passive investor**
- To co-invest in local I&T startups with selected CPs at a matching ratio of approximately **1 (ITVF) : 2 (CP)**
- Attractive incentives for CPs:
 - 35% carried interest
 - Call option to purchase ITVF's shares in the startups

How to define “local I&T startups”?

- The investee company or its wholly-owned subsidiary was incorporated under the Companies Ordinance (Cap. 622) within the last seven years and with one of its offices (headquarter or regional office) or its main business operation or its key management or leadership team being located in Hong Kong;
- It or any of its subsidiar(ies) engages in I&T business, covering any part of the research and development or production chain in Hong Kong; and
- It and all of its subsidiar(ies) have a total number of employees (including Hong Kong, Mainland China and overseas offices) less than 250

How to calculate carried interest?

- CP can receive carried interest equivalent to 35% of realised capital gain on a **deal-by-deal basis**

$$= [\text{Cash from Disposal} - (\text{Cost of Government Investment} + \text{Accrued Interest}^*)] \times 35\%$$

** The Accrued Interest is calculated on the Cost of Government Investment on a daily basis for the ITVF's holding period of the investee company*

The interest rate per annum to be applied in respect of each year covered by the ITVF's holding period is defined by the rate of fee payable by the Exchange Fund to Government funds and statutory bodies for placements with HKMA for the specific year.

Call option

- CP has an option to purchase the shares of all co-invested investee companies held by the ITVF (co-invested shares) within five years from the commencement date of the Master Agreement

Exercise price = Total Cost of Government Investment in all co-invested shares + Accrued Interests*

** The Accrued Interest is calculated on the Cost of Government Investment on a daily basis for the ITVF's holding period of the investee company*

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Co-investment framework

Institutional arrangements

- All co-investments will be made by **The Innovation and Technology Venture Fund Corporation** (ITVFC), a limited company under the Companies Ordinance (Cap. 622)
- **Innovation and Technology Venture Fund Advisory Committee** to advise on the operation of the ITVF at policy level
- ITC to serve as the Secretariat
- Each selected fund will enter into a **Master Agreement** with ITVFC

Major principles

- ITVF only invests in **equities** of local I&T startups
- ITVF will co-invest and exit with CP under the principle of “**same price, same terms**”
- Maximum matching amount with each CP is HK\$400 million
- Maximum investment size is HK\$30 million per round and HK\$50 million per startup
- Carried interest: **35% on realised capital gain**
- **No** management fee

CPs' key obligations

- Source deals, negotiate transaction terms, conduct due diligence and manage the transaction process
- Submit investment proposal to ITVF for consideration
- Co-invest and exit with ITVF under the principle of “same price, same terms”

Typical investment process

1

CP to submit an Investment Invitation -

Investment
Proposal Report

Term Sheet

Company
Information

Due Diligence
Reports

2

Internal Approval within 1 month

In-Principle Agreement issued to CP

3

CP to submit draft transaction documents -

Draft Transaction Documents

Deviations from the ITVF's
Transaction Terms

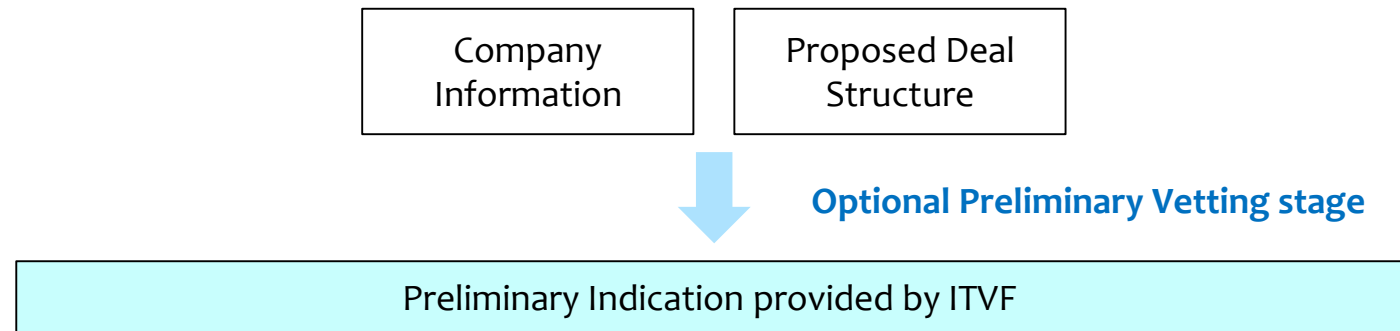
4

Completion of legal documentation within 1 month

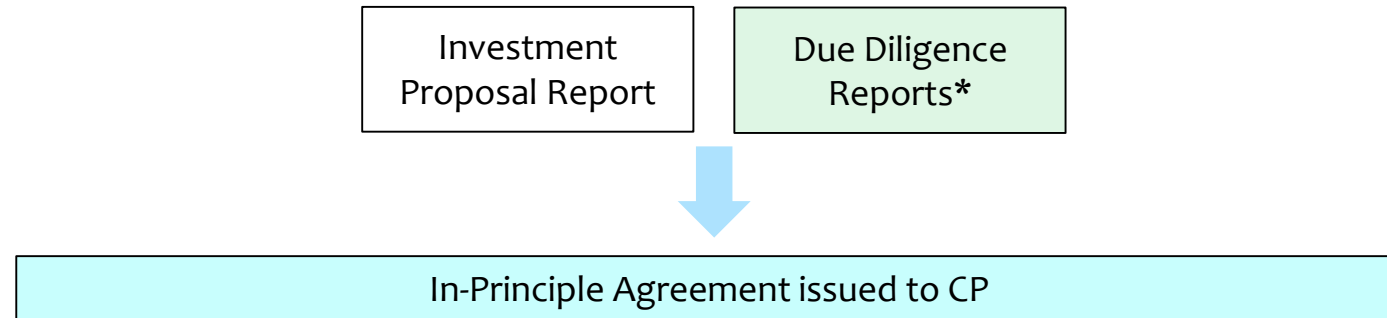
ITVFC signs the transaction documents

Preliminary vetting (optional)

CP to seek ITVF's advice concerning the eligibility of the proposed startup –



CP to submit other requisite documents –



**Due diligence reports are to be conducted by a professional lawyer / accountant*

Mode of co-investment

Normal track:

- CP closes the investment deal with ITVF at the same time

Fast track:

- ITVFC normally takes about two months to complete the investment process after CP has duly submitted all requisite documents
- CP can choose to complete its part of the investment in the investee company ahead of ITVFC but it needs to arrange another set of transaction documents for ITVF's closing

Preferred transaction terms

- Certain shareholder's protective clauses, including but not limited to:
 - Pre-emptive rights
 - Tag-along right
 - Matters requiring consent of supermajority shareholders
 - e.g. Commencement of a different line of business
 - Matters requiring consent of the ITVF
 - e.g. Amendment of the articles of association
- An option to require an investee company to redeem the shares owned by the ITVF due to certain redemption events, including:
 - The investee company has committed fraud, wilful misconduct, gross negligence or violation of criminal law
 - The investee company ceases to be an eligible local I&T startup
 - The investee company materially changes its scope of business after ITVF's investment
 - e.g. change its business line to an illegal business
 - The scheduled closure date of the VC fund if our CP does not manage to exit the investment

Selection criteria

Selection criteria

Weighting (%)	Description
General Background (15%)	<ul style="list-style-type: none"> Background of the VC fund Firm's history, ownership, lines of asset management business, branch and affiliate offices, regulatory compliance, involvement in litigation Factors indicating the VC fund's financial capability and strength
Personnel (25%)	<ul style="list-style-type: none"> Expertise and years of experience of the key persons and the investment team in investing in I&T startups in Hong Kong and other jurisdictions No. of employees in each of business functions and locations Governing committees and organization chart of the VC fund by functions
Investment Strategy and Processes (25%)	<ul style="list-style-type: none"> Investment philosophy Expertise and experience in early-stage covering deal sourcing and screening approach, due diligence process, decision making process Valuation methodologies on early-stage investments and post-deal monitoring processes Expertise and experience in value creation for the portfolio companies (e.g. support on management, financing, business development, marketing, technical advice etc.)
Investment Performance (15%)	<ul style="list-style-type: none"> Historical performance of all funds managed by the firm with benchmark Historical performance of all VC investments, indicating successful exits through trade sale or public listing
Local Presence and Support (20%)	<ul style="list-style-type: none"> Proposed team, resources and any other value-added support to ITVF Scheme Experience in managing co-investment partnership Size, establishment and structure of the local office in Hong Kong Contribution that can be made to the development of the I&T ecosystem in Hong Kong

Application procedures

Application procedures

- Check out the ITVF website (<https://www.itf.gov.hk/en/itvfcpsselection>) for background information, application guidelines and application forms etc.
- Submit the completed **application form** and **declaration form**, together with relevant supporting documents, to the ITVF Secretariat **by email** to itvf-enquiry@itc.gov.hk
- Application deadline: **31 January 2022**
- Shortlisted VC funds will be invited to make a presentation in March / April 2022
- Signing of Master Agreement in Q3/2022, subject to the completion of legal formalities

Q&A session

Thank you